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

Explore new ideas and seek a new focus for business growth

Annual Report 2013

CONTENTS

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 (retired on 26 March 2014)
Shi Chongming (retired on 26 March 2014)

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
Level 22, Hopewell Centre
183 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

For the year ended 31 December

CONSOLIDATED RESULTS

	Year ended 31 December				
	2013	2012	2011	2010	2009
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
TURNOVER	**481,115**	589,806	684,942	609,432	634,470
PROFIT BEFORE TAXATION	**(81,189)**	15,675	223,562	92,847	133,447
TAXATION	**(2,886)**	(21,563)	(36,925)	(23,101)	(30,109)
(LOSS)/PROFIT FOR THE YEAR	**(84,075)**	(5,888)	186,637	69,746	103,338
(LOSS)/PROFIT ATTRIBUTABLE TO:					
OWNERS OF THE COMPANY	**(83,518)**	(6,663)	186,358	69,010	103,354
NON-CONTROLLING INTERESTS	**(557)**	775	279	736	(16)
	(84,075)	(5,888)	186,637	69,746	103,338
(LOSS)/EARNINGS PER SHARE					
Basic (cents)	**(7.48)**	(0.60)	16.73	6.18	9.28
Diluted (cents)	**(7.48)**	(0.60)	16.72	6.17	9.26

CONSOLIDATED ASSETS AND LIABILITIES

	As at 31 December				
	2013	2012	2011	2010	2009
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
TOTAL ASSETS	**699,758**	863,908	902,745	752,691	746,392
TOTAL LIABILITIES	**(134,886)**	(152,124)	(146,362)	(126,823)	(145,327)
	564,872	711,784	756,383	625,868	601,065
EQUITY ATTRIBUTABLE TO:					
OWNERS OF THE COMPANY	**560,909**	707,402	752,729	621,530	597,213
NON-CONTROLLING INTERESTS	**3,963**	4,382	3,654	4,338	3,852
	564,872	711,784	756,383	625,868	601,065

CHAIRMAN'S STATEMENT

BUSINESS REVIEW

In 2013, a number of uncertainties continued to plague the global economy and downside risks were prevailing all around. On the other hand, the economy of China witnessed increasing downside risks while inflation stayed high. As a result, the software development industry also saw a slow trend.

In respect of software outsourcing services for the Japanese market, which is the Group's core business, along with the improved Japanese economy, the demand for overseas software outsourcing services increased, particularly because of the shortage of software development experts in the IT industry in Japan and the continual pursuit of lower production costs. Nevertheless, the sharp depreciation of Japanese Yen ("JPY") and the ever-rising labor costs in China became onerous burdens for the operation of software outsourcing services for Japanese market. Accordingly, the priority for enterprises in the sector was to cut development costs on one hand and extend the business scale and enhance the efficiency.

It was expected that the software market in Japan would record an increase of 3.7% when compared with that of 2012. On the other hand, the performance of the software development industry in China was also promising and the growth rate was over 20% when compared with that of 2012. As to the export of software products, the market saw better performance whereas the software outsourcing services segment registered a rise too. Despite the decrease in revenue resulted from the depreciation of JPY at an annual rate of approximately 25% and the increase in labor costs, with the joint efforts of the management and our staff, the Group's job orders secured in Japan recorded an increase of approximately 7% when compared with that of 2012.

In order to cut our development cost further and to step up our efforts in business localization, the Group established Jilin SinoCom in March 2013. Sales volume concluded by relevant on-site sales persons stationed in Japan decreased significantly because SinoCom DIR was divested from the Group. In spite of the 7% increase in job orders confirmed, the sales of the Group's software outsourcing services for the Japanese market (translated into Hong Kong dollars) recorded a decrease of approximately 17.5% when compared with that of 2012. However, taking the 25% depreciation of JPY recorded in 2012 into consideration, the sales performance of the Group was able to mediate the impact of the depreciated JPY to a certain extent.

In view of the pressure originated from diminishing income and thinner margin brought about by the depreciation of JPY, the Group has taken the following proactive measures to facilitate its business development: (i) to broaden our income sources by securing new projects from existing and new customers; (ii) to expand and set up development centers in cities with lower living standard to attract more professionals, reduce development costs and improve our profit margin; (iii) to be committed to strengthen our productivity and provide customers with services of the best quality for the sake of striving for more job orders; (iv) to continue the incentive policy which links remunerations with results, and to enhance the communication channel for employees; and (v) to apply effective foreign exchange hedging tools to mitigate exposures in this regard. At the same time, in order to secure more development projects, the Company continued to strengthen the co-operation with our controlling shareholder to improve our sales competency in Japan and upstream development capabilities, aiming at making both parties the leading software development company in China and Japan.

CHAIRMAN'S STATEMENT

The market has been complicated and volatile throughout 2013. As a result, the management established a principle of "Go from strength to strength and build a brighter future", requiring the Group to uphold our down-to-earth entrepreneurial spirit and take the opportunity of working together with our controlling shareholder for laying solid ground for our business development in the future.

OUTLOOK

Looking ahead, the movement of the exchange rate of JPY is going to have direct impact on the Group's results and the performance of the software outsourcing services industry for the Japanese market. In 2014, the demand for software outsourcing services for the Japanese market will see an increase. In addition, the shortage of experts in software development in Japan will also bring about more business opportunities to the Group. Meanwhile, the industry is experiencing an increase in the investment in information platforms, a booming demand for information consumption and a rapid change in the form of software services, and as a result, it will probably generate an industry-wide business growth in spite of market adversities.

Research and development plans for specific tools for software development have been prepared by the Group for the sake of improving our production efficiency. With our reasonable appraisal system and the compensation mechanism featuring more effort for more return, the Group will be able to mobilize our staff, making them willing to devote themselves to uplift our equipment utilization rate and improve our efficiency in product development, with a view to increase the business volume to be committed by the Group. Meanwhile, with the enlarged scale of upstream business, the increase in added-value of our services and the increase in the unit price of our sales, the sales revenue of the Group is expected to increase accordingly.

In addition, the Group will explore new ideas and seek a new drive for business development, such as customer acquisition and sharing of human resources. The Group also hopes to enhance our operation and accelerate our business development through merger and acquisitions. The Board believes that the management will be able to lead the way to strengthen a customer-oriented development system, thus capitalizing on new opportunities in the market on an ongoing basis.

In order to ensure a stable environment for business development, the Group will step up its efforts in implementing the strategy of business localization so as to cut our software development cost further. The Group will also take an active role to enlarge the scale of its upstream business according to the demand from clients, to increase the added-value of its services and to enhance the efficiency of product development for the purpose of generating more revenue for the Company.

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, 27 March 2014

MANAGEMENT DISCUSSION AND ANALYSIS

REVIEW OF RESULTS AND OPERATIONS

The Group's consolidated turnover for the year ended 31 December 2013 was approximately HK$481,115,000, representing a decrease of approximately 18.4% when compared with HK$589,806,000 for 2012. The decrease was mainly attributable to the depreciation of JYP in which 96.2% of total turnover for the year ended 31 December 2013 was denominated. Turnover generated from Japan decreased by approximately 18% from HK$564,546,000 for 2012 to HK$463,065,000 for the year ended 31 December 2013. In addition,turnover sourced from China decreased by approximately 28.5% from HK$25,260,000 for 2012 to HK$18,050,000 for the year ended 31 December 2013. Turnover derived from outsourcing software development work decreased by approximately 17.5% to approximately HK$479,821,000 from HK$581,624,000 for 2012. Top five customers accounted for approximately 81.9% of the total turnover. Turnover from the provision of technical support services decreased by approximately 84.2% to approximately HK$1,294,000. Turnover from outsourcing software development services and from technical support services accounted for approximately 99.7% and 0.3% of the total turnover respectively.

With the sharp depreciation of JPY and the inflated direct labour cost in China, the Group's gross profit margin decreased from approximately 22.1% for 2012 to 11.7% for 2013. The Group's performance was adversely affected by the exchange loss resulted from the depreciation of JPY. Accordingly, the Group recorded net loss of HK$84,075,000 for the year ended 31 December 2013, when compared with the net loss of HK$5,888,000 for 2012. The Group's net loss for the year ended 31 December 2013 mainly included the net foreign exchange loss of approximately HK$73,574,000 (2012: HK$35,597,000) and gain on disposal of available-for-sale financial assets of approximately HK$14,251,000.

Average full time production head counts were 1,598 for the year ended 31 December 2013, representing a light increase of 32 from that of 1,566 for 2012. Increased head counts were mainly attributable to the opening of new offices in Jilin, the PRC.

Gross profit for the year ended 31 December 2013 decreased to approximately HK$56,430,000 or by 56.7%, when compared to the gross profit of approximately HK$130,443,000 for 2012.

Operating loss of approximately HK$79,220,000 was recorded for the year ended 31 December 2013 when compared with the operating profit of approximately HK$13,704,000 for 2012. The decrease in operating profit was mainly attributable to the decrease in gross profit by approximately HK$74,013,000 and the exchange loss of approximately HK$73,574,000 resulting from the depreciation of JYP.

Net loss attributable to owners of the Company was approximately HK$83,518,000 for the year ended 31 December 2013 whereas net loss attributable to owners of the Company was approximately HK$6,663,000 for 2012.

LIQUIDITY AND FINANCIAL RESOURCES

Since inception, the Group has no bank borrowing, and has funded its operations through equity funding and operating cash flow. The Group managed to maintain this strong cash generating capability during the year. In 2013, the Group financed its operations and investing activities solely with internally generated cash flows. As at 31 December 2013, the Company maintained a high level of bank balances and cash and term deposits with initial terms of over three months of approximately HK$560,354,000 and there was no bank borrowing as at that date.

