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)

2012 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 2012 (the "Year") as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2012

	NOTES	**2012** *HK$'000*	2011 *HK$'000*
Revenue	*3 & 4*	**589,806**	684,942
Cost of services		**(459,363)**	(506,565)
Gross profit		**130,443**	178,377
Administrative expenses		**(100,314)**	(111,359)
Other income, gains and losses	*5*	**(16,425)**	29,095
Profit from operations		**13,704**	96,113
Gain on disposal of jointly controlled entities		**11,073**	–
Gain on deemed disposal of subsidiaries		**–**	125,192
Impairment loss recognised in respect of investment in an associate		**(15,854)**	–
Share of result of an associate		**(3,442)**	–
Share of results of jointly controlled entities		**10,194**	2,257
Profit before tax		**15,675**	223,562
Income tax expense	*6*	**(21,563)**	(36,925)

	NOTES	2012 HK$'000	2011 HK$'000
(Loss)/profit for the year	7	**(5,888)**	186,637
Other comprehensive (expense)/income after tax:			
Exchange differences arising on translating foreign operations		**(766)**	22,675
Reclassification adjustment on translation difference upon liquidation of subsidiaries		**–**	107
Other comprehensive (expense)/income for the year, net of tax		**(766)**	22,782
Total comprehensive (expense)/income for the year		**(6,654)**	209,419
(Loss)/profit for the year attributable to:			
Owners of the Company		**(6,663)**	186,358
Non-controlling interests		**775**	279
		(5,888)	186,637
Total comprehensive (expense)/income for the year attributable to:			
Owners of the Company		**(7,433)**	208,968
Non-controlling interests		**779**	451
		(6,654)	209,419
(Loss)/earnings per share			
— Basic	9	**HK(0.60) cents**	HK16.73 cents
— Diluted	9	**HK(0.60) cents**	HK16.72 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2012

	NOTES	2012 HK$'000	2011 HK$'000
Non-current assets			
Plant and equipment		**12,826**	12,484
Goodwill		**7,110**	7,111
Investment in an associate		**5,334**	–
Investments in jointly controlled entities		**–**	157,263
Deposits paid for acquisition of plant and equipment		**5,817**	–
Other deposits		**3,088**	3,097
Amount due from a fellow subsidiary		**9,867**	–
Deferred tax assets		**4,941**	9,017
		48,983	188,972
Current assets			
Trade and other receivables	*10*	**89,436**	103,634
Available-for-sale financial assets		**16,217**	–
Loan receivables from related companies	*11*	**88,293**	–
Tax recoverables		**1,736**	–
Amount due from a jointly controlled entity		**–**	4,072
Term deposits with initial terms of over three months		**181,457**	–
Bank balances and cash		**437,786**	606,067
		814,925	713,773
Current liabilities			
Trade and other payables	*12*	**119,499**	107,596
Amount due to ultimate holding company		**454**	–
Amount due to a jointly controlled entity		**–**	5,261
Current tax liabilities		**24,295**	11,665
		144,248	124,522
Net current assets		**670,677**	589,251
Total assets less current liabilities		**719,660**	778,223
Non-current liabilities			
Deferred tax liabilities		**7,876**	21,840
NET ASSETS		**711,784**	756,383
Capital and reserves			
Share capital		**27,896**	27,850
Reserves		**679,506**	724,879
Equity attributable to owners of the Company		**707,402**	752,729
Non-controlling interests		**4,382**	3,654
TOTAL EQUITY		**711,784**	756,383

Notes:

1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands with limited liability. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The address of its principal place of business in Hong Kong is Unit 1601, 16/F, Shui On Centre, 6–8 Harbour Road, Wanchai, Hong Kong. The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited.

The Company is an investment holding company. The principal activities of its subsidiaries are engaged in provision of outsourcing software development and technical support service.

In the opinion of the directors of the Company, as at 31 December 2012, SJI (Hong Kong) Limited, a company incorporated in Hong Kong, is the immediate holding company; SJI Inc. ("SJI"), a company incorporated in Japan, is the ultimate holding company.

