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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)**

## **UPDATE ON RECENT DEVELOPMENTS**

Reference is made to the announcement of the Company dated 2 April 2013 in relation to (amongst others) the suspension of trading in the shares of the Company, the announcement of the Company dated 23 April 2013 and 31 May 2013 in relation to (amongst others) certain historical connected transactions ("**Supplementary Announcements**"). Unless otherwise defined, capitalized terms used herein shall have the same meanings as those defined in the Supplementary Announcements.

As disclosed in the Supplementary Announcements, the Company has conducted further investigations concerning the SDI Loan, Falcon Loan, King Tech Loan and SJI Loans (the "**Loans**"). The audit committee of the Company (the "**Committee**") has engaged Kroll Associates (Asia) Limited (the "**Independent Investigator**"), an independent investigator, to assist in conducting these investigations.

## **FINDINGS OF THE INVESTIGATION**

The Board wishes to provide an update to the Shareholders regarding the latest development of the progress and findings of the investigations (the "**Investigation**") conducted by the Independent Investigator. A summary of the key findings of the report issued by the Independent Investigator on 2 July 2013 (the "**Report**") are set out below.

### **Commercial Substance**

The Independent Investigator did not find any solid evidence which indicated that the SDI Loan, Falcon Loan and King Tech Loan had commercial substance. Mr. Li Jian, a director of the Company, confirmed that part of the Falcon Loans was granted with the underlying intention that such funds would be redirected to SJI. Mr. Shimoyama Tokumi, the president of Falcon, also represented that part of the Falcon Loans was transferred to SJI. No evidence of prior business relationship was found to exist between each of SDI, Falcon, King Tech on the one hand, and SinoCom Japan on the other.

Further, no evidence was found that demonstrated the customer base of SinoCom Japan had broadened since the SDI Loan, Falcon Loan and King Tech Loan were made.

### **Purpose of the loans**

The Independent Investigator did not find any email correspondences between SDI, Falcon, King Tech on the one hand, and SinoCom Japan on the other, suggesting a lack of business relationship between them.

#### *SDI*

It was represented to the Independent Investigator that the SDI Loan was created for the purposes of investment in a mega solar power plant project (the "**Mega Solar Project**") which SDI was involved and therefore required external funding. Mr. Li Jian confirmed that he had structured the investment into the Mega Solar Project through SDI as a loan rather than an investment as a loan involved simpler internal procedures. Without providing details of the Mega Solar Project to the board of directors / members of SinoCom Japan, Mr. Li Jian obtained an approval from the board of SinoCom Japan for granting a facility of up to JPY2,300,000,000 to SDI based on the view that it would provide SinoCom Japan a higher rate of return than deposits with financial institutions, and that SinoCom Japan may broaden its customer base through SDI. Mr. Li Jian stated that no investment was eventually made in the Mega Solar Project due to independent advice received from an accountant at Ernst & Young.

The Independent Investigator identified emails showing two bearer cheques in an aggregate amount of JPY650,000,000 were prepared by SinoCom Japan (the "**Cheques**"). The Independent Investigator noted that the original intended recipient of the Cheques was Initia Star Securities, a fund investment and foreign exchange trading company. Mr. Li Jian admitted that the Cheques were instead delivered to SDI and treated as a loan to SDI. The Independent Investigator found evidence revealing that Mr. Li Jian gave instructions for the opening of an account at Initia Star Securities for SinoCom Japan on 9 July 2012, and its subsequent closing on 28 September 2012. Mr. Sado Yasutaka, the president of SDI, understood that the multiple loans from SDI to SJI were made for the purpose of supporting SJI's "cash management situation".

#### *King Tech*

Mr. Wang Yuanyao, president of King Tech, stated that he had approached Mr. Li Jian for a loan to externally finance a major business deal, but Mr. Li Jian suggested borrowing from SinoCom Japan as SJI was experiencing financial difficulties. Mr. Li Jian represented that he initially intended to provide loans to assist King Tech in its major business deal, but eventually wished to retrieve the funds extended to King Tech when SJI subsequently became short of funds. As King Tech had already spent the loans obtained from SinoCom Japan, it obtained loans from a non-bank institution at a higher interest rate in order to grant loans to SJI. The Independent Investigator was unable to confirm whether loans were made by King Tech from such a non-bank institution, but noted that the electronic evidence suggested that Mr. Li Jian had controlled the loan arrangements and movement of funds between King Tech and SinoCom Japan by

instructing Mr. Ngan Leo, the manager of SinoCom Japan's accounting department.

Based on the Report, the Board would also like to clarify certain details of the King Tech Loan which were stated in the announcement of the Company dated 23 April 2013. The date of the loan agreement for the King Tech Loan should be 15 August 2012 (instead of 17 August 2012), pursuant to which SinoCom Japan agreed to grant a loan facility of up to JPY400,000,000 (instead of JPY350,000,000).