MANAGEMENT DISCUSSION AND ANALYSIS

SHARE CAPITAL

As at 31 December 2013, the number of shares in respect of which options had been granted but remained outstanding under the Company's share option scheme was 13,580,000 (31 December 2012: 16,390,000), representing 1.21% (31 December 2012: 1.47%) of issued shares of the Company as at that date.

PLEDGE OF ASSETS

As at 31 December 2013, the Group had no pledged asset.

EMPLOYEE AND REMUNERATION POLICIES

The Group had 1,585 full time staff as at 31 December 2013 (2012: 1,652). Most of them were engineers stationed in China. There were also 160 (2012: 169) employees in Japan, most of them were bridged system engineers working at customers' premises in Japan. Their remuneration, promotion and salary review were assessed based on their respective job responsibilities, work performance, professional experiences and the prevailing industry practice. The Group maintained social insurance schemes for retirement, unemployment, personal injury and hospitalisation for all of its employees in China and a housing provident fund system has also been implemented for its employees in China. Staff in Japan was enrolled under the 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, and was denominated in JPY while expenses were settled in Renminbi ("RMB"), any depreciation of JPY against RMB would reduce the Group's income measured in RMB and have an adverse impact on the profitability of the Group. The management is of the view that there is no effective hedging tool suitable to reduce this exchange rate exposure in consideration of the monthly recurring nature of JPY revenue.

CONTINGENT LIABILITIES

As at 31 December 2013, the Group had no material contingent liability.

CAPITAL COMMITMENTS

As at 31 December 2013, the Group had no material capital commitment.

DIRECTORS AND SENIOR MANAGEMENT PROFILES

(as at the date of this Report)

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 579,500 shares of SJI Inc., representing approximately 0.70% of the total issued share capital of SJI Inc.

DIRECTORS AND SENIOR MANAGEMENT PROFILES

(as at the date of this Report)

NON-EXECUTIVE DIRECTOR

Li Jian

Mr. Li Jian, aged 52, was appointed as executive Director of the Company on 11 June 2012. He was 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 4,948,700 shares of SJI Inc., representing approximately 5.97% of the total issued share capital of SJI Inc.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Chui Man Lung Everett

Mr. Chui, aged 50, 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.

DIRECTORS AND SENIOR MANAGEMENT PROFILES

(as at the date of this Report)

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.

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 2013.

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 34 of to the financial statements.

RESULTS AND APPROPRIATION

The results of the Group for the year ended 31 December 2013 are set out in the consolidated statement of profit or loss and other comprehensive income on page 40.

A special dividend of HK$0.07 per share was paid on 27 November 2013 (2012: Nil) and the Directors do not recommend the payment of any final dividend for the year ended 31 December 2013 (2012: Nil).

SHARE CAPITAL

Details of movements of the share capital of the Company and its subsidiaries during the year ended 31 December 2013 are set out in note 26 to the financial statements.

PLANT AND EQUIPMENT

Details of movements in the Group's plant and equipment during the year ended 31 December 2013 are set out in note 16 to the 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

Details of movements in the reserves of the Company and of the Group during the year ended 31 December 2013 are set out in note 33 to the financial statements.

DISTRIBUTABLE RESERVES

Under the Companies Law of the Cayman Islands, as at 31 December 2013, 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.

Movements in the distributable reserves of the Company during the year ended 31 December 2013 are set out in note 33 to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, sales to the Group's five largest customers accounted for 81.9% of the total sales for the year and sales for the year and sales to the largest customer included therein amounted to 60.9%. Purchases from the Group's five largest suppliers accounted for 30.9% of the total purchases for the year and purchases from the largest supplier included therein amount to 9.1%

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 interest in the Group's five largest customers and suppliers.

DIRECTORS

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

Executive Directors

Mr. Wang Zhiqiang
Mr. Zuo Jian Zhong
Mr. Kotoi Hirofumi

Non-Executive Director

Mr. Li Jian (re-designated as non-executive Director on 30 September 2013)
Mr. Wang Xubing (retired on 26 March 2014)
Dr. Shi Chongming (retired on 26 March 2014)

Independent Non-Executive Directors

Mr. Chui Man Lung, Everett (appointed on 10 September 2013)
Mr. Wu Hong (appointed on 10 September 2013)
Mr. Yamamoto Yashimasa (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. Li Jian, Mr. Kotoi Hirofumi and Mr. Yamamoto Yashimasa 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 from each of the independent non-executive Directors 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 all of the independent non-executive Directors to be independent.

DIRECTORS' SERVICE CONTRACTS

As at 31 December 2013, 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 2013 are set out in note 12 to the 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 2013, 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 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 31.12.2013
Wang Xubing	Corporate interest	111,396,000(L)	1	9.98%
Wang Zhiqiang	Corporate Interest	111,396,000(L)	2	9.98%
Shi Chongming	Beneficial owner	5,543,200(L)		0.49%

Notes:

1. These shares are beneficially owned by China Way International Limited ("Chinaway"). 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.

3. As at 31 December 2013, the total issued share capital of the Company is 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 as at 31.12.2013
China Way	Wang Xubing	Corporate interest	51	51%
China Way	Wang Zhiqiang	Corporate interest	49	49%

Save as disclosed above, as at 31 December 2013, 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 Scheme on 2 April 2004. The purpose of the Scheme is to provide incentives to enable the Board to provide incentives and awards to 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 13,580,000 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 2013, so far as is known to the Directors of the Company, the following, 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:

Long positions in the Shares and Underlying Shares

Name	Capacity	Number of Ordinary Shares	Approximate percentage of total interests in issued capital as at 31.12.2013	Notes
SJI Inc.	Corporate Interest	636,688,918 (L)	57.06%	1
SJI Asia Pacific Limited	Corporate Interest	636,688,918 (L)	57.06%	1
SJI (Hong Kong) Limited	Beneficial Owner	636,688,918 (L)	57.06%	1
NEC Capital Solutions Limited	Corporate Interest	268,000,000(L)	24.01%	2
NEC Corporation	Corporate Interest	268,000,000(L)	24.01%	2
Risa Partners Inc.	Security Interest	268,000,000(L)	24.01%	2
China Way	Beneficial Owner	111,396,000(L)	9.98%	3&4
Wang Xubing	Corporate Interest	111,396,000(L)	9.98%	3
Wang Zhiqiang	Corporate Interest	111,396,000(L)	9.98%	4
Zhang Yue	Spouse Interest	111,396,000(L)	9.98%	5
Yuan Yue Ling	Spouse Interest	111,396,000(L)	9.98%	6
Dymagin Global Limited	Beneficial Owner	109,000,000 (L)	9.77%	7
Sado Yasutaka	Corporate Interest	109,000,000 (L)	9.77%	7
Nomura Holdings, Inc.	Corporate Interest	72,356,100(L)	6.49%	8
Nomura Research Institute, Ltd.	Beneficial owner	72,356,100(L)	6.49%	8
Mizuho Financial Group, Inc.	Corporate Interest	350,000,000(L)	31.37%	9

REPORT OF THE DIRECTORS

Notes:

1. SJI Inc. is the ultimate holding company of SJI (Hong Kong) Limited, the controlling shareholder of the Company. SJI (Hong Kong) Limited is a wholly owned subsidiary of SJ Asia Pacific Limited. SJ Asia Pacific Limited is wholly owned by SJI Inc. By virtue of the SFO, SJI Inc., SJI (Hong Kong) Limited and SJ Asia Pacific Limited are deemed to be interested in the same parcel of Shares.

2. Risa Partners Inc. ("Risa Partners") is a wholly-owned subsidiary of NEC Capital Solutions Limited("NEC Capital") which is a controlled corporation of NEC Corporation. By virtue of SFO, Risa Partners, NEC Capital and NEC Corporation are deemed to be interested in the same parcel of Shares.

3. These shares are beneficially owned by China Way International Limited ("China Way"). By virtue of this 51% shareholding interest in China Way, Mr. Wang Xubing is deemed or taken to be interested in the 111,396,000 shares of the Company owned by China Way for the purpose of the SFO.

4. These shares are beneficially owned by China Way. By virtue of his 49% shareholding interest in China Way, Mr. Wang Zhiqiang is deemed or taken to be interested in the 111,396,000 shares of the Company owned by China Way for the purpose of the SFO.

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

6. 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.

7. Dymagin Global Limited is a company wholly owned by Mr. Sado Yasutaka. Accordingly, Mr. Sado Yasutaka is deemed to be interested in the shares of the Company by virtue of SFO.

8. Nomura Holdings, Inc., is the ultimate holding company of Nomura Research Institute Ltd. By virtue of the SFO, Nomura Holdings Inc. and Nomura Research Institute Ltd. are deemed to be interested in the same parcel of Shares.

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

10. As at 31 December 2013, 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 2013, 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 2013, 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 2013.

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 2013.

COMPETING INTERESTS

As at 31 December 2013, 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 2013 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 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.

2. On 18 February 2013, SinoCom Computer System (Beijing) Co., Ltd., a wholly owned subsidiary of the Company, as lessee, entered into a lease contract (the "Lease Contract") with Fujian Liandi Information Technology Limited (福建聯迪資訊科技有限公司) (the "Lessor") on the following terms:

(a) **Leased premises:** units on three levels situated in Ya An International Building, No.2 Jin Bao Street, Dong Cheng District, Beijing, the PRC (中國北京市東城區金寶街二號雅安國際大廈), with a grow floor area of approximately 5,100 sq.m and 10 car parking spaces (the "Premises");

(b) **Term of the lease:** 1 April 2013 to 31 March 2016, with a rent free period from 1 April 2013 to 31 August 2013, and an option to renew by SinoCom Beijing for a further 3 years on the same terms;

(c) **Rent:** Approximately RMB 508,000 (equivalent to approximately HK$635,000) per month, exclusive of management fee, utility fee and other expenses; and

(d) **Security deposit and advance payment:** security deposit equivalent to three months' rent and an upfront rent payment of RMB 6,500,000.