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

In the current year, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants that are relevant to its operations and effective for its accounting year beginning on 1 January 2012. HKFRSs comprise Hong Kong Financial Reporting Standards; Hong Kong Accounting Standards; and Interpretations. The adoption of these new and revised HKFRSs did not result in significant changes to the Group's accounting policies, presentation of the Group's financial statements and amounts reported for the current year and prior years.

The Group has not applied the new HKFRSs that have been issued but are not yet effective. The application of these new HKFRSs will not have material impact on the financial statements of the Group. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a material impact on its results of operations and financial position.

These financial statements have been prepared under the historical cost convention.

3. REVENUE

	2012	2011
	HK$'000	*HK$'000*
Outsourcing software development services	**581,624**	674,000
Technical support services	**8,182**	10,942
	589,806	684,942

Revenue from outsourcing software development services and technical support services are net of business tax and local government levies of approximately HK$28,656,000 (2011: HK$30,845,000).

4. SEGMENT INFORMATION

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

Segment revenues and results

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

Year ended 31 December 2012

	PRC *HK$'000*	**Japan** *HK$'000*	**Total** *HK$'000*
Revenue	25,260	564,546	589,806
Cost of services	(25,078)	(434,285)	(459,363)
Gross profit	182	130,261	130,443
Administrative expenses	(2,085)	(66,477)	(68,562)
Share of results of jointly controlled entities	–	10,194	10,194
Segment results	(1,903)	73,978	72,075
Share of result of an associate			(3,442)
Impairment loss recognised in respect of investment in an associate			(15,854)
Gain on disposal of jointly controlled entities			11,073
Other income, gains and losses			(16,425)
Unallocated corporate expenses			(31,752)
Profit before tax			15,675

Year ended 31 December 2011

	PRC *HK$'000*	Japan *HK$'000*	Total *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 results of jointly controlled entities	–	2,257	2,257
Segment results	(7,985)	92,929	84,944
Gain on deemed disposal of subsidiaries			125,192
Other income, gains and losses			29,095
Unallocated corporate expenses			(15,669)
Profit before tax			223,562

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

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

Segment profit represents the profit earned by each segment without allocation of share of result of an associate, impairment loss recognised in respect of investment in an associate, gain on disposal of jointly controlled entities, gain on deemed disposal of subsidiaries, other income, gains and losses, share-based payment expenses, central administration cost and directors' emoluments. This is the measure reported to the chief operating decision maker for the purpose of resource allocation and performance assessment.

Segment assets and liabilities

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

At 31 December 2012

	PRC ***HK$'000***	**Japan** ***HK$'000***	**Total** ***HK$'000***
Segment assets	419,162	390,135	809,297
Unallocated assets			54,611
Consolidated total			863,908
Segment liabilities	31,884	96,574	128,458
Unallocated liabilities			23,666
Consolidated total			152,124

At 31 December 2011

	PRC *HK$'000*	Japan *HK$'000*	Total *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

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

- all assets are allocated to operating segments other than unallocated bank balances and cash, goodwill, deferred tax assets, available-for-sale financial assets, investment in an associate and assets used jointly by operating segments.
- term deposits with initial terms over three months and bank balances and cash are allocated to operating segments based on the location of the term deposits with initial terms over three months and bank balances and cash.
- all liabilities are allocated to operating segments other than deferred tax liabilities and liabilities for which operating segments are jointly liable.
- liabilities payable to the government department such as tax bureau and social security department are allocated to operating segments based on the location of the tax bureau and social security department.

Other segment information

Year ended 31 December 2012

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

	PRC	**Japan**	**Consolidated**
	HK$'000	***HK$'000***	***HK$'000***
Additions to non-current assets *(Note)*	12,328	–	12,328
Depreciation	4,385	84	4,469
Loss on disposal of plant and equipment	1,216	13	1,229
Reversal of allowance for doubtful debts	(708)	–	(708)

Year ended 31 December 2011

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

	PRC	Japan	Consolidated
	HK$'000	*HK$'000*	*HK$'000*
	(restated)	(restated)	(restated)
Additions to non-current assets *(Note)*	6,567	–	6,567
Depreciation	4,794	87	4,881
Loss on disposal of plant and equipment	116	142	258
Allowance for doubtful debts	6,423	–	6,423

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

Geographical information

The operations of the Group are located in the PRC (country of domicile) and Japan.