### *Falcon*

Mr. Li Jian revealed that the first loan of JPY1,260,000,000 to Falcon had been "inflated" in order to finance SJI. The Independent Investigator noted that statements given by Mr. Yamamoto Yutaka, executive director of finance at SJI, suggested that SJI might have been experiencing cash difficulties around the time the SJI Loans were granted by Falcon, as SJI had just made repayments to Haitong International Securities Company Limited. Mr. Kotoi Hirofumi, a director of the Company and vice-president of SJI, further stated that he was certain that the Falcon Loan was made to assist SJI. Mr. Shimoyama Tokumi, president of Falcon, explained that the second and third loans to Falcon from SinoCom Japan were used to "manage Falcon's business" and "show potential business partners that Falcon had sufficient funds in their deposit account". The Independent Investigator found that there was no email correspondence between Falcon and SinoCom Japan which suggested that there was any business relationship between them.

### **Parties involved in the loan schemes**

The findings from the investigation suggested that Mr. Li Jian was the "initiator" of the loan schemes with SDI, Falcon and King Tech, by instructing Mr. Ngan Leo to execute fund transfers on certain dates or in certain periods. Dr. Shi Chongming, a director of the Company and president of SinoCom Japan, was copied on most loan related email correspondences, and often appeared to be "caught between" Mr. Li Jian and other employees of SinoCom Japan. Mr. Kimata Hisayuki, director of SinoCom Japan's business administration and management department, had been instructed by senior management to create loan related documentation and process loan related transactions.

### **Relationships between Mr. Li Jian, SJI, SDI, Falcon and King Tech**

Mr. Li Jian and Mr. Sado Yasutaka are co-founders of KK Malmare, a Tokyo based private company. King Tech Service HK Limited, an affiliated company of Mr. Wang Yuanyao, is a former shareholder of SJI. King Tech Service HK Limited was also found to have obtained short-term loans from SJI in 2011. Falcon is a former wholly-owned subsidiary of SJI, while SJI has remained as one of Falcon's major clients.

### **Allegation of deletion of emails / documents and deletion trend analysis**

The Independent Investigator recovered deleted files from the computer of Mr. Ngan Leo, noting that the timing of document deletion and the contents of documents and files deleted during a specific period suggested deliberate evidence concealment. Specifically, the deleted files related to the Loans were deleted on three critical dates to do with the

gathering of documentary evidence and interviews conducted in relation to the investigation of the Loans.

### **Investment in KK Diamond Agency ("Diamond") and E-Tabi Net.com KK**

From certain computers of SinoCom Japan, the Independent Investigator discovered email correspondence and documents regarding SinoCom Japan's recent investments in Diamond and E-Tabi Net.com KK, entities indirectly associated with Mr. Li Jian. Email correspondences between Mr. Li Jian and Mr. Ngan Leo also showed discussion of payment of consulting fees to Diamond and KK Versatile, a company also indirectly associated with Mr. Li Jian. Mr. Ngan Leo stated that SinoCom Japan had been paying monthly consulting fees of JPY2,100,000 to Diamond and KK Versatile since April 2013.

### **FURTHER ACTIONS TO BE TAKEN BY THE COMPANY**

The Committee will provide to the Board its opinion(s), recommendation(s) and proposed further action(s) to be taken by the Company in light of the Report. To assist the Committee in providing such advice to the Board, the Committee shall seek independent legal advice in relation to any legal and regulatory implications of the findings contained in the Report. The Committee will further consult the auditors of the Company its findings in relation to the Company's internal control management and any financial implications of the Loans. Pending the availability of the Committee's advice to the Board, the Board will determine further actions to be taken by the Company. The Board will provide further updates to the Shareholders and investors regarding further actions to be taken by the Company pursuant to the Report as and when appropriate.

### **SUSPENSION OF TRADING**

Trading in the Shares was suspended from 9:00 a.m. on 2 April 2013 and will remain suspended until the release of the announcement of the annual results of the Company for the year ended 31 December 2012 ("**2012 Annual Results**"). The Board is in the course of discussing with the auditors of the Company the timing for releasing the 2012 Annual Results and will provide further updates to the Shareholders and investors regarding any other actions to be taken by the Company for the resumption of trading in the Shares as and when appropriate.

By order of the Board  
**SinoCom Software Group Limited**  
**Wang Zhiqiang      Zuo Jian Zhong**  
*Co-Chairman      Co-Chairman*

Hong Kong, 4 July 2013

*As at the date of this announcement, the executive Directors are Mr. Wang Zhiqiang, 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.*