As the old lease contract for the Group's offices in Beijing has expired, the Company decided to rent the Premises for use as offices in view of its prime location, good building services and the market rent of properties of a comparable size in the proximity. The rent payable under the Lease Contract is determined on arm's length basis based on the valuation report issued by an independent property valuer.

The Lessor is a wholly-owned subsidiary of SJI, a substantial shareholder of the Company. It is accordingly a connected person of the Company under Rule 14A.11 of the Listing Rules by being an associate of SJI.

As disclosed in the announcement dated 18 February 2013, the annual cap of the rent for the year ended 31 December 2013 under the Lease Contract is RMB 2,910,000. The rent paid or payable for the year ended 31 December 2013 was RMB2,060,762. The Board, including the independent non-executive Directors, has reviewed and confirmed that the renting of the Premises was:

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 terms of the Lease Contract 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 that the renting of the Premises:

(a) was approved by then Board;

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

(c) was entered into in accordance with the terms of the Lease Contract, governing the transactions; and

(d) did not exceed the relevant cap amount for the year ended 31 December 2013 as set out on the announcement dated 18 February 2013.

CHANGE IN INFORMATION OF DIRECTORS PURSUANT TO RULE 13.51B(1) OF THE LISTING RULES

Pursuant to rule 13.51B(1) of the Listing Rules, change in the information of Directors of the Company since the date of the 2013 Annual Report of the Company required to be disclosed in this report is as follows:

1. Mr. Zuo Jian Zhong has been appointed as the co-chairman of the Company in place of Mr. Kotoi Hirofumi with effect from 1 March 2013.

2. Mr. Li Jian has been re-designated from an executive director to a non-executive director on 30 September 2013.

3. Mr. Wu Hong was appointed as the chairman of the Salary Review Committee on 9 October 2013.

4. The monthly salary of Mr. Li Jian had been temporary reduced from HK$100,000 to HK$50,000 for 6 months effective from 30 September 2013.

5. Mr. Kotoi Hirofumi has resigned as the Chief Financial Officer of the Company on 15 November 2013.

6. The Director's fee of Mr. Zuo Jian Zhong has changed to HK$100,000 per month with effect from 1 February 2014.

7. Mr. Wang Xubing and Dr. Shi Chongming retired as director of the Company on 26 March 2014.

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

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 2013, 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 pages 25 to 37 of this annual report.

AUDITORS

Messrs. Deloitte Touche Tohmatsu, who had acted as the auditors of the Company in the preceding years, was removed as auditors of the Company with effect from 23 December 2013 and Messrs. RSM Nelson Wheeler was 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 2013 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
Co-Chairman

Zuo Jian Zhong
Co-Chairman

Hong Kong
27 March 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 code provisions as set out in the Corporate Governance Code contained in Appendix 14 (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's 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 identifying their 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's 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.

COMPLIANCE WITH THE MODEL CODE

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 with 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 under review (i.e. from 1 January 2013 to 31 December 2013) ("Reporting Period").

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 2013. 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 throughout the year ended 31 December 2013.

BOARD OF DIRECTORS

During the reviewing period, the Board 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. None of the 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' Profile".

During the Reporting Period, the Chairman met with the independent non-executive Directors without the executive Directors present.

Chairman and Chief Executive Officer

The Code provision A.2.1 stipulated that 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 CG Code. Given the Group's current stage of development, the Board considers that vesting the roles of chairman and CEO in the same person facilitates the execution of the Group's business strategies and maximizes effectiveness of its operations. The Board shall nevertheless review the structure from time to time and shall consider the appropriate adjustment should suitable circumstance arise.

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 Articles of Association at each annual general meeting.

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

CONFIRMATION OF INDEPENDENCE

The Company has received annual confirmations of independence from each of the current independent non-executive Directors in accordance with Rule 3.13 of the Listing Rules. The Directors consider that all the independent non-executive Directors remain independent.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

All executive Directors and non-executive Directors 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. Mr. Yamamoto Yoshimasa have entered into letter of appointment with an initial term of one year commencing on 11 June 2012 and shall continue until the Company's next annual general meeting, unless terminated by either party giving to the other not less than one month's notice in writing. The independent non-executive Directors except Mr. Yamamoto Yoshimasa have entered into letter of appointment for a term of three years 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 convenes meetings 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 reasonable notices 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 Reviewing Period, the Board held a total of 21 Board meetings during the Reporting Period. Board meetings for the purpose of reviewing the connected transaction and the investigation of the SJI Loan and daily operation of the Group.

Details of Directors' attendance records in 2013 are as follows:

Directors	No. of meetings attended/ No. of meetings held during the tenure of the relevant Director
Executive Directors	
Wang Zhiqiang	21/21
Zuo Jian Zhong	19/21
Kotoi Hirofumi	20/21
Non-Executive Directors	
Li Jian	19/21
Shi Chongming	21/21
Wang Xubing	20/21
Independent Non-Executive Directors	
Liang Neng (resigned on 10 September 2013)	13/14
Lee Kit Wah (resigned on 10 September 2013)	14/14
Yamamoto Yoshimasa	15/21
Chui Man Lung, Everett (appointed on 10 September 2013)	7/7
Wu Hong (appointed on 10 September 2013)	7/7

COMPANY SECRETARY

During the Reporting Period, Mr. Siu Kwok Leung was the company secretary of the Company till 10 October 2013. He was responsible for advising the Board on compliance and corporate governance matters. The company secretary also prepared detailed minutes of each meeting. The minutes would be sent to the members of the Board for comments as soon as practicable after conclusion of the meetings. 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.

Ms. Foo Man Yee, Carina has confirmed that she has taken no less 15 hours of relevant professional training during 2013 as required by Listing Rule 3.29.

ACCESS TO INFORMATION

All Directors are kept informed of major changes of the Group's business from time to time. They have unrestricted access to the advices from the company secretary who is 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 be provided with materials relevant to the Company's business and director's duties and responsibilities. In addition, 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 updates. A summary of their records of continuous development training ("CPD") is as follows:

Directors	Types of CPD	Subject of CPD
Executive Directors		
Wang Zhiqiang	1 & 2	A, B
Kotoi Hirofumi	1 & 2	A, B
Zuo Jian Zhong	1 & 2	A, B
Non-Executive Directors		
Li Jian	1 & 2	A, B
Wang Xubing	1 & 2	A, B
Shi Chongming	1 & 2	A, B
Independent Non-Executive Directors		
Liang Neng (resigned on 10 September 2013)	C	C
Lee Kit Wah (resigned on 10 September 2013)	C	C
Yamamoto Yoshimasa (appointed on 11 June 2012)	1 & 2	A, B
Chui Man Lung, Everett (appointed on 10 September 2013)	1 & 2	A, B
Wu Hong (appointed on 10 September 2013)	1 & 2	A, B

Note1:

1: Attending in-house training or seminars

2. Reading newspapers, journals and updates

Note 2:

A. The Company's business

B. Laws rules and regulations, accounting standards

C. No record

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 Reporting Period, Audit Committee 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 2013 have been reviewed by the current Audit Committee.

During the Reporting Period, the Audit Committee held 6 meetings. Attendance of the members during the relevant period is set out below:

Members	**No. of meetings attended/ No. of meeting held during the tenure of the relevant Director**
Lee Kit Wah (resigned on 10 September 2013)	5/5
Liang Neng (resigned on 10 September 2013)	5/5
Yamamoto Yoshimasa	4/6
Chui Man Lung, Everett (appointed on 10 September 2013)	1/1
Wu Hong (appointed on 10 September 2013)	1/1

Nomination Committee

A Nomination Committee has been established on 28 March 2012 comprising four members, namely Mr. Wang Zhiqiang (the "Chairman"), and three 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 held two meetings during the year under review. During the year, the Nomination Committee made recommendation to the Board for the appointment of new Director(s), the re-election of Directors at the forthcoming annual general meeting and reviewed the independence of the independent non-executive Directors and evaluated the structure and composition of the Board.

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

Members	**No. of meetings attended/ No. of meeting held during the tenure of the relevant Director**
Wang Zhiquang	2/2
Lee Kit Wah (resigned on 10 September 2013)	2/2
Liang Neng (resigned on 10 September 2013)	2/2
Yamamoto Yoshimasa	2/2
Chui Man Lung, Everett (appointed on 10 September 2013)	0/0
Wu Hong (appointed on 10 September 2013)	0/0

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

Salary Review Committee

The Salary Review Committee of the Company comprising four members with a majority of independent non-executive Directors namely Mr. Wang Zhiqiang, Mr. Chui Man Lung, Everett, Mr. Wu Hong (the Chairman) and Mr. Yamamoto Yoshimasa.

The primary objectives of Salary Review Committee is, inter alia, to formulate the remuneration policy based on the responsibilities, qualifications and working performance of senior management and directors; review and recommend the Board's 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.

The Salary Review Committee may consult the Chairman about their remuneration proposals for other Executive Directors. It has explicit authority to seek any necessary information from the employees within its scope of duties and obtain outside independent professional advice, at the Company's expense, to perform its responsibilities if it considers necessary.

The remuneration policies for the Company as well as the Directors are market alignment and reward for performance. The Company reviews the remuneration package annually taking into consideration of the market practice, competitive market position and individual performance.