The information of the Group about its plant and equipment and deposits paid for acquisition of plant and equipment by geographical location of the assets is detailed below:

	2012	2011
	HK$'000	*HK$'000*
		(restated)
PRC (country of domicile)	**18,480**	12,203
Japan	**163**	281
	18,643	12,484

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	
	2012	2011
	HK$'000	*HK$'000*
Customer A[1]	**368,880**	289,192
Customer B[1]	**N/A***	169,532

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

* The corresponding revenue did not contribute over 10% of the total revenue of the Group.

5. OTHER INCOME, GAINS AND LOSSES

Other income, gains and losses include the following:

	2012	2011
	HK$'000	*HK$'000*
Interest income from short term investments	**6,737**	10,006
Interest income from loan receivables	**1,989**	–
Interest income from bank balances	**5,957**	544
Government subsidies	**4,891**	7,077
Net foreign exchange (loss)/gain	**(35,597)**	4,504
Loss on disposal of held for trading investments	**(248)**	(32)
Gain on disposal of available-for-sale financial assets	**–**	6,278
Reclassification adjustment on translation difference upon liquidation of a subsidiary	**–**	(665)
Others	**(154)**	1,383
	(16,425)	29,095

Government subsidies include subsidies from local government for the employment of new university graduates of approximately HK$1,743,000 (2011: HK$3,292,000) and for its exports of outsourcing software development services of approximately HK$3,048,000 (2011: HK$3,524,000). There were specific conditions attached to the government subsidies, the Group recognised the government subsidies in profit or loss when it fulfills all the conditions specified in the subsidy notice or relevant law and regulations.

6. INCOME TAX EXPENSE

	2012	2011
	HK$'000	*HK$'000*
Current tax:		
PRC Enterprise Income Tax	**8,450**	17,150
Japan income tax	**9,179**	10,783
PRC withholding tax	**198**	11,432
Enterprise income tax on capital gain on disposal of jointly controlled entities	**16,809**	–
	34,636	39,365
Overprovision in prior years:		
PRC Enterprise Income Tax	**(3,171)**	(1,532)
	31,465	37,833
Deferred tax:		
Current year	**(9,902)**	(908)
	21,563	36,925

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

Pursuant to the EIT Law, a subsidiary, SinoCom Computer System (Beijing) Co., Ltd. ("SinoCom Beijing") is recognised as a high and new technology enterprise by the relevant PRC government authorities and SinoCom Beijing was entitled to enjoy a concessionary Enterprise Income Tax of 15% as compared to the unified tax rate of 25% from 2012 to 2014.

A subsidiary, Dalian SinoCom High Technology Software Company Limited ("SinoCom Dalian") is recognised as a software and technology advance enterprise by the relevant PRC government authorities and SinoCom Dalian was entitled to enjoy a concessionary Enterprise Income Tax rate of 15% as compared to the unified tax rate of 25% from 2011 to 2012.

A subsidiary, SinoCom Shensoft Computer Technology (Shanghai) Company Limited 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.

Under the EIT Law, an income tax of 10% is imposed on the capital gain on disposal of jointly controlled entities when the gain is released from tax perspective.

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

Taxation arising in Japan comprises corporate tax, corporate enterprise tax, special local corporate tax and corporate inhabitant tax. Corporate tax is calculated at a progressive statutory rate of 18% (2011: 18%) on the portion of taxable income not exceeding Japanese Yen ("JPY") 8,000,000 (equivalent to approximately HK$721,000 (2011: HK$784,000)) and 30% (2011: 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% (2011: 2.95%) on the portion of taxable income not exceeding JPY4,000,000 (equivalent to approximately HK$389,000 (2011: HK$392,000)), 4.365% (2011: 4.365%) on the portion of taxable income in excess of JPY4,000,000 but not exceeding JPY8,000,000 and 5.78% (2011: 5.78%) on the portion of taxable income in excess of JPY8,000,000. Special local corporate tax is calculated at a fixed tax rate of 81% or 148% of corporate enterprise tax, depending on the amount of paid-in capital. Corporate inhabitant tax is calculated at a fixed tax rate of 17.3% or 20.7% of the corporate tax, depending on the amount of the corporate tax per annum, also with a fixed yearly amount from JPY70,000 (equivalent to approximately HK$7,000 (2011: HK$7,000)) to JPY200,000 (equivalent to approximately HK$20,000 (2011: HK$20,000)), 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:

