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**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)**

- (1) PAST MAJOR TRANSACTION IN RELATION TO THE SDI LOAN;  
AND  
(2) PAST DISCLOSEABLE TRANSACTION IN RELATION TO THE FALCON  
LOAN**

**INTRODUCTION**

The Board announces that SinoCom Japan, a subsidiary of the Company, has without prior authorisation from the Board, granted the Falcon Loan and SDI Loan between July 2012 to January 2013.

The Falcon Loan should have been disclosed in the past as a discloseable transaction under the Listing Rules.

The SDI Loan should have been disclosed as a major transaction and should have been approved by the shareholders in the past under the Listing Rules.

**SDI Loan**

On 9 July 2012, SinoCom Japan entered into a loan agreement with SDI pursuant to which SinoCom Japan agreed to grant an unsecured and committed loan facility of up to ¥2,300,000,000 (equivalent to HK\$195,500,000) at an interest rate of 2.0% per annum with original maturity on 28 December 2012. Loans of an aggregate amount of ¥2,830,000,000 (equivalent to HK\$240,550,000) had been drawn down by SDI, of which ¥2,500,000,000 (equivalent to HK\$212,500,000) had been repaid on or before maturity and ¥330,000,000 (equivalent to HK\$28,050,000) remained outstanding as at maturity. Subsequently, the maturing date of the SDI Loan has been extended to 28 February 2013 and a further loan of ¥1,700,000,000 was drawn down by SDI on 4 January 2013. As at the date of this announcement, the SDI Loan in the principal amount of ¥2,030,000,000 (equivalent to HK\$172,550,000) (excluding accrued interests) remained outstanding.

## **Falcon Loan**

On 15 August 2012, SinoCom Japan entered into an unsecured and committed loan agreement with Falcon pursuant to which SinoCom Japan agreed to grant a loan facility of up to ¥1,530,000,000 (equivalent to HK\$130,050,000) at an interest rate of 2.0% per annum with maturity on 28 September 2012. Loans of an aggregate amount of ¥1,260,000,000 (equivalent to HK\$107,100,000) had been drawn down by Falcon and all outstanding sum (including accrued interests) had 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 (equivalent to HK\$42,500,000) at an interest rate of 2.0% per annum with maturity on 28 December 2012. Loans of an aggregate amount of ¥460,000,000 (equivalent to HK\$39,100,000) had been drawn down by Falcon, which (together with the accrued interests) remained outstanding. Subsequently, the maturing date of the Falcon Loan has been extended to 28 February 2013.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, save as disclosed above, each of SDI and Falcon and their respective ultimate beneficial owners is an Independent Third Party.

To the best of the Directors' knowledge after reasonable enquiry, SDI and Falcon are independent of one another and the Loans extended to SDI and Falcon were not interconditional nor were they connected with one another.

## **LISTING RULES IMPLICATIONS**

As the applicable Percentage Ratios in respect of the SDI Loan exceeded 25%, the provision of the SDI Loan constitutes a major transaction which is subject to the reporting, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules. The SDI Loan should have been disclosed as a major transaction and should have been approved by the shareholders in the past under the Listing Rules.

As the applicable Percentage Ratios in respect of the Falcon Loan exceeded 5% (but below 25%), the provision of Falcon Loan constitutes a discloseable transaction of the Company and is subject to the reporting and announcement requirements but exempt from the shareholders' approval requirement under Chapter 14 of the Listing Rules. The Falcon Loan should have been disclosed as a discloseable transaction in the past under the Listing Rules.

Furthermore, as the asset ratio (as defined in the Listing Rules) in respect of each of the SDI Loan and the Falcon Loan was more than 8%, the Company should have been disclosed in the past under Rule 13.13 of the Listing Rules.

## **REMEDIAL ACTIONS**

Board meetings were held on 16 January 2013 and 24 January 2013 in which the Board resolved that no further loans would be made by SinoCom Japan to any third parties without the Board's prior approval. The extension of the maturity date of the outstanding Loans of an aggregate principal amount of ¥2,490,000,000 (equivalent to HK\$211,650,000) to 28 February 2013 was ratified and endorsed. The Company may take further actions including legal action to enforce repayment of the Loans if any of the Loans remain outstanding by then.

Internal disciplinary warnings were issued to the relevant officers of SinoCom Japan who approved the SDI Loan and the Falcon Loan and their respective extension of the maturity date, without prior authorization from the Board.

In order to tighten up the bank operating procedure of SinoCom Japan, joint prior approval of the chief financial officer of the Company and the director of the SinoCom Japan is required in relation to any bank operation of SinoCom Japan involving ¥100,000,000 or above, with immediate effect.

The Board has further resolved that an independent professional adviser be appointed to conduct a thorough review of and make recommendations to further improve the Company's internal controls and corporate governance procedures. The Company will consult with and seek advice from the internal control adviser with regards to the implementation of the adviser's recommendations so as to ensure future compliance with the Listing Rules.

In addition, re-training on the Listing Rules will be given to the directors and other senior management staff of the Group.