The major works performed by the Salary Review Committee during the year included, amongst other things, the following:

- making recommendations to the Board on the remuneration proposals of the Executive Directors of the Company;
- making recommendations to the Board on the remuneration package of the newly appointed Director(s) and senior management; and
- making recommendations to the Board on the directors' fee of the Non-executive Directors of the Company for the year 2013.

Details of remuneration paid to Directors and senior management for the year are set out in note 12 to the consolidated financial statements.

Attendance of the members is set out below:

Members	**No. of meetings attended/ No. of meeting held during the tenure of the relevant Director**
Wang Zhiqiang	3/3
Lee Kit Wah (resigned on 10 September 2013)	3/3
Liang Neng (resigned on 10 September 2013)	3/3
Chui Man Lung, Everett (appointed on 10 September 2013)	0/0
Wu Hong (appointed on 10 September 2013)	0/0
Yamamoto Yoshimasa	3/3

CORPORATE GOVERNANCE FUNCTION

The Code provision D.3.1 stipulated that the Board should establish terms of reference to perform corporate governance functions. During the Reporting Period, the Company failed to establish such terms of reference for performing the corporate governance functions.

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 Reporting Period, the auditors of the Company was Deloitte Touche Tohmatsu ("Deloitte"). Deloitte was 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 2013 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 2013, the remuneration paid/payable to RSM Nelson Wheeler, the auditors of the Company, is set out as follows:

Services	Fee (HK$)
Audit Fee	2,880,000
Non-audit Fee	800,000

INTERNAL CONTROL

The Board has overall responsibilities for maintaining a 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.

Furthermore, as stated in the announcement of the Company dated 27 January 2014, the Company has also engaged an international accounting firm (the "Firm") to conduct an internal control review (the "Review") over selected areas of the Company's financial reporting process. The selected areas included related party loan transactions, delegation of authority, cash management, and the Board's involvement in related party loan transactions in the Company, SinoCom Computer System (Beijing) Co., Ltd. ("SinoCom Beijing") and SinoCom Japan. A report dated 20 February 2014 was issued by the Firm to the Board ("the Internal Control Report"), containing observations in relation to the selected areas mentioned above.

In performing the Review, the Firm did not carry out an audit or other assurance engagement in accordance with applicable professional standards. Accordingly, the Firm provided no opinion, attestation or other form of assurance with respect to its work or the information upon which its work was based. A summary of the observations raised in the Review is set out below.

A. Policies and Procedures

There are a lack of formal policies and procedures with respect to related party loan transactions, bank account management, use of company stamp, bank transaction management, physical and surplus cash management, payment request verification, significant business transactions, and information and communication of the Board. In addition, the corporate governance policies are incomplete and the Terms of Reference of the Board has not sufficiently defined the roles and responsibilities of directors.

B. Delegation of Authority ("DoA")

There is a lack of DoA at the Group level. SinoCom Beijing and SinoCom Japan's DoA frameworks are incomplete and need to be more comprehensive.

C. Board meeting and minutes

Board meeting procedures have not been formalised and documented; and board minutes have not been properly maintained and retained.

D. Cash and Bank management

The responsible staff members have unlimited authority over all bank transactions and there is a lack of formal mandate to empower employees to execute bank transactions. Not all evidence of bank reconciliation is retained for all bank accounts; and there is a lack of independent review over bank reconciliations.

E. Board's involvement in significant business transactions

The policy over the management of significant transactions is insufficient and the policy has not been announced and adopted by all subsidiary companies.

In light of the Internal Control Report, the Board will adopt the following measures to enhance the internal controls and corporate governance of the Group:

- Management of the Company will establish a set of policies and procedures with respect to related party loan transactions, bank account management, use of company stamp, bank transaction management, physical and surplus cash management, payment request verification, significant business transactions, and information and communication of the Board.

- The corporate governance policies, the terms of references of the Board, the Board meeting procedures, the DoA and bank reconciliation procedures will be enriched and/or enhanced to meet current regulatory requirements and market expectations.

- All policies and procedures will be implemented after the approval of the Board. They will be well communicated to all relevant members of staff and management; and additional measures will be in place to monitor the implementation and application of the policies and procedures.

- Board meeting procedures will be formalised and documented and board minutes will be properly prepared, maintained and retained.

- Controls over cash management and bank transactions will be enhanced, which include but not limited to setting authority limits for bank transactions, enhancing the monitoring controls over surplus, retaining the evidence of the reconciliations.

- The policy over the management of significant transactions will be enriched and adopted by all subsidiaries.

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 Level 22, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

COMMUNICATION WITH SHAREHOLDERS

During the Reporting 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

During the year of review, no annual general meeting was held by the Company. The Company held two extraordinary general meetings on 11 November 2013 and 23 December 2013 respectively to approve the declaration of special dividend and the removal and appointment of auditors of the Company.

Details of the Directors' attendances at the 2013 Extraordinary General Meeting ("EGM") are as follows:

Directors	No. of general meetings attended/ No. of general meetings held during the tenure of the relevant Director
Executive Directors	
Wang Zhiqiang	2/2
Zuo Jian Zhong	2/2
Kotoi Hirofumi	0/2
Non-Executive Directors	
Li Jian	0/2
Wang Xubing	1/2
Shi Chongming	1/2
Independent Non-Executive Directors	
Chui Man Lung, Everett (appointed on 10 September 2013)	2/2
Wu Hong (appointed on 10 September 2013)	2/2
Yamamoto Yoshimasa	2/2
Lee Kit Wah (resigned on 10 September 2013)	0/0
Liang Neng (resigned on 10 September 2013)	0/0

CONSTITUTIONAL DOCUMENTS

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

INDEPENDENT AUDITOR'S REPORT

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 40 to 102, which comprise the consolidated statement of financial position as at 31 December 2013, and the consolidated statement of profit or loss and other 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 2013, 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

27 March 2014

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2013

	Note	**2013 HK$'000**	2012 HK$'000
Revenue	7	**481,115**	589,806
Cost of services		**(424,685)**	(459,363)
Gross profit		**56,430**	130,443
Administrative expenses		**(92,274)**	(100,314)
Other income, gains/(losses)	8	**(43,376)**	(16,425)
(Loss)/profit from operations		**(79,220)**	13,704
Gain on disposal of joint ventures		**–**	11,073
Impairment loss on investment in an associate	18	**–**	(15,854)
Share of result of an associate	18	**(1,969)**	(3,442)
Share of results of joint ventures		**–**	10,194
(Loss)/profit before tax		**(81,189)**	15,675
Income tax expense	10	**(2,886)**	(21,563)
Loss for the year	11	**(84,075)**	(5,888)
Other comprehensive income, net of tax:			
Item that may be reclassified to profit or loss:			
Exchange differences arising on translating foreign operations		**15,271**	(766)
Other comprehensive income for the year, net of tax		**15,271**	(766)
Total comprehensive income for the year		**(68,804)**	(6,654)
Loss for the year attributable to:			
Owners of the Company		**(83,518)**	(6,663)
Non-controlling interests		**(557)**	775
		(84,075)	(5,888)
Total comprehensive income for the year attributable to:			
Owners of the Company		**(68,385)**	(7,433)
Non-controlling interests		**(419)**	779
		(68,804)	(6,654)
Loss per share			
— Basic	15	**HK7.48 cents**	HK0.60 cents
— Diluted	15	**HK7.48 cents**	HK0.60 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2013

	Note	2013 HK$'000	2012 HK$'000
Non-current assets			
Plant and equipment	16	**19,057**	12,826
Goodwill	17	**7,333**	7,110
Investment in an associate	18	**3,124**	5,334
Available-for-sale financial assets	19	**14,690**	–
Deposits paid for acquisition of plant and equipment		**–**	5,817
Other deposits	20	**425**	3,088
Amount due from a fellow subsidiary	30	**–**	9,867
Deferred tax assets	25	**989**	4,941
		45,618	48,983
Current assets			
Trade and other receivables	21	**92,514**	89,436
Amount due from a fellow subsidiary	30	**1,272**	–
Available-for-sale financial assets	19	**–**	16,217
Loan receivables from related companies	22	**–**	88,293
Tax recoverable		**–**	1,736
Term deposits with initial terms of over three months	23	**25,180**	181,457
Bank balances and cash	23	**535,174**	437,786
		654,140	814,925
Current liabilities			
Trade and other payables	24	**111,628**	119,499
Amount due to ultimate holding company	30	**–**	454
Current tax liabilities		**21,077**	24,295
		132,705	144,248
Net current assets		**521,435**	670,677
Total assets less current liabilities		**567,053**	719,660
Non-current liabilities			
Deferred tax liabilities	25	**2,181**	7,876
NET ASSETS		**564,872**	711,784

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2013

	Note	2013 HK$'000	2012 HK$'000
Capital and reserves			
Share capital	26	**27,896**	27,896
Reserves	33(a)	**533,013**	679,506
Equity attributable to owners of the Company		**560,909**	707,402
Non-controlling interests		**3,963**	4,382
TOTAL EQUITY		**564,872**	711,784