	2012	2011
	HK$'000	*HK$'000*
		(restated)
Profit before tax	**15,675**	223,562
Taxation at the applicable PRC Enterprise Income Tax rate of 25% (2011: 25%)	**3,919**	55,891
Tax effect of share of results of jointly controlled entities	**(2,549)**	(564)
Tax effect of share of result of an associate	**861**	–
Tax effect of income not taxable in determining taxable profit	**(687)**	–
Tax effect of expenses not deductible in determining taxable profit	**20,003**	5,771
Tax effect of temporary differences not recognised	**3,948**	–
Effect of tax exemption and concessions granted to PRC subsidiaries	**(3,630)**	(7,266)
Withholding tax on the profits of PRC subsidiaries	**(1,097)**	3,157
Tax effect of tax losses not recognised	**287**	–
Overprovision in prior years	**(3,171)**	(1,532)
Deferred tax changes resulting from change in applicable tax rate	**–**	(3,748)
Effect of different tax rate on gain on deemed disposal of subsidiaries	**–**	(18,779)
Effect of different tax rate on gain on disposal of jointly controlled entities	**(1,661)**	–
Effect of different tax rates of subsidiaries operating in other jurisdictions	**5,340**	3,995
Income tax expense	**21,563**	36,925

7. (LOSS)/PROFIT FOR THE YEAR

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

	2012	2011
	HK$'000	*HK$'000*
		(restated)
Auditors' remuneration	**10,536**	2,933
Depreciation of plant and equipment	**4,469**	4,881
Loss on disposal of plant and equipment	**1,229**	258
Minimum lease payments paid under operating leases during the year in respect of office premises	**20,472**	26,627
(Reversal of)/allowance for doubtful debts	**(708)**	6,423
Staff costs:		
Directors' emoluments	**12,050**	12,785
Other staff costs		
— Salaries and other benefits	**334,846**	404,350
— Share-based payment expenses	**–**	27
— Retirement benefits schemes contributions	**35,174**	40,503
	382,070	457,665

8. DIVIDENDS

During the year ended 31 December 2011, a final dividend of HK3.10 cents per share and a special dividend of HK3.90 cents per share (total dividend of HK$77,956,000) in respect of the financial year ended 31 December 2010 were paid to the shareholders. In respect of the financial year ended 31 December 2011, a final dividend of HK3.50 cents per share (total dividend of HK$39,054,000) was declared on 22 May 2012 and were paid to the shareholders during the year ended 31 December 2012.

The directors of the Company did not recommend payment of any final dividend for the year ended 31 December 2012.

9. (LOSS)/EARNINGS PER SHARE

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

	2012	2011
	HK$'000	*HK$'000*
(Loss)/earnings		
(Loss)/earnings for the purposes of basic and diluted (loss)/earnings per share	**(6,663)**	186,358

Number of shares

	2012	2011
	'000	*'000*
Weighted average number of ordinary shares for the purpose of basic (loss)/earnings per share	**1,115,297**	1,113,931
Effect of dilutive potential ordinary shares arising from share options issued by the Company	**–**	578
Weighted average number of ordinary shares for the purpose of diluted (loss)/earnings per share	**1,115,297**	1,114,509

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

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 2011.

10. TRADE AND OTHER RECEIVABLES

	2012	2011
	HK$'000	*HK$'000*
Trade receivables	**76,281**	92,240
Less: allowance for doubtful debts	**–**	(6,571)
	76,281	85,669
Other receivables	**4,252**	9,108
Interest receivable from related companies *(Note)*	**1,217**	–
Other deposits	**3,282**	4,892
Prepayments	**4,404**	3,965
Total trade and other receivables	**89,436**	103,634

Note: The amount represents the interest receivable from related companies arising from the loans to the related companies at 31 December 2012 (see Note 11).