## **I. INTRODUCTION**

The Board announces that SinoCom Japan, a subsidiary of the Company, entered into loan agreements with two Independent Third Parties between July and October 2012 one of which should have constituted major transaction and one should have constituted disclosable transaction under the Listing Rules.

## **II. THE LOANS**

### **SDI Loan**

On 9 July 2012, SinoCom Japan entered into a loan agreement with SDI pursuant to which SinoCom agreed to grant to SDI an unsecured and committed loan facility of up to ¥2,300,000,000 (equivalent to HK\$195,500,000) at an interest rate of 2.0% per annum with maturity on 28 December 2012. Loans of an aggregate amount of ¥2,830,000,000 (equivalent to HK\$240,550,000) had been drawn down by SDI, of which ¥2,500,000,000 (equivalent to HK\$212,500,000) had been repaid on or before maturity and ¥330,000,000 (equivalent to HK\$28,050,000) remained outstanding as at maturity. Subsequently, the maturing date of the SDI Loan has been extended to 28 February 2013

and a further loan of ¥1,700,000,000 were drawn down by SDI on 4 January 2013. As at the date of this announcement, the SDI Loan in the principal amount of ¥2,030,000,000 (equivalent to HK\$172,550,000) (excluding accrued interests) remained outstanding.

### **Falcon Loan**

On 15 August 2012, SinoCom Japan entered into a loan agreement with Falcon pursuant to which SinoCom Japan agreed to grant to Falcon an unsecured and committed loan facility of up to ¥1,530,000,000 (equivalent to HK\$130,050,000) at an interest rate of 2.0% per annum with maturity on 28 September 2012. Loans of an aggregate amount of ¥1,260,000,000 (equivalent to HK\$107,100,000) were drawn down by Falcon 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 (equivalent to HK\$42,500,000) at an interest rate of 2.0% per annum with maturity on 28 December 2012. Loans in an aggregate principal amount of ¥460,000,000 (equivalent to HK\$39,100,000) had been drawn down by Falcon, which (together with the accrued interests) remained outstanding. Subsequently, the maturing date of the Falcon Loan has been extended to 28 February 2013.

To the best knowledge of the Directors, SDI and Falcon are independent of one another and the Loans extended to SDI and Falcon were not inter-conditional nor were they connected with one another.

### **Information on the Company, SinoCom Japan, SDI and Falcon**

The principal activity of the Company is investment holding. The Company's subsidiaries including SinoCom Japan are principally engaged in the provision of outsourcing software development services and technical support services.

SDI is a company incorporated in Japan engaged in investment management. Falcon is a company incorporated in Japan engaged in software development and manpower outsourcing agency.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, save as disclosed above, each of SDI and Falcon and their respective ultimate beneficial owners is an Independent Third Party.

### **Reasons for and benefits of the Loans**

As disclosed in the Company's announcement dated 8 June 2012, the Company has disposed of its 60% interest in SinoCom DIR Business Innovation Co., Limited for a total cash consideration of ¥1.818 billion (equivalent to HK\$154,530,000).

It is not uncommon for companies in Japan to extend loans to their existing or potential business partners for business development purposes, the Loans were made by SinoCom Japan with a view to building rapport and broadening the Group's customer base. SinoCom Japan believed that SDI (which has invested in various IT companies) and Falcon (which is engaged in manpower outsourcing agency) will bring in and introduce new customers to the Group. In addition, given the prevailing historic low rate of interest, the Loans also provided the Group with a higher rate of return than that generated from short-term bank deposits with financial institutions.

Due to inadvertent oversight, the directors of SinoCom Japan failed to take into due account of the Listing Rules implication nor had they notified the Board when they approved the Loans at the subsidiary level.

### **III. LISTING RULES IMPLICATION**

#### **SDI Loan and Falcon Loan**

Based on the maximum limit of the facility provided to SDI, the applicable Percentage Ratios in respect of the SDI Loan exceeded 25%. Therefore, the provision of the SDI Loan constituted a major transaction of the Company and should have been subject to the reporting, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules.

Based on the maximum limit of the facility provided to Falcon, the applicable Percentage Ratios in respect of the Falcon Loan exceeded 5% (but below 25%). Therefore, the provision of the Falcon Loan should have constituted discloseable transactions of the Company and should have been subject to the reporting and announcement requirements but exempt from the shareholders' approval requirement under Chapter 14 of the Listing Rules.

Furthermore, as the asset ratio (as defined in the Listing Rules) in respect of the SDI Loan and the Falcon Loan were more than 8%, the Company should have complied with the disclosure requirement under Rule 13.13 of the Listing Rules in respect of these Loans.

### **IV. REMEDIAL ACTIONS**

#### **No further loans will be extended**

Board meetings were held on 16 January 2013 and 24 January 2013 in which resolved that no further loans would be made by SinoCom Japan to any third parties without the Board's prior approval and, upon considering the financial situation of SDI and Falcon, the Board ratified and endorsed the extension of the maturity date of the outstanding Loans in an aggregate principal amount of ¥2,490,000,000 (equivalent to HK\$211,650,000) to 28 February 2013. The Company may take further actions including legal action to enforce repayment of the Loans if any of the Loans remain outstanding by then. The Board has instructed SinoCom Japan to follow up closely with SDI and Falcon on repayment of the outstanding Loans in the interim time.