Approved by the Board of Directors on 27 March 2014

Wang Zhiqiang
Director

Zuo Jian Zhong
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2013

	Attributable to owners of the Company												
	Share capital HK$'000	Share premium HK$'000 (Note 33(c)(i))	Share redemption reserve HK$'000 (Note 33(c)(ii))	Capital reserve HK$'000 (Note a)	Other reserve HK$'000 (Note b)	General reserve fund HK$'000 (Note c)	Shareholder's contribution HK$'000 (Note d and 33(c)(iv))	Translation reserve HK$'000 (Note e)	Share options reserve HK$'000 (Note 33(c)(v))	Retained earnings HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
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)	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 joint ventures	–	–	–	–	–	–	–	(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	–	–	–	–	–	–	–	–	–	(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
At 1 January 2013	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
Total comprehensive income for the year	–	–	–	–	–	–	–	15,133	–	(83,518)	(68,385)	(419)	(68,804)
Transfer of share options reserve upon forfeiture of share options	–	–	–	–	–	–	–	–	(1,678)	1,678	–	–	–
Dividends recognised as distribution (note 14)	–	(55,000)	–	–	–	–	–	–	–	(23,108)	(78,108)	–	(78,108)
Changes in equity for the year	–	(55,000)	–	–	–	–	–	15,133	(1,678)	(104,948)	(146,493)	(419)	(146,912)
Balance at 31 December 2013	27,896	111,189	2,269	10,657	5,078	28,639	4,118	113,667	8,426	248,970	560,909	3,963	564,872

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2013

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 PRC subsidiaries 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 2013

	2013 HK$'000	2012 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES		
(Loss)/profit before tax	**(81,189)**	15,675
Adjustments for:		
Depreciation of plant and equipment	**12,642**	4,469
Exchange loss	**65,801**	30,933
Gain on disposal of available-for-sale financial assets	**(14,251)**	–
Gain on disposal of joint ventures	**–**	(11,073)
Interest income	**(10,269)**	(14,683)
Loss on disposal of plant and equipment	**66**	1,229
Share of results of joint ventures	**–**	(10,194)
Share of result of an associate	**1,969**	3,442
Impairment loss on investment in an associate	**–**	15,854
Allowance for/(reversal of) doubtful debts	**1,492**	(708)
Operating (loss)/profit before working capital changes	**(23,739)**	34,944
Decrease in trade and other receivables	**5,730**	10,078
Decrease in other deposits	**–**	9
Decrease in amount due from a joint venture	**–**	4,072
Increase in amount due from a fellow subsidiary	**–**	(9,867)
(Decrease)/increase in amount due to ultimate holding company	**(454)**	454
Decrease in amount due to a joint venture	**–**	(5,261)
(Decrease)/increase in trade and other payables	**(7,871)**	11,915
Cash (used in)/generated from operations	**(26,334)**	46,344
Income tax paid	**(6,052)**	(20,015)
Interest received	**3,885**	5,957
Net cash (used in)/generated from operating activities	**(28,501)**	32,286

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2013

	Note	2013 HK$'000	2012 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of short term investments		**(1,651,475)**	(992,050)
Loan granted to related companies	22	**(150,367)**	(538,992)
Decrease/(increase) of term deposits		**161,955**	(181,457)
Acquisition of investment in an associate	18	**–**	(24,605)
Purchase of available-for-sale financial assets		**(15,711)**	(16,217)
Purchases of plant and equipment		**(12,698)**	(6,511)
Deposit paid for acquisition of plant and equipment		**–**	(5,817)
Proceeds from disposal of short term investments		**1,651,475**	992,050
Loan repayment from related companies	22	**230,659**	433,282
Proceeds on disposal of joint ventures		**–**	177,626
Interest received for short term investments		**4,626**	6,737
Proceeds from disposal of available-for-sale financial assets		**28,432**	6,056
Interest received for loan receivables		**2,975**	772
Proceeds from disposal of plant and equipment		**32**	459
Net cash generated from/(used in) investing activities		**249,903**	(148,667)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividend paid		**(78,108)**	(39,054)
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
Net cash used in financing activities		**(78,108)**	(37,227)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**143,294**	(153,608)
CASH AND CASH EQUIVALENTS AT 1 JANUARY		**437,786**	606,067
Effect of foreign exchange rate changes		**(45,906)**	(14,673)
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	23	**535,174**	437,786
ANALYSIS OF CASH AND CASH EQUIVALENTS			
Bank balances and cash		**535,174**	437,786

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 34 to the financial statements.

In the opinion of the directors of the Company, as at 31 December 2013, 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 2013. 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 except as stated below.

a. Amendments to HKAS 1 "Presentation of Financial Statements"

Amendments to HKAS 1 titled Presentation of Items of Other Comprehensive Income introduce new terminology for statement of comprehensive income and income statement. Under the amendments to HKAS 1, a statement of comprehensive income is renamed as a statement of profit or loss and other comprehensive income and an income statement is renamed as a statement of profit or loss. The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements.

The amendments to HKAS 1 require additional disclosures to be made in the other comprehensive section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis.

The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the change. Other than the above mentioned presentation changes, the application of the amendments to HKAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

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

b. HKFRS 12 "Disclosure of Interests in Other Entities"

HKFRS 12 "Disclosure of Interests in Other Entities" specifies the disclosure requirements for subsidiaries, joint arrangements and associates, and introduces new disclosure requirements for unconsolidated structured entities.

The adoption of HKFRS 12 only affects the disclosures relating to the Group's subsidiaries and associates in the consolidated financial statements. HKFRS 12 has been applied retrospectively.

c. HKFRS 13 "Fair Value Measurement"

HKFRS 13 "Fair Value Measurement" establishes a single source of guidance for all fair value measurements required or permitted by HKFRSs. It clarifies the definition of fair value as an exit price, which is defined as a price at which an orderly transaction to sell the asset or transfer the liability would take place between market participants at the measurement date under market conditions, and enhances disclosures about fair value measurements.

The adoption of HKFRS 13 only affects disclosures on fair value measurements in the consolidated financial statements. HKFRS 13 has been applied prospectively.

The Group has not applied the new HKFRSs that have been issued but are not yet effective. 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 their judgement 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group has power over an entity when the Group has existing rights that give it the current ability to direct the relevant activities, i.e. activities that significantly affect the entity's returns.

When assessing control, the Group considers its potential voting rights as well as potential voting rights held by other parties, to determine whether it has control. A potential voting right is considered only if the holder has the practical ability to exercise that right.

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 profit or loss and other 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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, including potential voting rights held by other entities, are considered when assessing whether the Group has significant influence. In assessing whether a potential voting right contributes to significant influence, the holder's intention and financial ability to exercise or convert that right is not considered.

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 other comprehensive income is recognised in the consolidated other comprehensive income. 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 carrying amount of the investment and any related accumulated translation reserve. If an investment in an associate becomes an investment in a joint venture, the Group continues to apply the equity method and does not remeasure the retained interest.

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 arrangements

A joint arrangement is an arrangement of which two or more parties have joint control. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. Relevant activities are activities that significantly affect the returns of the arrangement. When assessing joint control, the Group considers its potential voting rights as well as potential voting rights held by other parties, to determine whether it has joint control. A potential voting right is considered only if the holder has the practical ability to exercise that right.

A joint arrangement is either a joint operation or a joint venture. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

In relation to its interest in a joint operation, the Group recognises in its consolidated financial statements, its assets, including its share of any assets held jointly; its liabilities, including its share of any liabilities incurred jointly; its revenue from the sale of its share of the output arising from the joint operation; its share of the revenue from the sale of the output by the joint operation; and its expenses, including its share of any expenses incurred jointly, in accordance with the HKFRSs applicable to the particular assets, liabilities, revenues and expenses.

Investment in a joint venture is accounted for in the consolidated financial statements by the equity method and is initially recognised at cost. Identifiable assets and liabilities of the joint venture in an acquisition are measured at their fair value at the acquisition date. The excess of the cost of acquisition over the Group's share of the net fair value of the joint venture'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 joint venture's post-acquisition profits or losses is recognised in consolidated profit or loss, and its share of the post-acquisition movements in other comprehensive income is recognised in the consolidated other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in a joint venture equals or exceeds its interest in the joint venture, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint venture. If the joint venture 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Joint arrangements (Continued)

The gain or loss on the disposal of a joint venture 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 joint venture and (ii) the carrying amount of the investment and any related accumulated foreign currency translation reserve. If an investment in a joint venture becomes an investment in an associate, the Group continues to apply the equity method and does not remeasure the retained interest.

Unrealised profits on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interests in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of joint ventures are 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.

(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 value 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Foreign currency translation (Continued)

(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 for the period (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 reclassified to 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.

(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 methods 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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.

(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 reclassified to profit or loss. Dividends, foreign exchange gains or losses and interest calculated using the effective interest method is recognised are profit or loss.

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, are measured at cost less impairment losses.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Investments (Continued)

Available-for-sale financial assets (Continued)

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.

(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.

(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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Financial liabilities and equity instruments (Continued)

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 outsourcing 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.

(iii) Termination benefits

Termination benefits are recognised at the earlier of the dates when the Group can no longer withdraw the offer of those benefits and when the Group recognises restructuring costs and involves the payment of termination benefits.

(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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) Share-based payments (Continued)

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.

(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 includes previous years' items that were not taxable or deductible and 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) Taxation (Continued)

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.

(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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(r) Related parties (Continued)

(B) An entity is related to the Group 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 of disposal 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(s) Impairment of assets (Continued)

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.

Income taxes

The Group is subject to income taxes in the PRC and Japan. Significant estimates are required in determining the provision for income taxes. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Allowances for doubtful debts

The Group makes allowances for doubtful debts based on an assessment of the recoverability of trade receivables. Allowances are applied to trade receivables where events or changes in circumstances indicate 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 and doubtful debts expenses in the year in which such estimate is changed. As at 31 December 2013, the carrying amount of trade receivables was approximately HK$75,739,000 (net of allowance for doubtful debts of approximately HK$1,500,000) (2012: HK$76,281,000, net of allowance for doubtful debts of nil).

