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: 299)

2010 FINAL RESULTS ANNOUNCEMENT

The directors (the "Directors") of SinoCom Software Group Limited (the "Company") are pleased to announce the consolidated financial results of the Company and its subsidiaries (the"Group") for the year ended 31 December 2010 (the "Year") as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	NOTES	**Year ended 2010** ***HK$'000***	Year ended 2009 *HK$'000*
Revenue	2&3	**609,432**	634,470
Cost of services		**(458,883)**	(443,164)
Gross profit		**150,549**	191,306
Administrative expenses		**(87,092)**	(87,399)
Share of loss of an associate		**–**	(48)
Other gains (losses)	4	**29,390**	29,588
Profit before tax		**92,847**	133,447
Income tax expense	5	**(23,101)**	(30,109)
Profit for the year	6	**69,746**	103,338
Other comprehensive income			
Exchange differences arising on translation from functional currency to presentation currency		**14,336**	1,740
Reclassification adjustment on translation difference upon liquidation of a subsidiary		**(2,587)**	–
Other comprehensive income for the year		**11,749**	1,740
Total comprehensive income for the year		**81,495**	105,078

	NOTES	Year ended 2010 HK$'000	Year ended 2009 HK$'000
Profit for the year attributable to:			
Owners of the Company		**69,010**	103,354
Non-controlling interests		**736**	(16)
		69,746	103,338
Total comprehensive income attributable to:			
Owners of the Company		**80,631**	105,228
Non-controlling interests		**864**	(150)
		81,495	105,078
Earnings per share	7		
– Basic		**6.18 cents**	9.28 cents
– Diluted		**6.17 cents**	9.26 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER

	NOTES	2010 HK$'000	2009 HK$'000
Non-current assets			
Plant and equipment		**12,564**	13,376
Goodwill		**6,775**	9,078
Other deposits		**4,605**	2,056
Available-for-sale investments		**–**	–
Deferred tax assets		**3,438**	2,921
		27,382	27,431
Current assets			
Trade and other receivables	9	**111,231**	121,161
Amount due from a related party		**–**	3,975
Held for trading investments		**100**	74
Bank balances and cash		**613,978**	593,751
		725,309	718,961
Current liabilities			
Trade and other payables	10	**102,537**	85,283
Amount due to a shareholder		**–**	37,000
Tax liabilities		**6,887**	9,357
		109,424	131,640
Net current assets		**615,885**	587,321
		643,267	614,752
Capital and reserves			
Share capital		**27,847**	27,868
Reserves		**593,683**	569,345
Equity attributable to owners of the Company		**621,530**	597,213
Non-controlling interests		**4,338**	3,852
Total equity		**625,868**	601,065
Non-current liabilities			
Deferred tax liabilities		**17,399**	13,687
		643,267	614,752

Notes:

1. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

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

In the current year, the Group has applied the following new and revised standards, amendments and interpretations ("new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

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

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

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

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

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

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

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

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

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

1 Effective for annual periods beginning on or after 1 July 2010 or 1 January 2011, as appropriate.

2 Effective for annual periods beginning on or after 1 July 2010.

3 Effective for annual periods beginning on or after 1 July 2011.

4 Effective for annual periods beginning on or after 1 January 2013.

5 Effective for annual periods beginning on or after 1 January 2012.

6 Effective for annual periods beginning on or after 1 January 2011.

7 Effective for annual periods beginning on or after 1 February 2010.

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

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

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

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

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

The directors of the Company anticipate that the application of the other new and revised standards, Amendments or Interpretations will have no material impact on the consolidated financial statements.

2. REVENUE

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

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

3. SEGMENT INFORMATION

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

Segment revenues and results

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

Year ended 31 December 2010

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

Year ended 31 December 2009

	PRC	Japan	Total
	HK$'000	*HK$'000*	*HK$'000*
Revenue	55,788	578,682	634,470
Cost of services	(45,103)	(395,849)	(440,952)
Gross profit	10,685	182,833	193,518
Administrative expenses	(2,276)	(68,868)	(71,144)
Segment profits	8,409	113,965	122,374
Share of loss of an associate			(48)
Other gains(losses)			29,588
Unallocated corporate expenses			(18,467)
Profit before taxation			133,447

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

The accounting policies of the reportable segments are the same as the Group's accounting policies.

Segment profit represents the profit earned by each segment without allocation of share of loss of an associate, other gains (losses), share-based payment expenses, central administration cost, directors' emoluments and impairment loss on goodwill. This is the measure reported to the chief operating decision maker for the purpose of resource allocation and performance assessment.

Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable segment:

At 31 December 2010

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

At 31 December 2009

	PRC	Japan	Total
	HK$'000	*HK$'000*	*HK$'000*
Segment assets	452,552	203,118	655,670
Unallocated assets			90,722
Consolidated total			746,392
Segment liabilities	15,174	66,801	81,975
Unallocated liabilities			63,352
Consolidated total			145,327

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

- all assets are allocated to reportable segments other than unallocated bank balances and cash, goodwill, deferred tax assets, held-for-trading investments and assets used jointly by reportable segments.

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

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

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

Other segment information

Year ended 31 December 2010

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

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

Year ended 31 December 2009

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

	PRC	Japan	Corporate	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Additions to non-current assets *(Note)*	279	2,248	171	2,698
Depreciation	936	5,185	430	6,551
Loss on disposal of plant and equipment	25	208	–	233

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

Geographical information

The Group's operations are located in the People's Republic of China (the "PRC") (country of domicile) and Japan.

The Group's information about its non-current assets by geographical location of the assets is detailed below:

	Non-current assets	
	2010	2009
	HK$'000	*HK$'000*
PRC (country of domicile)	**23,437**	23,486
Japan	**507**	1,024
	23,944	24,510

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

Information about major customers

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

	Year ended 31 December	
	2010	2009
	HK$'000	*HK$'000*
Customer A[1]	**204,354**	173,670
Customer B[1]	**173,900**	234,918

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

4. OTHER GAINS (LOSSES)

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

Government subsidies include government concession on levies of HK$898,000 (2009: HK$10,039,000), subsidies from local government for the employment of new university graduates of HK$2,657,000 (2009: HK$5,491,000) and for its exports of oursourcing software development services of HK$4,730,000 (2009: nil). There were specific conditions attached to the government subsidies, the Group recognised the government subsidies in the consolidated statement of comprehensive income when it fulfills all the conditions specified in the subsidy notice or relevant law and regulations.

5. TAXATION

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

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

SinoCom Beijing was recognised as a key software enterprise under the State plan for 2009 and 2010 by relevant PRC government authorities in January 2010 and February 2011 respectively under the EIT Law. Accordingly, SinoCom Beijing was entitled to the reduced income tax rate of 10% as compared to the unified tax rate of 25% for the year ended 31 December 2009 and 2010.

Shensoft Computer Technology (Shanghai) Company Limited ("Shensoft Shanghai"), SinoCom Information Technology (Shandong) Limited ("SinoCom Shandong") and Dalian SinoCom High Technology Software Limited ("Dalian SinoCom") are eligible for tax holidays and concession as follows:

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

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

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

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

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

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

Taxation arising in Japan comprises corporate tax, corporate enterprise tax, special local corporate tax and corporate inhabitant tax. Corporate tax is calculated at a progressive statutory rate of 18% (2009: 18%) on the portion of taxable income not exceeding Japanese Yen ("JPY") 8,000,000 (equivalent to approximately HK$764,000, 2009: HK$670,000) and 30 % (2009: 30%) on the portion of taxable income in excess of JPY8,000,000. Corporate enterprise tax is calculated at a progressive statutory rate of 2.95 % (2009: 2.95%) on the portion of taxable income not exceeding JPY4,000,000 (equivalent to approximately HK$382,000, 2009: HK$335,000), 4.365% (2009: 4.365%) on the portion of taxable income in excess of JPY4,000,000 but not exceeding JPY8,000,000 and 5.78% (2009: 5.78%) on the portion of taxable income in excess of JPY8,000,000. Special local corporate tax is imposed for fiscal years beginning on or after 1 October 2008. Special local corporate tax is calculated at a fixed tax rate of 81% or 148% of corporate enterprise tax, depending on the amount of paid-in capital. Corporate inhabitant tax is calculated at a fixed tax rate of 17.3% or 20.7% of the corporate tax, depending on the amount of the corporate tax per annum, also with a fixed yearly amount from JPY70,000 (equivalent to approximately HK$7,000, 2009: HK$6,000) to JPY200,000 (equivalent to approximately HK$19,000, 2009: HK$17,000), depending on the headcount and capital of the entities.

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

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

6. PROFIT FOR THE YEAR

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

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

7. EARNINGS PER SHARE

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

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

Number of shares

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

8. DIVIDENDS

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

In respect of the financial year ended 31 December 2010, the directors of the Company propose a final dividend of HK3.1 cents per share and a special dividend of HK3.9 cents per share. The dividends are subject to approval by shareholders at the forthcoming Annual General Meeting.

9. TRADE AND OTHER RECEIVABLES

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

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

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

The Group seeks to maintain strict control over its outstanding receivables and has a credit control policy to minimize credit risk. Overdue balances are reviewed regularly by senior management. The management considered the recoverability of trade receivables that are neither past due nor impaired is beyond doubt.

