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)

2011 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 2011 (the "Year") as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	NOTES	**Year ended 2011** ***HK$'000***	Year ended 2010 *HK$'000*
Revenue	2&3	**684,942**	609,432
Cost of services		**(506,565)**	(458,883)
Gross profit		**178,377**	150,549
Administrative expenses		**(111,359)**	(87,092)
Share of profit of jointly controlled entities		**2,257**	–
Gain on deemed disposal of subsidiaries	4	**125,192**	–
Other gains (losses)	5	**29,095**	29,390
Profit before tax		**223,562**	92,847
Income tax expense	6	**(36,925)**	(23,101)
Profit for the year	7	**186,637**	69,746
Other comprehensive income			
Exchange differences arising on translation from functional currency to presentation currency		**22,675**	14,336
Reclassification adjustment on translation difference upon liquidation/disposal of subsidiaries		**107**	(2,587)
Other comprehensive income for the year, net of income tax		**22,782**	11,749
Total comprehensive income for the year		**209,419**	81,495

	NOTES	Year ended 2011 HK$'000	Year ended 2010 HK$'000
Profit for the year attributable to:			
Owners of the Company		**186,358**	69,010
Non-controlling interests		**279**	736
		186,637	69,746
Total comprehensive income attributable to:			
Owners of the Company		**208,968**	80,631
Non-controlling interests		**451**	864
		209,419	81,495
Earnings per share			
– Basic	8	**16.73 cents**	6.18 cents
– Diluted	8	**16.72 cents**	6.17 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER

	NOTES	**2011** **HK$'000**	2010 HK$'000
Non-current assets			
Plant and equipment		**12,484**	12,564
Goodwill		**7,111**	6,775
Other deposits		**3,097**	4,605
Deferred tax assets		**9,017**	3,438
Interests in jointly controlled entities		**157,263**	–
		188,972	27,382
Current assets			
Trade and other receivables	10	**103,634**	111,231
Amount due from a related party		**4,072**	–
Held for trading investments		**–**	100
Bank balances and cash		**606,067**	613,978
		713,773	725,309
Current liabilities			
Trade and other payables	11	**107,596**	102,537
Amount due to a related party		**5,261**	–
Tax liabilities		**11,665**	6,887
		124,522	109,424
Net current assets		**589,251**	615,885
		778,223	643,267
Capital and reserves			
Share capital		**27,850**	27,847
Reserves		**724,879**	593,683
Equity attributable to owners of the Company		**752,729**	621,530
Non-controlling interests		**3,654**	4,338
Total equity		**756,383**	625,868
Non-current liabilities			
Deferred tax liabilities		**21,840**	17,399
		778,223	643,267

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 24 (as Revised in 2009)	Related Party Disclosures
HKAS 32 (Amendments)	Classification of Rights Issues
HK (IFRIC) – Int 14 (Amendments)	Prepayments of a Minimum Funding Requirement
HK (IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments
Amendments to HKFRSs	Improvements to HKFRSs issued in 2010

The adoption of the new and revised HKFRSs in the current year has had no material effect on the Group's financial performance and positions for the current and prior years and/or on disclosure set out in these consolidated financial statements.

New and revised standards, 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.

HKFRS 1 (Amendments)	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters[1]
HKFRS 7 (Amendments)	Disclosures – Transfers of Financial Assets[1]
HKFRS 7 (Amendments)	Disclosures – Offsetting Financial Assets and Financial Liabilities[2]
HKFRS 9	Financial Instruments[3]
HKFRS 9 and HKFRS 7 (Amendments)	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[3]
HKFRS 10	Consolidated Financial Statements[2]
HKFRS 11	Joint Arrangements[2]
HKFRS 12	Disclosure of Interests in Other Entities[2]
HKFRS 13	Fair Value Measurement[2]
HKAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income[5]
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets[4]
HKAS 19 (as Revised in 2011)	Employee Benefits[2]
HKAS 27 (as Revised in 2011)	Separate Financial Statements[2]