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 currency of the principal operating entities of the Group is RMB. The Group currently does not have a foreign currency hedging policy in respect of foreign currency transactions, assets and liabilities. The Group monitors its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

5. FINANCIAL RISK MANAGEMENT (Continued)

(a) Foreign currency risk (Continued)

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	
	2013	2012	**2013**	2012
	HK$'000	HK$'000	**HK$'000**	HK$'000
US$	**–**	–	**3,277**	3,531
JPY	**26,028**	24,124	**310,219**	372,956
HK$	**9,884**	15,788	**24,560**	14,574

The sensitivity analysis has been determined based on the exposure to a 5% (2012: 5%) increase and decrease in the functional currency against the relevant foreign currencies. 5% (2012: 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% (2012: 5%) change in foreign currency rates.

For a 5% (2012: 5%) strengthening/weakening of functional currency against US$, the consolidated loss for the year would have been HK$137,000 higher/lower (2012: HK$177,000 higher/lower). For a 5% (2012: 5%) strengthening/weakening of functional currency against JPY, the consolidated loss for the year would have been HK$9,572,000 higher/lower (2012: HK$10,648,000 higher/lower). For a 5% (2012: 5%) strengthening/weakening of functional currency against HK$, the consolidated loss for the year would be HK$593,000 higher/lower (2012: HK$61,000 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, amount due from a fellow subsidiary and investments 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 47.3% (2012: 51.7%) and 83.0% (2012: 70.1%) of the total trade receivable was due from the Group's largest customer and the five largest customers respectively.

5. FINANCIAL RISK MANAGEMENT (Continued)

(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.

The following table details the Group's remaining contractual maturity for its financial liabilities. The table reflects 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 table includes 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 2013				
Trade payables	**16,861**	**–**	**–**	**–**
Wages and salaries payables and other payables	**87,404**	**–**	**–**	**–**
At 31 December 2012				
Trade payables	11,372	–	–	–
Wages and salaries payables and other payables	88,848	–	–	–
Amount due to ultimate holding company	454	–	–	–

(d) Interest rate risk

Cash flow interest rate risk in relation to bank balances and deposits is considered insignificant. Hence, no sensitivity analysis is presented. The Group is exposed to fair value interest rate risk in relation to fixed-rate bank deposits.

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.

5. FINANCIAL RISK MANAGEMENT (Continued)

(e) Categories of financial instruments at 31 December 2013

	2013	2012
	HK$'000	HK$'000
Financial assets:		
Loans and receivables (including cash and cash equivalents)	**616,686**	607,829
Term deposits with initial terms of over three months	**25,180**	181,457
Available-for-sale financial assets	**14,690**	16,217
Financial liabilities:		
Financial liabilities measured at amortised cost	**104,265**	100,674

6. FAIR VALUE

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.

7. REVENUE

	2013	2012
	HK$'000	HK$'000
Outsourcing software development services	**479,821**	581,624
Technical support services	**1,294**	8,182
	481,115	589,806

Revenue from outsourcing software development services and technical support services are net of business tax and local government levies of approximately HK$111,000 (2012: HK$28,656,000).

8. OTHER INCOME, GAINS/(LOSSES)

Other income, gains/(losses) include the following:

	2013 HK$'000	2012 HK$'000
Interest income from short term investments	4,626	6,737
Interest income from loan receivables	1,758	1,989
Interest income from bank balances	3,885	5,957
Government subsidies	7,219	4,891
Net foreign exchange loss (Note)	(73,574)	(35,597)
Loss on disposal of held for trading investments	–	(248)
(Allowance for)/reversal of doubtful debts	(1,492)	708
Gain on disposal of available-for-sale financial assets	14,251	–
Others	(49)	(862)
	(43,376)	(16,425)

Note: The foreign exchange loss is mainly attributable to bank balances and cash, trade receivables and loan receivables from related companies denominated in 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$3,518,000 (2012: HK$1,743,000) and for its exports of outsourcing software development services of approximately HK$3,555,000 (2012: HK$3,048,000). The Group recognises the government subsidies when it fulfills all the conditions specified in the subsidy notice or relevant law and regulations.

9. SEGMENT INFORMATION

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

The Group has carried on a single business in two geographical locations, which is the outsourcing software development services, and all the assets are principally located in the PRC and Japan. Accordingly, there are two reportable segments of the Group which are regularly reviewed by the chief operating decision maker.

9. SEGMENT INFORMATION (Continued)

Segment revenue and results

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

Year ended 31 December 2013

	PRC HK$'000	Japan HK$'000	Total HK$'000
Revenue	18,050	463,065	481,115
Cost of services	(16,313)	(408,372)	(424,685)
Gross profit	1,737	54,693	56,430
Administrative expenses	(2,325)	(64,306)	(66,631)
Segment results	(588)	(9,613)	(10,201)
Share of result of an associate			(1,969)
Other income, gains/(losses)			(43,376)
Unallocated corporate expenses			(25,643)
Loss before tax			(81,189)

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 joint ventures	–	10,194	10,194
Segment results	(1,903)	73,978	72,075
Share of result of an associate			(3,442)
Impairment loss on investment in an associate			(15,854)
Gain on disposal of joint ventures			11,073
Other income, gains/(losses)			(16,425)
Unallocated corporate expenses			(31,752)
Profit before tax			15,675

9. SEGMENT INFORMATION (Continued)

Segment revenue and results (Continued)

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 the accounting policies of the Group described in note 3.

Segment results represent the profit or loss of each segment without allocation of share of result of an associate, impairment loss on investment in an associate, gain on disposal of available-for-sale financial assets, gain on disposal of joint ventures, other income, gains/(losses), 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.

Segment assets and liabilities

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

At 31 December 2013

	PRC HK$'000	Japan HK$'000	Total HK$'000
Segment assets	392,054	251,820	643,874
Unallocated assets			55,884
Consolidated total			699,758
Segment liabilities	29,375	93,446	122,821
Unallocated liabilities			12,065
Consolidated total			134,886

9. SEGMENT INFORMATION (Continued)

Segment assets and liabilities (Continued)

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

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.

9. SEGMENT INFORMATION (Continued)

Other segment information

Year ended 31 December 2013

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

	PRC HK$'000	Japan HK$'000	Consolidated HK$'000
Additions to non-current assets (Note)	**17,679**	**836**	**18,515**
Depreciation	**12,468**	**174**	**12,642**
Loss/(gain) on disposal of plant and equipment	**84**	**(18)**	**66**
Allowance for doubtful debts	**1,492**	**–**	**1,492**

Year ended 31 December 2012

Amounts included in the measure of segment results 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 doubtful debts	(708)	–	(708)

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

9. SEGMENT INFORMATION (Continued)

Geographical information

The operations of the Group are located in the PRC 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:

	2013	2012
	HK$'000	HK$'000
PRC	**18,315**	18,480
Japan	**742**	163
	19,057	18,643

Information about major customers

Revenue from customers contributing over 10% of the total revenue of the Group is as follows:

	Year ended 31 December	
	2013	2012
	HK$'000	HK$'000
Customer A	**293,088**	368,880

10. INCOME TAX EXPENSE

	2013 HK$'000	2012 HK$'000
Current tax:		
PRC Enterprise Income Tax	**64**	8,450
Japan income tax	**9,225**	9,179
PRC withholding tax	**–**	198
Enterprise Income Tax on capital gain on disposal of joint ventures	**–**	16,809
	9,289	34,636
Overprovision in prior years:		
PRC Enterprise Income Tax	**(3,831)**	(3,171)
Japan income tax	**(888)**	–
	(4,719)	(3,171)
Deferred tax (note 25):		
Current year	**(1,684)**	(9,902)
	2,886	21,563

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, 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.

10. INCOME TAX EXPENSE (Continued)

Under the EIT Law, an income tax of 10% is imposed on the capital gain on disposal of joint ventures when the gain is realised from a 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, special corporate tax for reconstruction, corporate enterprise tax, special local corporate tax and corporate inhabitant tax. Corporate tax is calculated at a progressive statutory rate of 15% (2012: 18%) on the portion of taxable income not exceeding JPY8,000,000 (equivalent to approximately HK$588,000 (2012: HK$721,000)) and 25.5% (2012: 30%) on the portion of taxable income in excess of JPY8,000,000. Special corporate tax for reconstruction is calculated at a fixed tax rate of 10% of corporate tax starting from 1 January 2013. Corporate enterprise tax is calculated at a progressive statutory rate of 2.95% (2012: 2.95%) on the portion of taxable income not exceeding JPY4,000,000 (equivalent to approximately HK$294,000 (2012: HK$389,000)), 4.365% (2012: 4.365%) on the portion of taxable income in excess of JPY4,000,000 but not exceeding JPY8,000,000 and 5.78% (2012: 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$5,000 (2012: HK$7,000)) to JPY200,000 (equivalent to approximately HK$15,000 (2012: HK$20,000)), depending on the headcount and capital of the entities.