Included in the Group's trade receivable balance are debtors with an aggregate carrying amount of HK$2,511,000 (2009: HK$1,229,000) which are past due at the end of the reporting period for which the Group has not provided for an impairment loss. The Group does not hold any collateral over these balances. The average age of these receivables is 162 days (2009: 107 days).

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

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

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

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

10. TRADE AND OTHER PAYABLES

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

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

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

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

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

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

Business Review

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

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

Development Plan

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

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

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

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

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

REVIEW OF RESULTS AND OPERATIONS

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

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

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

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

LIQUIDITY AND FINANCIAL RESOURCES

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

SHARE CAPITAL

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

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

PLEDGE OF ASSETS

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

EMPLOYEES AND REMUNERATION POLICY

The Group had 2,303 full time staff as at 31 December 2010 (2009: 2,550). Most of them were engineers located in China. There were also 245 employees in Japan, most of them were bridged system engineers, worked at customers' locations in Japan. Their remuneration, promotion and salary review are assessed based on job responsibilities, work performance, professional experiences and the prevailing industry practice. The Group also offers project bonus and performance bonus to its staff. Project bonus is calculated by allowing a fixed amount per man-month of work completed in a project and distributed among staff engaged according to their respective contributions in the project. Performance bonus is calculated based on an evaluation of individual efforts and the financial performance of the Group. Adequate resources are preserved for Japanese language training on a regular basis, new I.T. knowledge training and business domain knowledge training for each project before commencement of a project. On the job training is also provided after a project commenced. The Group maintains social insurance schemes for retirement, unemployment, personal injury and hospitalization for all of its employees in China. A housing provident fund system has also been implemented for its employees in China. Staff in Japan are enrolled under the requisite pension fund and health scheme as required by Japanese law.

FOREIGN EXCHANGE AND CURRENCY RISKS

Since most of the Group's revenue was generated from software development outsourced from Japan in JPY while expenses were settled in RMB, any depreciation of JPY against RMB, will reduce the income of the Group measured in RMB and have an adverse impact on the profitability of the Group. There was no effective hedging tool suitable to reduce this exchange rate exposure in consideration of the monthly recurring nature of JPY revenue from the management's point of view. The group strategy was to changing JPY into RMB immediately upon receipt. The Group planned to expand its business with revenue in RMB to diversify partially this risk.

CONTINGENT LIABILITIES

As at 31 December 2010, the Group had no material contingent liabilities.

CAPITAL COMMITMENTS

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

FINAL AND SPECIAL DIVIDENDS

The Directors recommend a final dividend of HK3.1 cents per share and a special dividend of HK3.9 cents for 2010 payable to shareholders whose names appear on the register of members of the Company on 23 May 2011. Subject to shareholders' approval of the payment of the final and special dividends at the forthcoming annual general meeting of the Company, the proposed final and special dividends are expected to be paid on or about 30 May 2011.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 18 May 2011 to 20 May 2011, both dates inclusive during which period no share transfer will be effected. To qualify the proposed final dividend, all transfer documents together with relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30pm on 17 May 2011.

MODEL CODE FOR SECURITIES TRANSACTIONS

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

CORPORATE GOVERNANCE

During the Year, the Company complied with the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("the Listing Rules") except A.2.1 that Mr Wang Zhiqiang had been both the Chairman and Chief Executive Officer of the Company and the Board considers that vesting the roles of Chairman and Chief Executive Officer in the same person facilitates the execution of the Group's business strategies and maximizes effectiveness of its operations. The Board will nevertheless review the structure from time to time and consider the appropriate adjustment should suitable circumstances arise.

The Company's audit committee held a meeting in March 2011 to review the Group's audited results for the Year. Deloitte Touche Tohmatsu, the Group's external auditors, have conducted an audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants.

ANNUAL GENERAL MEETING

The Annual General Meeting of the Company will be held on Monday, 23 May 2011. For details of the Annual General Meeting, please refer to the Notice of the Annual General Meeting to be dispatched in due course.

PURCHASE, SALES OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

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

By order of the board
WANG Zhiqiang
Chairman and CEO

Hong Kong, 30 March 2011

As at the date of this announcement, the executive Directors are Mr. Wang Zhiqiang, Mr. Wang Xubing, Dr. Shi Chongming, Mr. Siu Kwok Leung; the non-executive Director is Mr. Wang Nengguang; and the independent non-executive Directors are Mr. Pang Chor Fu, Professor Liang Neng and Mr. Lee Kit Wah.