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 net of allowance of doubtful debts presented based on dates on which revenue was recognised.

	2012	2011
	HK$'000	*HK$'000*
		(restated)
0-30 days	**41,697**	56,477
31-60 days	**19,140**	18,366
61-90 days	**3,828**	2,288
91-180 days	**3,584**	3,756
181-360 days	**8,032**	4,782
	76,281	85,669

The Group seeks to maintain strict control over its outstanding receivables and has a credit control policy to minimise credit risk. Overdue balances are reviewed regularly by senior management.

Included in the trade receivable balance of the Group are debtors with an aggregate carrying amount of HK$908,000 (2011: HK$105,000) 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 (2011: 135 days).

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

	2012	2011
	HK$'000	*HK$'000*
91-180 days	**908**	105

Movement in the allowance for doubtful debts:

	2012	2011
	HK$'000	*HK$'000*
At 1 January	**6,571**	–
(Reversal of)/allowance for doubtful debts	**(708)**	6,423
Amounts written off as uncollectible	**(5,839)**	–
Exchange adjustment	**(24)**	148
At 31 December	**–**	6,571

As at 31 December 2011, included in the allowance for doubtful debts were individually impaired trade receivables with an aggregate balance of HK$6,571,000, which were made based on estimated irrecoverable amounts from the outsourcing software development service provided by reference to past default experience and objective evidences.

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

	2012	2011
	HK$'000	*HK$'000*
JPY	**67,602**	81,041

11. LOAN RECEIVABLES FROM RELATED COMPANIES

	2012	2011
	HK$'000	*HK$'000*
Loan receivables from related companies	**88,293**	–

Without authorisation and approval of the Board of Directors of the Company, SinoCom Japan Corporation ("SinoCom Japan"), a subsidiary of the Company, entered into a loan agreement with each of the three Japanese companies, namely SDI, Inc. ("SDI"), Falcon, Inc. ("Falcon"), and King Tech Corporation ("King Tech") (collectively, the "Borrowers") during the year ended 31 December 2012. The unsecured and committed loans facility was granted of up to JPY2,300,000,000 (equivalent to approximately HK$228,144,000), JPY1,530,000,000 (equivalent to approximately HK$151,143,000) and JPY 400,000,000 (equivalent to approximately HK$39,515,000) to SDI, Falcon and King Tech on 9 July 2012, 15 August 2012 and 15 August 2012 with maturity on 28 December 2012 (later extended to 28 February 2013), 28 September 2012 and 28 December 2012 (later extended to 28 February 2013), respectively. On 9 October 2012, SinoCom Japan entered into another unsecured and committed loan agreement with Falcon pursuant to which SinoCom Japan agreed to grant a loan facility up to JPY500,000,000 (equivalent to approximately HK$49,745,000) with maturity on 28 December 2012 (later extended to 28 February 2013).

Loans (the "Loans") with an aggregate amount of JPY5,505,000,000 (equivalent to approximately HK$538,992,000) had been drawn down by the Borrowers during the year ended 31 December 2012, of which JPY4,525,000,000 (equivalent to approximately HK$433,282,000) had been repaid during the year ended 31 December 2012. In respect of the amount repaid by SDI, an amount of JPY1,700,000,000 (equivalent to approximately HK$150,367,000) was settled on 28 December 2012 and the same amount was drawn down by SDI on 4 January 2013.

Loan receivables from related companies represent the outstanding balance of the Loans granted to SDI, Falcon and King Tech amounting to JPY330,000,000 (equivalent to approximately HK$29,731,000), JPY460,000,000 (equivalent to approximately HK$41,444,000) and JPY190,000,000 (equivalent to approximately HK$17,118,000), respectively, by SinoCom Japan at 31 December 2012. The Loans were unsecured and interest bearing at 2% per annum.

Subsequent to the end of the reporting period, the interest rate of the extended loans was revised to 5% per annum on 16 January 2013 which was effective for the period from 29 December 2012 to 28 February 2013. The outstanding loans at 31 December 2012 were fully repaid by each of the Borrowers on 28 February 2013.