HKAS 28 (as Revised in 2011)	Investments in Associates and Joint Ventures[2]
HKAS 32 (Amendments)	Offsetting Financial Assets and Financial Liabilities[6]
HK (IFRIC)-Int 20	Stripping Costs in the Production Phase of a Surface Mine[2]

[1] Effective for annual periods beginning on or after 1 July 2011
[2] Effective for annual periods beginning on or after 1 January 2013
[3] Effective for annual periods beginning on or after 1 January 2015
[4] Effective for annual periods beginning on or after 1 January 2012
[5] Effective for annual periods beginning on or after 1 July 2012
[6] Effective for annual periods beginning on or after 1 January 2014

HKFRS 9 Financial Instruments

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 amended in 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of HKFRS 9 are described as follows:

- HKFRS 9 requires all recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at 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 reporting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- The most significant effect of HKFRS 9 regarding the classification and measurement of financial liabilities relates to the presentation of changes in the fair value of a financial liability (designated as at fair value through profit or loss ("FVTPL")) attributable to changes in the credit risk of that liability. Specifically, under HKFRS 9, for financial liabilities that are designated as at FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Currently, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at FVTPL was presented in profit or loss.

The directors anticipate that the Group will apply HKFRS 9 during its financial year beginning 1 January 2015. Based on an analysis of the Group's financial assets and financial liabilities as of 31 December 2011, the directors do not expect the adoption of HKFRS 9 will have a significant impact on the Group's consolidated financial statements.

New and revised Standards on consolidation, joint arrangements, associates and disclosures

In June 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued, including HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 (as revised in 2011) and HKAS 28 (as revised in 2011).

Key requirements of these five standards are described below.

HKFRS 10 replaces the parts of HKAS 27 *Consolidated and Separate Financial Statements* that deal with consolidated financial statements and HK (SIC)-Int 12 *Consolidation – Special Purpose Entities*. HKFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in HKFRS 10 to deal with complex scenarios.

HKFRS 11 replaces HKAS 31 *Interests in Joint Ventures* and HK (SIC)-Int 13 *Jointly Controlled Entities – Non-Monetary Contributions by Venturers*. HKFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. Under HKFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In contrast, under HKAS 31, there are three types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations.

In addition, joint ventures under HKFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under HKAS 31 can be accounted for using the equity method of accounting or proportionate accounting.

HKFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in HKFRS 12 are more extensive than those in the current standards.

These five standards are effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted provided that all of these five standards are applied early at the same time.

The directors anticipate that these five standards will be adopted in the Group's consolidated financial statements for the annual period beginning on 1 January 2013. However, the directors have not yet performed a detailed analysis of the impact of the application of these Standards and hence have not yet quantified the extent of the impact.

HKFRS 13 Fair Value Measurement

HKFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The Standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of HKFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in HKFRS 13 are more extensive than those in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under HKFRS 7 *Financial Instruments: Disclosures* will be extended by HKFRS 13 to cover all assets and liabilities within its scope.

HKFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors anticipate that HKFRS 13 will be adopted in the Group's consolidated financial statements for the annual period beginning on 1 January 2013 and that the application of the new Standard may affect the amounts reported in the consolidated financial statements which are measured as fair value and result in more extensive disclosures in the consolidated financial statements.

Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income

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. However, the amendments to HKAS 1 require additional disclosures to be made in the other comprehensive income 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 to HKAS 1 are effective for annual periods beginning on or after 1 July 2012. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in the future accounting periods.

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

	2011	2010
	HK$'000	*HK$'000*
Outsourcing software development services	**674,000**	587,541
Technical support services	**10,942**	21,891
	684,942	609,432

Revenue from outsourcing software development services and technical support services are net of business tax and local government levies of HK$30,845,000 (2010: HK$30,511,000).