Internal disciplinary warnings were issued to the relevant officers approving the SDI and Falcon Loans without authorization from the Board.

### **Preventive Measures**

In order to ensure the strict compliance by the Group with the Listing Rules in the future, the Company has adopted the following preventive measures:

- (a) the joint prior approval of the chief financial officer of the Company and the director of the SinoCom Japan is now required in relation to any bank operation of SinoCom Japan involving ¥100,000,000 or above;
- (b) an independent professional adviser will be appointed to conduct a thorough review of and make recommendations to further improve the Company's internal controls and corporate governance procedures. The Company will consult with and seek advice from the internal control adviser with regards to the implementation of the adviser's recommendations so as to ensure future compliance with the Listing Rules;
- (c) a letter will be issued to all the directors, senior management and financial controller of the Company and subsidiaries of the Group to remind them of the strict compliance with the internal control procedures and in particular, to consult the financial controller, company secretary or the legal advisor (where appropriate) of the Company prior to entering into any transactions which may constitute notifiable transaction or connected transaction or any other transaction that may be subject to any reporting, announcement or shareholders' approval requirements under the Listing Rules or other applicable laws or regulations;
- (d) official warnings were issued to both Mr. Li Jian, an executive Director (and a director of SinoCom Japan) and Dr. Shi Chongming, an non-executive Director (and a director of SinoCom Japan) in relation to their approval of the SDI Loan and the Falcon Loan and the extension of the maturity of these loans, who will be dismissed or asked to resign from the Board immediately should they be found to have approved any further unauthorized loans to third parties or have breached their fiduciary duties as directors; and
- (e) re-training of the Listing Rules will be given to the directors and other senior management staff of the Company, SinoCom Japan and other subsidiaries of the Group as soon as practicable.

### **VI. SUSPENSION OF TRADING IN THE SHARES**

Pursuant to Note 1 of Rule 8.08(1) of the Listing Rules, trading in the Shares are suspended from 9:00 a.m. on Tuesday, 10 July 2012 since the percentage of public float falls below 15%. The trading in the Shares will remain suspended until the 25% minimum public float is restored.

Announcements will be made by the Company regarding restoration of public float and resumption of trading in the Shares as soon as possible.

## VII. DEFINITIONS

In this announcement, unless the context otherwise requires, the following terms shall have the meanings set out below:

“Board”	the board of Directors
“Company”	SinoCom Software Group Limited, a company incorporated in Cayman Islands with limited liability and whose shares are listed on the Stock Exchange
“Directors”	directors of the Company
“Falcon”	Falcon, Inc (株式会社ファルコン), a private company incorporated in Japan engaging in computer and information products industry
“Falcon Loan”	the advances made by SinoCom Japan to Falcon pursuant to the loan agreements dated 15 August 2012 and 9 October 2012, details of which are disclosed in the section headed “The Loans” in this Announcement
“Group”	the Company and its subsidiaries
“Independent Third Party”	person who or company which, to the best of the Directors’ knowledge, information and belief having made all reasonable enquiry, is third party independent of the Company and its connected persons (as defined in the Listing Rules)
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Loans”	the SDI Loan and the Falcon Loan
“Percentage Ratios”	the five ratios set out in Rule 14.07 of the Listing Rules “SDI” SDI, INC. (株式会社SDI), a private company incorporated in Japan engaging in professional service industry
“SDI Loan”	the advances made by SinoCom Japan to SDI pursuant to the loan agreement dated 5 July 2012, , details of which are disclosed in the section headed “The Loans” in this Announcement

“SinoCom Japan” SinoCom Japan Corporation, a company incorporated in Japan and is an indirect 92% owned subsidiary of the Company

“Stock Exchange” The Stock Exchange of Hong Kong Limited

“¥” Japanese Yen, the lawful currency in Japan

*\* The English translation of the company names is for reference only. The official names of these companies are in Japanese.*

*For illustration purpose in this announcement, amounts in Japanese Yen (¥) have been translated into Hong Kong dollar (HK\$) at the rate of ¥100 = HK\$8.5.*

By order of the Board  
**SinoCom Software Group Limited**  
**Wang Zhiqiang      Kotoi Hirofumi**  
*Co-Chairman      Co-Chairman*

Hong Kong, 30 January 2013

*As at the date of this announcement, the executive Directors are Mr. Wang Zhigiang, Mr. Li Jian, Mr. Kotoi Hirofumi and Mr. Zuo Jian Zhong, the non-executive Directors are Mr. Wang Xubing and Dr. Shi Chongming, and the independent non-executive Directors are Professor Liang Neng, Mr. Lee Kit Wah and Mr. Yamamoto Yoshimasa.*