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

12. TRADE AND OTHER PAYABLES

	2012	2011
	HK$'000	*HK$'000*
Trade payables	**11,372**	13,173
Wages and salaries payable	**84,121**	86,308
Accruals	**13,589**	1,197
Other tax payables	**5,690**	4,236
Other payables	**4,727**	2,682
	119,499	107,596

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:

	2012	2011
	HK$'000	*HK$'000*
0–30 days	**8,800**	10,113
31–60 days	**2,572**	3,060
	11,372	13,173

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

	2012	2011
	HK$'000	*HK$'000*
JPY	**24,124**	31,105
HK$	**15,788**	4,332

Business Review

In 2012, the European debt crisis continued to plague the global financial market. The economy of Mainland China saw increasing downside risks while inflation stayed high. In the second half of the year, there was a marked deterioration in Sino-Japanese relations and the Japanese Yen ("JPY") depreciated sharply. Such a macro-climate was unfavorable to the business environment. Development of software outsourcing services for the Japanese market has been a focus of the Group. Under the leadership of the Board of Directors as well as the joint efforts of the management and staff, the business maintained a relatively steady growth in the first half of year but experienced some repercussions in the second half. As a result of the depreciation of the JYP in which majority of the Group's revenue was denominated and the sale of SinoCom DIR Business Innovation Co., Ltd. ("SinoCom DIR"), revenue for the year ended 31 December 2012 decreased by approximately 13.9%. The gross profit margin decreased from 26% in 2011 to 22% in 2012. Exchange loss resulting from the depreciation of the JPY also had a big impact on the Group's result.

In July 2012, SJI (Hong Kong) Limited became a controlling shareholder of the Group. Its parent company, SJI. Inc, and its subsidiaries in the Mainland China began to explore business cooperation opportunities with the Group. Although nothing noteworthy was achieved during the year, we are looking forward to a breakthrough in discussion next year on areas for potential cooperation, such as customer acquisition and sharing of human resources.

It is expected that the market situation in 2013 will still be complicated and volatile, and the JPY is likely to remain under great downward pressure. Therefore the management established a guiding principle of "Go from strength to strength and build a brighter future", which means we should carry on the down-to-earth entrepreneurial spirit of the Group and take the opportunity of joining SJI to build a brighter future with a new attitude. The company, its staff and shareholders should grow together. The management has also worked out a set of strategies, which include retaining existing customers and acquiring new customers to increase sales revenue, expanding existing or building new development centres to absorb some downward pressure on the JPY as well as the upward pressure on the cost of human resources in major cities, continuing to enforce a policy linking salaries to results to boost the staff's work motivation and efficiency. These strategies are being implemented.

At the same time, in order to obtain more development projects, we continue to strengthen the co-operative relationship between the SJI Group to enhance the company's sales abilities and upstream development capabilities in Japan, to strive for both parties to become a leading software development company in Mainland China and Japan in the medium term.

Looking ahead, the Group will explore new ideas and seek a new focus for business growth in mainland China. We also hope to enhance our strength in operation and accelerate the development of our business through merger and acquisition. As to foreign exchange risks, we will perform active risk management.

The Board of Directors believes the management will certainly lead the way for everyone in the company to strengthen a customer-oriented development system, capture new market opportunities on an ongoing basis, and meet all the performance indexes.

Outlook

Facing the pressure of reducing income and thinner margin arising from JPY depreciation as well as inflated remuneration in order to retain and to attract high end employees, the Group commenced the following responsive measures:

First, to enlarge income sources from new development projects from both existing customers and new customers developed.

Second, to expand and build up development centers in relatively low cost cities so as to attract high end talents, reduce overall costs, and improve margin.

Third, to elevate productivity, add value, and provide better service to customers striving for higher billing rates.

Fourth, continue to implement result linking remuneration incentive policy and rationalize employee communication channels in order to achieve productivity improvement and cost reduction. In the same time, to begin seeking effective foreign exchange hedging tools mitigating foreign exchange exposures.