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 2011

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

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

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

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

Segment profit represents the profit earned by each segment without allocation of gain on deemed disposal of subsidiaries, 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 operating segment:

At 31 December 2011

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

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

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, held for trading investments and assets used jointly by operating segments.

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

Other segment information

Year ended 31 December 2011

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

	PRC ***HK$'000***	**Japan** ***HK$'000***	**Corporate** ***HK$'000***	**Consolidated** ***HK$'000***
Additions to non-current assets *(Note)*	225	5,823	519	6,567
Depreciation	407	4,089	385	4,881
Loss on disposal of plant and equipment	2	256	–	258

Year ended 31 December 2010

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

	PRC *HK$'000*	Japan *HK$'000*	Corporate *HK$'000*	Consolidated *HK$'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

Note: Non-current assets excluded goodwill, interests in jointly controlled entities 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	
	2011	2010
	HK$'000	*HK$'000*
PRC (country of domicile)	**19,314**	18,832
Japan	**281**	507
	19,595	19,339

Note: Non-current assets excluded interests in jointly controlled entities, other deposits 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	
	2011	2010
	HK$'000	*HK$'000*
Customer A[1]	**289,192**	173,900
Customer B[1]	**169,532**	204,354

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

4. GAIN ON DEEMED DISPOSAL OF SUBSIDIARIES

On 28 February 2011, Sinocom DIR Business Innovation Co., Ltd ("SinoCom DIR") and Daiwa Institute of Research Business Innovation Ltd. ("DIR-BI"), a corporation incorporated under the laws of Japan, entered into a subscription agreement pursuant to which DIR-BI has conditionally agreed to subscribe for, and SinoCom DIR has conditionally agreed to allot and issue to DIR-BI, the subscription shares at a total consideration of JPY1,000,000,000, which was fully paid by DIR-BI in April 2011. SinoCom DIR is a wholly-owned subsidiary established by SinoCom Holdings (BVI) Limited ("SinoCom BVI"), a wholly-owned subsidiary of the Company, in Hong Kong in January 2011. Upon completion of the subscription, SinoCom DIR is owned as to 60% by SinoCom BVI and 40% by DIR-BI, and SinoCom DIR is classified as a jointly controlled entity as DIR-BI is able to exercise veto rights over strategic financial and operating decisions of SinoCom DIR.

On the same day, the Company, SinoCom BVI and DIR-BI entered into a shareholders' agreement in respect of SinoCom DIR to provide for, among other matters, the basis on which the SinoCom DIR should be operated and managed, the reorganisation to be completed by the Company to put in place the corporate structure of SinoCom DIR and its subsidiaries, and grant of the put and call options by the Company and SinoCom BVI to DIR-BI.

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

As part of the reorganisation mentioned above, Jinan SinoCom DIR Business Information Technology Limited ("Jinan SinoCom DIR") (formerly known as "SinoCom Information Technology (Shandong) Limited") was required to be transferred to become wholly owned by SinoCom DIR Business Innovation Technology (Beijing) Co., Ltd. ("SinoCom DIR Beijing"), a wholly owned subsidiary of SinoCom DIR.

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

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

On 25 August 2011, the Company completed the legal documents regarding the transfer of all the equity interest of Jinan SinoCom DIR to SinoCom DIR Beijing. As such, SinoCom DIR and its wholly owned subsidiaries, i.e., SinoCom DIR Beijing and Jinan SinoCom DIR, became the Group's jointly controlled entities. The gain on disposal of SinoCom DIR and its subsidiaries at the date of disposal were as follows:

	25/08/2011 *HK$'000*
Gain on disposal of subsidiaries:	
Fair value of retained interest in SinoCom DIR	152,601
Net assets disposed of	(27,967)
Cumulative exchange difference in respect of the net assets of the subsidiaries reclassified from equity to profit or loss on loss of control of the subsidiaries	558
Gain on disposal	125,192