10. INCOME TAX EXPENSE (Continued)

The income tax expense for the year can be reconciled to the (loss)/profit before tax per the consolidated statement of profit or loss and other comprehensive income as follows:

	2013 **HK$'000**	2012 HK$'000
(Loss)/profit before tax	**(81,189)**	15,675
Taxation at the applicable PRC Enterprise Income Tax rate of 25% (2012: 25%)	**(20,297)**	3,919
Tax effect of share of results of joint ventures	**–**	(2,549)
Tax effect of share of result of an associate	**492**	861
Tax effect of income not taxable in determining taxable profit	**(3,552)**	(687)
Tax effect of expenses not deductible in determining taxable profit	**11,903**	20,003
Tax effect of temporary differences not recognised	**3,816**	3,948
Effect of tax exemption and concessions granted to PRC subsidiaries	**(55)**	(3,630)
Withholding tax on the profits of PRC subsidiaries	**(5,492)**	(1,097)
Tax effect of tax losses not recognised	**13,127**	287
Overprovision in prior years	**(4,719)**	(3,171)
Effect of different tax rate on gain on disposal of joint ventures	**–**	(1,661)
Effect of different tax rates of subsidiaries operating in other jurisdiction	**7,663**	5,340
Income tax expense	**2,886**	21,563

11. LOSS FOR THE YEAR

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

	2013	2012
	HK$'000	HK$'000
Auditors' remuneration	**2,880**	10,536
Depreciation of plant and equipment	**12,642**	4,469
Loss on disposal of plant and equipment	**66**	1,229
Minimum lease payments paid under operating leases during the year in respect of office premises	**24,273**	20,472
Allowance for/(reversal of) doubtful debts	**1,492**	(708)
Staff costs:		
Directors' emoluments (note 12)	**9,780**	12,050
Other staff costs		
— Salaries and other benefits	**305,508**	334,846
— Retirement benefits schemes contributions	**30,328**	35,174
	345,616	382,070

12. DIRECTORS', CHIEF EXECUTIVES' AND EMPLOYEES' EMOLUMENTS

The emoluments of each director were as follows:

	Fees	Salaries and allowances	Discretionary bonus (Note a)	Retirement benefit scheme contributions	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
As at 31 December 2013					
Executive Directors					
Mr. Wang Zhiqiang (note (b))	–	2,252	–	46	2,298
Mr. Kotoi Hirofumi (note (k))	–	1,200	–	–	1,200
Mr. Zuo Jian Zhong	–	480	–	–	480
Non-executive Directors					
Mr. Wang Xubing (note (l))	–	2,252	–	46	2,298
Dr. Shi Chongming (note (l))	–	1,748	–	45	1,793
Mr. Li Jian (note (j))	–	1,050	–	–	1,050
Independent Non-executive Directors					
Mr. Chui Man Lung, Everett (note (i))	65	–	–	–	65
Mr. Wu Hong (note (i))	65	–	–	–	65
Mr. Yamamoto Yoshimasa	210	–	–	–	210
Professor Liang Neng (note (h))	193	–	–	–	193
Mr. Lee Kit Wah (note (h))	128	–	–	–	128
Total for the year ended 31 December 2013	661	8,982	–	137	9,780

12. DIRECTORS', CHIEF EXECUTIVES' AND EMPLOYEES' EMOLUMENTS (Continued)

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

12. DIRECTORS', CHIEF EXECUTIVES' AND EMPLOYEES' EMOLUMENTS (Continued)

Notes:

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

(b) Mr. Wang Zhiqiang is chief executive officer of the Company during the years ended 31 December 2012 and 2013.

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

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

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

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

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

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

(i) Mr. Wu Hong and Mr. Chui Man Lung, Everett, were appointed on 10 September 2013.

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

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

(l) Mr. Wang Xubing and Dr. Shi Chongming retired on 26 March 2014.

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

Of the five individuals with the highest emoluments in the Group, three (2012: four) were directors of the Company whose emoluments are reflected in the analysis presented above. The emoluments of the remaining two (2012: one) individuals were as follows:

	2013 **HK$'000**	2012 HK$'000
Salaries and other benefits	**2,145**	1,474
Retirement benefits schemes contributions	**91**	61
	2,236	1,535

The emoluments of the remaining two (2012: one) individuals were within the HK$1,000,001 to HK$1,500,000 (2012: HK$1,500,001 to HK$2,000,000) band.

13. 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 profit or loss and other comprehensive income, during the year are as follows:

	2013 **HK$'000**	2012 HK$'000
Retirement benefits contributions made during the year	**30,465**	35,315

14. DIVIDENDS

During the year ended 31 December 2013, a special dividend of HK7 cents per ordinary share (total dividend of approximately HK$78,108,000) was declared on 9 October 2013 by the directors of the Company and was duly approved by the shareholders of the Company at an extraordinary general meeting on 11 November 2013 by way of reduction of the share premium account and the retained earnings account and was paid to the shareholders of the Company during the year ended 31 December 2013.

The directors of the Company did not recommend payment of any final dividend for the year ended 31 December 2013 (2012: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

15. LOSS PER SHARE

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

	2013	2012
	HK$'000	HK$'000
Loss:		
Loss for the purposes of calculating basic loss per share	**(83,518)**	(6,663)

	2013	2012
	'000	'000
Number of shares:		
Weighted average number of ordinary shares for the purpose of calculating basic loss per share	**1,115,835**	1,115,297

The effects of all potential ordinary shares are anti-dilutive for the years ended 31 December 2012 and 2013.

16. PLANT AND EQUIPMENT

	Office equipment HK$'000	Motor vehicles HK$'000	Leasehold improvements HK$'000	Total HK$'000
Cost				
At 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 and 1 January 2013	25,294	9,270	3,443	38,007
Exchange differences	604	155	213	972
Additions	3,641	1,208	13,666	18,515
Disposals	(736)	(534)	(2,078)	(3,348)
At 31 December 2013	28,803	10,099	15,244	54,146
Accumulated depreciation				
At 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 and 1 January 2013	17,683	4,961	2,537	25,181
Exchange differences	405	69	42	516
Charge for the year	4,234	1,054	7,354	12,642
Disposals	(645)	(527)	(2,078)	(3,250)
At 31 December 2013	21,677	5,557	7,855	35,089
Carrying amount				
At 31 December 2013	7,126	4,542	7,389	19,057
At 31 December 2012	7,611	4,309	906	12,826

17. GOODWILL

	HK$'000
Cost	
At 1 January 2012	9,860
Exchange differences	(1)
At 31 December 2012 and 1 January 2013	9,859
Exchange differences	308
At 31 December 2013	10,167
Accumulated impairment	
At 1 January 2012, 31 December 2012 and 1 January 2013	2,749
Exchange differences	85
At 31 December 2013	2,834
Carrying amount	
At 31 December 2013	7,333
At 31 December 2012	7,110

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

	2013 HK$'000	2012 HK$'000
Outsourcing software development services		
SinoCom Shensoft Holdings (BVI) Limited ("SinoCom Shensoft")	**7,333**	7,110

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

17. GOODWILL (Continued)

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% (2012: 17%). Cash flows beyond one-year period are extrapolated using a growth rate of 8% (2012: 10%) 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 are the budgeted gross margins, which are determined based on the CGU's past performance and management 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.

18. 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.

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

	2013 **HK$'000**	2012 HK$'000
Cost of unlisted investment in an associate	**24,605**	24,605
Share of post-acquisition losses	**(5,411)**	(3,442)
Impairment loss on investment in an associate	**(15,854)**	(15,854)
Exchange differences	**(216)**	25
	3,124	5,334

18. INVESTMENT IN AN ASSOCIATE (Continued)

As at 31 December 2013, 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 2013	2012	Proportion of voting power held 2013	2012	Principal activity
Gotoura Limited	British Virgin Islands	PRC	75,188 ordinary shares of US$1 each	**33.5%**	33.5%	**33.5%**	33.5%	Provision of travelling information services

The following table shows information of the associate. The associate is accounted for in the consolidated financial statements using the equity method. The summarised financial information presented is based on the HKFRS financial statements of the associate.

	2013 HK$'000	2012 HK$'000
At 31 December:		
Current assets	**9,659**	16,942
Current liabilities	**(334)**	(1,020)
Net assets	**9,325**	15,922
Share of net assets of an associate of the Group	**3,124**	5,334

	2013 HK$'000	2012 HK$'000
Year ended 31 December:		
Revenue	**2,196**	16,983
Loss for the year	**(5,879)**	(10,275)
Other comprehensive income	**(718)**	–
Total comprehensive income	**(6,597)**	(10,275)
Share of loss of an associate of the Group for the year	**(1,969)**	(3,442)

As at 31 December 2013, the bank balances and cash of the Group's associate in the PRC denominated in RMB amounted to approximately HK$4,571,000 (2012: approximately HK$908,000). Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

19. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2013 **HK$'000**	2012 HK$'000
Unlisted equity securities in Japan, at cost (Note)	**14,690**	16,217
Analysed as:		
Current assets	**–**	16,217
Non-current assets	**14,690**	–
	14,690	16,217

Note: Unlisted equity securities were carried at cost less impairment loss as they do not have a quoted market price in an active market and their fair value cannot be reliably measured.

All available-for-sale financial assets are denominated in JPY.

20. OTHER DEPOSITS

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

21. TRADE AND OTHER RECEIVABLES

	2013 **HK$'000**	2012 HK$'000
Trade receivables	**77,239**	76,281
Less: allowance for doubtful debts	**(1,500)**	–
	75,739	76,281
Other receivables	**4,538**	4,252
Interest receivable from related companies (Note)	**–**	1,217
Other deposits	**3,574**	3,282
Prepayments	**8,663**	4,404
Total trade and other receivables	**92,514**	89,436

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).

21. TRADE AND OTHER RECEIVABLES (Continued)

The Group allows an average credit period of 30 to 150 days 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.

	2013 **HK$'000**	2012 HK$'000
0–30 days	**46,361**	41,697
31–60 days	**13,265**	19,140
61–90 days	**1,690**	3,828
91–180 days	**3,828**	3,584
181–360 days	**6,149**	8,032
Over 360 days	**4,446**	–
	75,739	76,281

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 approximately HK$243,000 (2012: HK$908,000) 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 (2012: 135 days).