REVIEW OF RESULTS AND OPERATIONS

The Group's consolidated turnover for the year ended 31 December 2012 was approximately HK$589,806,000, representing a decrease of approximately 13.9% when compared to 2011. The decrease was mainly attributable to turnover loss on deemed disposal of SinoCom DIR and its subsidiaries and the depreciation of the JYP in which 95.7% of total turnover for the year ended 31 December 2012 was denominated. Turnover generated from Japan decreased by approximately 14.6% from HK$661,278,000 in 2011 to HK$564,546,000 in 2012. However, turnover sourced from the PRC increased by approximately 6.7% to HK$25,260,000. Turnover derived from outsourcing software development work decreased by approximately 13.7% to approximately HK$581,624,000. Top five customers accounted for approximately 78.7% of the total turnover. Provision of technical support services turnover decreased by approximately 25.2% to approximately HK$8,182,000. Turnover from outsourcing software development services and from technical support services accounted for approximately 98.6% and 1.4% of the total turnover respectively.

Average full time production headcounts were 1,566 for the year ended 31 December 2012, a reduction of 457 or 22.6% from that of 2,023 last year. Decreased headcounts were mainly headcounts of SinoCom DIR and its subsidiaries.

Gross profit for the year decreased to approximately HK$130,443,000 or 26.9% decrease, when compared to the gross profit of approximately HK$178,377,000 in 2011. The Group's gross profit margin was approximately 22.1% in 2012 (2011: 26.0%). JPY depreciation and inflated labour cost in PRC accounted for the decrease in gross margin.

Operating profit in 2012 decreased significantly by approximately 85.7% to approximately HK$13,704,000. The decrease in operating profit was mainly attributable to the decrease in gross profit of approximately HK$47,934,000 and the inclusion of exchange loss of approximately HK$35,597,000 in 2012 whereas the exchange gain of approximately HK$4,504,000 in 2011, but offset by the decrease in administrative expenses of approximately HK$11,045,000.

Net loss attributable to owners of the Company was approximately HK$6,663,000 for the year ended 31 December 2012 whereas net profit attributable to owners of the Company was approximately HK$186,358,000 for the year ended 31 December 2011. The decrease in net profit attributable to owners of the Company primarily resulted from the inclusion of gain on deemed disposal of SinoCom DIR amounting to approximately HK$125,192,000 in 2011 and the decrease in operating profit as mentioned above.

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

As at 31 December 2012, the number of shares in respect of which options had been granted and remained outstanding under the Company's share option scheme was 16,390,000 (2011: 31,526,000), representing 1.5% (2011: 2.8%) of the shares of the Company in issue at that date.

PLEDGE OF ASSETS

As at 31 December 2012, the Group had not pledged any of its assets.

EMPLOYEES AND REMUNERATION POLICY

The Group had 1,652 full time staff as at 31 December 2012 (2011: 1,616). Most of them were engineers located in Mainland China. There were also 169 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 maintains social insurance schemes for retirement, unemployment, personal injury and hospitalization for all of its employees in Mainland China. A housing provident fund system has also been implemented for its employees in Mainland 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 Renminbi ("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.

CONTINGENT LIABILITIES

As at 31 December 2012, the Group had no material contingent liabilities.

CAPITAL COMMITMENTS

As at 31 December 2012, the Group had no material capital commitments.

FINAL DIVIDEND

The directors of the Company do not recommend payment of any final dividend for the year ended 31 December 2012 (2011: HK3.5 cents per share).

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted a code of conduct for securities transactions and dealing (the "Code of Conduct") by Directors on terms no less exacting than the required standard set out in Appendix 10 to Listing Rule (the "Model Code"). The Company has made specific enquiry 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 ended 31 December 2012. 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 apart from Mr. Liang Neng and Mr. Lee Kit Wah, the former independent directors, have confirmed that they have complied with the required standards set out in the Model Code and the Code of Conduct throughout the year ended 31 December 2012. The Company is unable to obtain the relevant confirmations from Mr. Liang Neng and Mr. Lee Kit Wah due to their resignation, and therefore is unable to fully ascertain whether the Company has complied with the required standard set out in the Model Code and Code of Conduct through the year ended 31 December 2012.

The Company has provided the required training to Dr. Shi Chongming regarding the securities dealing under Listing Rules.

CORPORATE GOVERNANCE

The Company emphasizes on corporate governance and committed to maintaining high standard of corporate governance which is reviewed and strengthened from time to time.