5. **OTHER GAINS (LOSSES)**

	2011	2010
	HK$'000	*HK$'000*
Government subsidies	**7,077**	8,707
(Loss) gain on sale of held for trading investments	**(32)**	825
Interest income	**10,550**	5,018
Net foreign exchange gain	**4,504**	14,211
Gain on disposal of available-for-sale investments	**6,278**	–
Reclassification adjustment on translation difference upon liquidation of a subsidiary	**(665)**	2,587
Others	**1,383**	597
Impairment loss on goodwill	**–**	(2,555)
	29,095	29,390

Government subsidies include subsidies from local government for the employment of new university graduates of HK$3,292,000 (2010: HK$2,657,000) and for its exports of outsourcing software development services of HK$3,524,000 (2010: HK$4,730,000). 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.

6. **TAXATION**

	2011	2010
	HK$'000	*HK$'000*
Current tax:		
PRC Enterprise Income Tax	**17,150**	9,297
Japan income tax	**10,783**	6,225
Withholding tax on capital gain on liquidation of a subsidiary	**–**	7,804
PRC withholding tax	**11,432**	–
Overprovision in respect of prior year	**(1,532)**	(3,491)
	37,833	19,835
Deferred tax:		
Current year	**(908)**	3,266
	36,925	23,101

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 Computer System (Beijing) Co., Ltd. ("SinoCom Beijing") is recognised as a high and new technology enterprise by the relevant PRC government authorities from 2009 to 2011. Pursuant to the Income Tax Laws, SinoCom Beijing was entitled to enjoy Enterprise Income Tax of 15%. In addition, SinoCom Beijing was recognised as a key software enterprise under the State plan in 2010 by relevant PRC government authorities in February 2011 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 2010.

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

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., 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% (2010: 18%) on the portion of taxable income not exceeding Japanese Yen ("JPY") 8,000,000 (equivalent to approximately HK$784,000, 2010: HK$764,000) and 30% (2010:30%) 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% (2010: 2.95%) on the portion of taxable income not exceeding JPY4,000,000 (equivalent to approximately HK$392,000, 2010: HK$382,000), 4.365% (2010: 4.365%) on the portion of taxable income in excess of JPY4,000,000 but not exceeding JPY8,000,000 and 5.78% (2010: 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, 2010: HK$7,000) to JPY200,000 (equivalent to approximately HK$20,000, 2010: HK$19,000), 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:

	2011	2010
	HK$'000	*HK$'000*
Profit before taxation	**223,562**	92,847
Taxation at the applicable PRC Enterprise Income Tax rate of 25% (2010: 25%)	**55,891**	23,212
Tax effect of share of profit of jointly controlled entities	**(564)**	–
Tax effect of expenses not deductible in determining taxable profit	**3,957**	3,319
Effect of tax exemption and concessions granted to PRC subsidiaries	**(7,266)**	(15,369)
Withholding tax on capital gain on liquidation of a subsidiary	**–**	7,804
Withholding tax on the profits of PRC subsidiaries	**3,157**	3,632
Tax effect of tax losses not recognized	**1,814**	2,151
Overprovision in respect of prior year	**(1,532)**	(3,491)
Deferred tax changes resulting from change in applicable tax rate	**(3,748)**	–
Effect of different tax rate on deemed gain on disposal of subsidiaries	**(18,779)**	–
Effect of different tax rates of subsidiaries operating in other jurisdiction	**3,995**	1,843
Income tax expenses	**36,925**	23,101

7. PROFIT FOR THE YEAR

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

	2011	2010
	HK$'000	*HK$'000*
Auditors' remuneration	**2,933**	2,861
Depreciation of plant and equipment	**4,881**	5,275
Loss on disposal of plant and equipment	**258**	301
Net foreign exchange gain	**(4,504)**	(14,211)
Impairment losses on trade receivables	**6,423**	–
Staff costs:		
Directors' emoluments	**12,083**	10,757
Other staff costs		
– Salaries and other benefits	**405,052**	368,155
– Share-based payment expenses	**27**	1,122
– Retirement benefits schemes contributions	**40,503**	35,556
	457,665	415,590

8. 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:

	2011	2010
	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	**186,358**	69,010

Number of shares

	2011	2010
	'000	*'000*
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,113,931**	1,116,452
Effect of dilutive potential ordinary shares: Share options issued by the Company	**578**	2,342
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**1,114,509**	1,118,794

The computation of diluted earnings per share does not assume the exercise of certain of the Company's share options because the exercise price of those share options was higher than the average market price for shares for both 2011 and 2010.