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

	2013 **HK$'000**	2012 HK$'000
91–180 days	**243**	908

21. TRADE AND OTHER RECEIVABLES (Continued)

Movement in the allowance for doubtful debts:

	2013 **HK$'000**	2012 HK$'000
At 1 January	**–**	6,571
Allowance for/(reversal of) doubtful debts	**1,492**	(708)
Amounts written off as uncollectible	**–**	(5,839)
Exchange differences	**8**	(24)
At 31 December	**1,500**	–

As at 31 December 2013, the allowance for doubtful debts was for individually impaired trade receivables with an aggregate balance of approximately HK$1,500,000, which were made based on estimated irrecoverable amounts from the outsourcing software development services provided with 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:

	2013 **HK$'000**	2012 HK$'000
JPY	**64,871**	67,602

22. LOAN RECEIVABLES FROM RELATED COMPANIES

	2013 **HK$'000**	2012 HK$'000
Loan receivables from related companies	**–**	88,293

22. LOAN RECEIVABLES FROM RELATED COMPANIES (Continued)

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 ("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.

During the year ended 31 December 2013, 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 of the Company and the chief executive officer of the ultimate parent of the Company, who has significant influence over the Group.

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

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 0.001% to 3.3% (2012: 0.0001% to 3.5%) per annum.

The Group's term deposits 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:

	2013	2012
	HK$'000	HK$'000
US$	**3,273**	3,531
JPY	**245,348**	214,659
HK$	**24,077**	14,512

As at 31 December 2013, the bank balances of the Group denominated in RMB amounting approximately HK$287,656,000 (2012: approximately HK$386,541,000) 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

	2013	2012
	HK$'000	HK$'000
Trade payables	**16,861**	11,372
Wages and salaries payables	**76,887**	84,121
Accruals	**9,757**	13,589
Other tax payables	**4,483**	5,690
Other payables	**3,640**	4,727
	111,628	119,499

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

24. TRADE AND OTHER PAYABLES (Continued)

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

	2013	2012
	HK$'000	HK$'000
0–30 days	**11,752**	8,800
31–60 days	**5,048**	2,572
61–90 days	**61**	–
	16,861	11,372

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

	2013	2012
	HK$'000	HK$'000
JPY	**26,028**	24,124
HK$	**9,884**	15,788

25. DEFERRED TAXATION

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

	Deferred tax liabilities				**Deferred tax assets**		
	Prepaid expenses	**Distributable profit of the PRC subsidiaries**	**Gain on deemed disposal of subsidiaries**	**Total**	**Accrued expenses**	**Allowance for doubtful debts**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 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 and 1 January 2013	1,215	6,661	–	7,876	(4,941)	–	(4,941)
(Credit)/charge to profit or loss for the year	(224)	(5,492)	–	(5,716)	4,032	–	4,032
Exchange differences	21	–	–	21	(80)	–	(80)
At 31 December 2013	1,012	1,169	–	2,181	(989)	–	(989)

25. DEFERRED TAXATION (Continued)

At the end of the reporting period, the Group had unused tax losses of approximately HK$53,656,000 (2012: approximately HK$1,148,000) available for offset against future profits. No deferred tax asset has been recognised in respect of the tax losses of approximately HK$53,656,000 (2012: approximately HK$1,148,000) 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.

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 approximately HK$40,929,000 (2012: approximately HK$36,538,000). 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 2012, 31 December 2012, 1 January 2013 and 31 December 2013	4,000,000	100,000
Issued and fully paid:		
At 1 January 2012	1,113,979	27,850
Exercise of share options (Note)	1,856	46
At 31 December 2012, 1 January 2013 and 31 December 2013	1,115,835	27,896

Note: 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 respects.

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.

26. SHARE CAPITAL (Continued)

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 2013, 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 2013, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 13,580,000 (2012: 16,390,000), representing 1.21% (2012: 1.47%) 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 after the vesting period 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
24/01/2006 (Note (b))	24/01/2006–23/01/2010	HK$1.3875
28/01/2008 (Note (a) and (b))	28/01/2008–27/01/2011	HK$1.36
28/01/2008 (Note (b))	28/01/2008–27/01/2013	HK$1.36

Note a: 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.

Note b: All the outstanding options are exercisable as at 31 December 2013.

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 and prior year:

Date of grant	Outstanding at 1/1/2013	Exercised during year	Forfeited during year	Outstanding at 31/12/2013
24/01/2006	**6,720,000**	**–**	**(960,000)**	**5,760,000**
28/01/2008	**9,670,000**	**–**	**(1,850,000)**	**7,820,000**
	16,390,000	**–**	**(2,810,000)**	**13,580,000**

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	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

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.

27. SHARE BASED PAYMENTS (Continued)

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

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

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

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

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

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

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

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

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

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

(e) another 20% of the options will be exercisable at any time on or after the 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 17 January 2018.

At 31 December 2013, 13,580,000 (2012: 16,390,000) share options are exercisable. The closing price of the Company's shares immediately before 24 January 2006, 28 January 2008 and 28 January 2008, the date of grant of options, was 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.

27. SHARE BASED PAYMENTS (Continued)

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.

28. CAPITAL COMMITMENTS

	2013	2012
	HK$'000	HK$'000
Capital expenditure in respect of acquisition of plant and equipment contracted for but not provided	**–**	917

29. 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:

	2013	2012
	HK$'000	HK$'000
Within one year	**23,152**	19,807
In the second to fifth year inclusive	**14,007**	7,103
	37,159	26,910

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.

30. 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 18.

Transactions with an associate, joint ventures and ultimate holding company of the Group

During the year, the Group had significant transactions with an associate, joint ventures and ultimate holding company of the Group as follows:

	2013	2012
	HK$'000	HK$'000
Revenue — provision of services to a joint venture	**–**	1,608
Cost of services — receiving software outsourcing services from a joint venture	**–**	4,009
Cost of services — receiving travelling and tourism services from an associate	**1,436**	2,435
Cost of services — receiving technical support services from an associate	**365**	–
Cost of services — rental charges from a fellow subsidiary	**2,621**	–
Administrative expense — receiving management consulting services from ultimate holding company	**432**	454

Outstanding balances at the end of the reporting period

	2013	2012
	HK$'000	HK$'000
Amount due from a fellow subsidiary (Note)	**1,272**	9,867
Amount due to ultimate holding company	**–**	454

Note: The amount represents the balance of 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 amount was unsecured, non-interest bearing and had no fixed term of repayment.

30. RELATED PARTY TRANSACTIONS (Continued)

Transactions with other related companies

During the years ended 31 December 2012 and 2013, 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 JPY20,962,000 (equivalent to approximately HK$1,758,000) (2012: JPY21,130,000 (equivalent to approximately HK$1,989,000)) for the year ended 31 December 2013. An interest receivable amounting to JPY13,504,000 (equivalent to approximately HK$1,217,000) 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:

	2013 **HK$'000**	2012 HK$'000
Salaries and other benefits	**20,905**	24,294
Retirement benefits scheme contributions	**792**	804
	21,697	25,098

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.

31. EVENT AFTER THE REPORTING PERIOD

Lease arrangement

On 10 January 2014, SinoCom Beijing, a wholly-owned subsidiary of the Company, entered into a supplementary agreement on the lease agreement dated 18 February 2013, with Fujian Liandi, a fellow subsidiary of the Company, and the new owner of the office premises in Beijing, the PRC, for the early termination of the lease on that office premises. Pursuant to the supplementary agreement, the expiry date of the lease period was revised to 30 June 2014 from 31 March 2016.

32. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2013	2012
	HK$'000	HK$'000
Investments in subsidiaries	**47,057**	47,057
Amounts due from subsidiaries	**155,991**	119,472
Other current assets	**1,370**	3,014
Other current liabilities	**(9,697)**	(13,607)
NET ASSETS	**194,721**	155,936
Share capital	**27,896**	27,896
Reserves	**166,825**	128,040
TOTAL EQUITY	**194,721**	155,936

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

33. RESERVES

(a) Group

The amounts of the reserves and movements of the Group therein are presented in the consolidated statement of profit or loss and other 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$'000 (Note (c)(v))	(Accumulated losses)/ retained earnings HK$'000	Total HK$'000
At 1 January 2012	164,756	2,269	29,412	–	16,997	(26,211)	187,223
Exercise of share options	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	–	–	–	–	–	(39,054)	(39,054)
Total comprehensive income 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
At 1 January 2013	**166,189**	**2,269**	**29,412**	**1,392**	**10,104**	**(81,326)**	**128,040**
Transfer of share options reserve upon forfeiture of share options	**–**	**–**	**–**	**–**	**(1,678)**	**1,678**	**–**
Dividends recognised as distribution (note 14)	**(55,000)**	**–**	**–**	**–**	**–**	**(23,108)**	**(78,108)**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**116,893**	**116,893**
At 31 December 2013	**111,189**	**2,269**	**29,412**	**1,392**	**8,426**	**14,137**	**166,825**

33. 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.

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For the year ended 31 December 2013

34. PRINCIPAL SUBSIDIARIES

Details of the principal subsidiaries of the Group as at 31 December 2012 and 2013 are as follows:

Name of subsidiary	Place of incorporation and operation	Class of capital held	Proportion ownership interest held by the Company		Principal activity
			2013	2012	
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
SinoCom-ArtM Technology Co., Ltd.	PRC	Registered capital RMB2,500,000	**80%**	80%	Provision of outsourcing software development and technical support services
SinoCom Ideas Holdings Limited	British Virgin Islands	Ordinary shares HK$3,800,000	**94.48%**	94.48%	Investment holding
Dalian SinoCom High Technology Software Company Limited	PRC	Registered capital HK$3,200,000	**94.48%**	94.48%	Provision of outsourcing software development and technical support services

34. PRINCIPAL SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation and operation	Class of capital held	Proportion ownership interest held by the Company		Principal activity
			2013	2012	
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 a limited company and the Company indirectly owns the equity interests of all of the above subsidiaries except SinoCom BVI.

35. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approval and authorised for issue by the Board of Directors on 27 March 2014.