During the year under review, the Company has applied and complied with the applicable provisions as set out in the Code on Corporate Governance Practices (effective on 31 March 2012) and the Corporate Governance Code (effective on 1 April 2012) contained in Appendix 14 (the "CG Code") of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited of the Listing Rules (the "Listing Rules"), except the deviation disclosed herein.

	Code Provision	**Deviation**	**Considered Reason for deviation**
A.2.1	The role of chairman and chief executive should be separate.	Mr. Wang Zhiqiang has been both the chairman and the chief executive officer.	The Board considered that vesting the roles of chairman and CEO in the same person facilitates the execution of the Group business strategies and maximizes effectiveness of its operation. Further, as Mr. Kotoi Hirofumi served as co-chairman of the Board from 11 June 2012 to 1 March 2013, following which Mr. Zuo Jian Zhong has served as co-chairman of the Board since 1 March 2013, the Board considered that there is a sufficient balance and division of responsibilities and authority.
A.3.2	The Company should maintain on its website and the Exchange's website an updated list of its directors role and function.	The Company failed to maintain on its website an updated list of its directors role and function.	Due to inadvertent oversight, the Company failed to update itself regarding the latest changes to the CG Code, and failed to maintain the requisite information on the Company website and the Exchange's website.
A.5.6	The Company should have a policy concerning diversity of board members.	The Company failed to establish a Board Diversity Policy.	Due to inadvertent oversight, the Company failed to update itself on the recent changes of CG Code.
A.6.4	The Board should establish written guidelines for relevant employees in respect of securities dealing.	The Company did not have written guidelines for relevant employees in respect of securities dealing.	Due to inadvertent oversight, the Company failed to update itself regarding the latest changes to the CG Code, and failed to prepare relevant written guidelines.

	Code Provision	Deviation	Considered Reason for deviation
A.6.5	The Directors should be provided with training on a regular basis and the training record should be properly maintained.	The Company failed to keep a proper and complete record of training provided to the Directors.	Due to inadvertent oversight, the Company failed to maintain a proper and complete training record.
D.3.1	The Board should establish terms of reference to perform Corporate Governance functions.	The Company failed to establish terms of reference to perform Corporate Governance functions.	Due to inadvertent oversight, the Company failed to update itself on the recent changes to CG Code.
E.1.4	The Board should establish a shareholders' communication policy.	The Company failed to establish a shareholders' communication policy.	Due to inadvertent oversight, the Company failed to update itself on the recent changes to CG Code.

The Company is taking remedial steps to address areas of deviation from the CG Code.

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

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

AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference in compliance with Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group, and to review the Company's annual report and to provide advice and comments thereon to the Board. The audit committee comprises of Mr. Chui Man Lung, Everett (Chairman), Mr. Wu Hong and Mr. Yamamoto Yoshimasa.

The Audit Committee has reviewed and approved the Group's audited results for the year ended 31 December 2012. The results have been audited by RSM Nelson Wheeler, the auditors of the Company.

PRELIMINARY ANNOUNCEMENT OF THE RESULTS AGREED BY AUDITORS

The figures in respect of the preliminary announcement of the Group's results for the year ended 31 December 2012 have been agreed by the Company's auditors, RSM Nelson Wheeler, to the amounts set out in the Group's audited consolidated financial statements for the year ended 31 December 2012. The work performed by RSM Nelson Wheeler in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by RSM Nelson Wheeler on the preliminary announcement.

SUSPENSION OF TRADING

Trading in the Shares was suspended from 9:00 a.m. on 2 April 2013 and will remain suspended.

By order of the board

Wang Zhiqiang — *Co-Chairman*

Zuo Jian Zhong — *Co-Chairman*

Hong Kong, 21 January 2014

As at the date of this announcement, the Company's executive directors are Mr. Wang Zhiqiang, Mr. Zuo Jian Zhong and Mr. Kotoi Hirofumi and the non-executive directors are Mr. Li Jian, Mr. Wang Xubing and Dr. Shi Chongming, and the independent non-executive directors are Mr. Chui Man Lung Everett, Mr. Wu Hong, and Mr. Yamamoto Yoshimasa.