9. DIVIDENDS

During the year ended 31 December 2010, a final dividend of HK5.00 cents per share (total dividend of HK$55,871,000) in respect of the financial year ended 31 December 2009 were paid to the shareholders. In respect of the financial year ended 31 December 2010, a final dividend of HK3.1 cents per share and a special dividend of HK3.9 cents per share (total dividend of HK$77,956,000) were declared on 23 May 2011 and were paid to the shareholders during the year ended 31 December 2011.

In respect of the financial year ended 31 December 2011, the directors of the Company propose a final dividend of HK3.5 cents per share. The dividend is subject to approval by shareholders at the forthcoming annual general meeting of the Company ("Annual General Meeting").

10. TRADE AND OTHER RECEIVABLES

	2011	2010
	HK$'000	*HK$'000*
Trade receivables	**92,240**	92,942
Less: allowance for doubtful debts	**(6,571)**	–
	85,669	92,942
Other receivables	**9,108**	7,737
Other deposits	**4,892**	6,054
Prepayments	**3,965**	4,498
Total trade and other receivables	**103,634**	111,231

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

	2011	2010
	HK$'000	*HK$'000*
0-30 days	**83,641**	82,868
31-60 days	**861**	7,563
61-90 days	**300**	191
91-180 days	**867**	581
181-360 days	**–**	1,739
	85,669	92,942

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$105,000 (2010: HK$2,511,000) 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 (2010: 162 days).

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

	2011	2010
	HK$'000	*HK$'000*
61-90 days	–	191
91-180 days	105	581
181-360 days	–	1,739
	105	2,511

Movement in the allowance for doubtful debts:

	2011	2010
	HK$'000	*HK$'000*
At 1 January	–	–
Impairment losses recognised on trade receivables	6,423	–
Exchange adjustment	148	–
At 31 December	6,571	–

Included in the allowance for doubtful debts are individually impaired trade receivables with an aggregate balance of HK$6,571,000 as of 31 December 2011 (2010: nil), which are made based on estimated irrecoverable amounts from the outsourcing software development service provided by reference to past default experience and objective evidences.

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

	2011	2010
	HK$'000	*HK$'000*
JPY	81,041	74,814

11. TRADE AND OTHER PAYABLES

	2011	2010
	HK$'000	*HK$'000*
Trade payables	**13,173**	4,378
Wages and salaries payable	**86,308**	78,654
Accruals	**1,197**	1,273
Other tax payables	**4,236**	14,209
Payable for outstanding consideration for acquisition of additional equity interest in a subsidiary	**–**	196
Other payables	**2,682**	3,827
	107,596	102,537

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:

	2011	2010
	HK$'000	*HK$'000*
0-30 days	**10,113**	3,015
31-60 days	**3,060**	1,363
	13,173	4,378

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

	2011	2010
	HK$'000	*HK$'000*
JPY	**31,105**	23,585
HK$	**4,332**	3,200

Business Review

In 2011, the worldwide financial chaos still remained, debt crisis in Europe troubled the global financial markets, the sign of economic recovery in US was weak, the Mainland China faced high inflation, and the risk of downward shift in economy was on the rise. Amid such economic climate, the business environment will inevitably be impacted to a certain extent. Fortunately, the Group's dedicated outsourcing software development business was not affected significantly. In the past year, the annual turnover still enjoyed a moderate growth of 12%.

In order to deepen mutual partnership relationship, the Group set up a jointly controlled entity with a major customer. Such strategic development not only helps to enhance the Group's business to maintain a steady growth, but also introduces advanced management systems and techniques from the counter party, so as to raise the Group's management standard and to optimize operational efficiency, as well as mutually benefit each other. In addition, the set-up of this jointly controlled entity has brought to the Group a one-time gain of approximately HK$125,192,000, driving the Group's profit for the year to surge approximately by 1.7 times as compared with last year.

Despite that the Group had no new major customers in the past year, but deepening and strengthening the business of existing customers enabled us to achieve a decent profitable performance in the uncertain global economic situation, and to keep up our leading position in the outsourcing software development industry.

Human resources are the bottlenecks of overall development of the industry. The shortage of professional software development talents and the persistent pressure of wage increase have impeded the development of the industry. In order to attract outstanding professionals and to retain employees of good production efficiency, the Group made major reforms in talent assessment and employee incentives policies during the year, and has achieved the desired results.

Outlook

China's economy is currently facing a difficult transition and the downside risk is increasing. As Premier Wen Jiabao forecasted in government working report presented in the Eleventh National People's Congress, the growth of China's economy in 2012 will be only 7.5%. However, the economic transition has provided opportunities to the software industry. According to the "12th Five-Year" Plan on software and information technology service industry, the growth rate of software industry in the period of "12th Five-Year" will reach 25%. By the end of 2015, the total industry revenue is expected to achieve RMB4 trillion. To promote the rapid development of software industry in the Mainland China, the Plan will focus on grooming leading enterprises, and provide tax incentives to make sure that the objective economic environment of software industry will not only be unaffected by the deterioration in overall economic climate, but also will be benefited from it. We believe that the Group can enjoy such benefits.

The Group is committed to develop a broader business income sources, but the results over the past years were not impressed. After end of the Year, the Group has finally made the first step of expansion breakthrough to subscribe approximately 33.5% of the enlarged issued capital of Gotoura Limited at a consideration of RMB20 million. Such investment enables the Group to balance its information technology techniques and software development experience by diversifying its investment into new business areas with rapid growth and high potential. Although the related investment will broaden the Group's business foundation, SinoCom's core business will remain unchanged to concentrate on its outsourcing software development service in the near future, and Japan will continue to be our key market.

Furthermore, in the Group's future development, we will explore new ideas, search for new business growth innovation, and look for breakthroughs in the e-commerce field. At the same time, we hope to upgrade the Group's operating strength through capital operation to cope with new opportunities in the future.

REVIEW OF RESULTS AND OPERATIONS

The Group's consolidated turnover for the year ended 31 December 2011 was approximately HK$684,942,000, representing a increase of approximately 12.4% when compared to 2010. The increase did not include turnover of SinoCom DIR and its subsidiaries after 25 August 2011, the date on which was deemed disposal of SinoCom DIR ("Deemed Disposal"). Turnover derived from outsourcing software development work increased by approximately 14.7% to approximately HK$674,000,000. Business with the Group's two largest customers recorded different trends of positive and negative growth respectively on year to year basis. The negative growth was a result of non-full year consolidation due to Deemed Disposal. Top five customers accounted for approximately 78.8% of the total turnover. Provision of technical support services turnover decreased by approximately 50.0% to approximately HK$10,942,000. Turnover from outsourcing software development services and from technical support services accounted for approximately 98.4% and 1.6% of the total turnover respectively.

Average full time production headcounts were 2,023 for the year ended 31 December 2011, a reduction of 286 or 12.4% from that of 2,309 last year. Headcounts of SinoCom DIR and its subsidiaries after Deemed Disposal have not been counted in the calculation of average full time production headcounts and hence the reduction.

Gross profit for the year increased to approximately HK$178,377,000 or 18.5% increase, when compared to the gross profit of HK$150,549,000 in 2010. The Group's gross profit margin was approximately 26.0% in 2011 (2010: 24.7%). Improvement in productivity and employee utilization rates accounted for the increase in gross margin.

Operating profit and net profit attributable to owners of the Company in 2011 increased by approximately 140.8% and 170.0% to HK$223,562,000 and HK$186,358,000 respectively. Operating margin and net profit margin in 2011 were approximately 32.6% and 27.2% respectively. Both margin increases was mainly due to gain on Deemed Disposal. Excluding the gain on Deemed Disposal net of deferred tax, effective tax rate was approximately 24.8% (2010: 24.9%).

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

None of the Company's subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

As at 31 December 2011, the number of shares in respect of which options had been granted and remained outstanding under the Company's share option scheme was 31,526,000 (2010: 35,606,000), representing 2.8% (2010: 3.2%) of the shares of the Company in issue at that date.

PLEDGE OF ASSETS

As at 31 December 2011, the Group had not pledged any of its assets.

EMPLOYEES AND REMUNERATION POLICY

The Group excluding jointly controlled entities had 1,616 full time staff as at 31 December 2011 (2010: 2,303). Most of them were engineers located in China. There were also 181 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 2011, the Group had no material contingent liabilities.

CAPITAL COMMITMENTS

As at 31 December 2011, the Group had no material capital commitments.

FINAL DIVIDEND

The Directors recommend a final dividend of HK3.5 cents per share for 2011 payable to shareholders whose names appear on the register of members of the Company on 29 May 2012. Subject to shareholders' approval of the payment of the dividend at the forthcoming Annual General Meeting, the proposed final dividend is expected to be paid on or about 8 June 2012.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed during the following periods:

(i) from Monday, 21 May 2012 to Tuesday, 22 May 2012, both dates inclusive, for the purpose of ascertaining shareholders' entitlement to attend and vote at the forthcoming Annual General Meeting. In order to be eligible to attend and vote at the Annual General Meeting, all transfers accompanied by the 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, no later than 4:30 p.m. on Friday, 18 May 2012; and

(ii) from Monday, 28 May 2012 to Tuesday, 29 May 2012 (record date for dividend payment), both dates inclusive, for the purpose of ascertaining shareholders' entitlement to the proposed final dividend. In order to establish entitlements to the proposed final dividend, all transfers accompanied by the 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, no later than 4:30 p.m. on Friday, 25 May 2012.

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 Model Code") and the Company has made specific enquiry of all Directors as to whether they have complied with the required standard set out in the Model Code and the Code of Conduct during the year. Dr. Shi Chongming, an executive Director, advised the Board on 28 March 2012 that he purchased 1,000,000 shares ("Shares") of the Company on 7 October 2011 on the Stock Exchange at a price of HK$0.5 per Share and 500,000 Shares on 10 October 2011 on the Stock Exchange at a price of HK$0.5 per Share. Save as disclosed above, all the Directors have confirmed that they have complied with the required standards set out in the Model Code and the Code of Conduct throughout the Year.

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.

Furhter, following the re-designation of Mr. Pang Chor Fu as a non-executive Director on 6 March 2012, the number of independent non-executive Directors fell below the minimum number required under Rule 3.10(1) of the Listing Rules. The Company is in the process of identifying suitable candidate to fill the vacancy of the independent non-executive Director under the Listing Rules as soon as practicable (and in any event not later than 5 June 2012, the expiry date of the three month period stipulated by Rule 3.11 of the Listing Rules), in order to ensure compliance by the Company with Rule 3.10 of the Listing Rules.

The Company's audit committee held a meeting in March 2012 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 will be held on Tuesday, 22 May 2012. 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

None of the Company's subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

By order of the board
WANG Zhiqiang
Chairman and CEO

Hong Kong, 28 March 2012

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 Directors are Mr. Wang Nengguang and Mr. Pang Chor Fu; and the independent non-executive Directors are Professor Liang Neng and Mr. Lee Kit Wah.