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)

2013 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 2013 (the "Year") as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2013

	NOTE	**2013** *HK$'000*	2012 *HK$'000*
Revenue	*3 & 4*	**481,115**	589,806
Cost of services		**(424,685)**	(459,363)
Gross profit		**56,430**	130,443
Administrative expenses		**(92,274)**	(100,314)
Other income, gains/(losses)	*5*	**(43,376)**	(16,425)
(Loss)/profit from operations		**(79,220)**	13,704
Gain on disposal of joint ventures		**–**	11,073
Impairment loss on investment in an associate		**–**	(15,854)
Share of result of an associate		**(1,969)**	(3,442)
Share of results of joint ventures		**–**	10,194
(Loss)/profit before tax		**(81,189)**	15,675
Income tax expense	*6*	**(2,886)**	(21,563)
Loss for the year	*7*	**(84,075)**	(5,888)

	NOTE	2013 HK$'000	2012 HK$'000
Other comprehensive income, net of tax:			
Item that may be reclassified to profit or loss:			
Exchange differences arising on translating foreign operations		**15,271**	(766)
Other comprehensive income for the year, net of tax		**15,271**	(766)
Total comprehensive income for the year		**(68,804)**	(6,654)
Loss for the year attributable to:			
Owners of the Company		**(83,518)**	(6,663)
Non-controlling interests		**(557)**	775
		(84,075)	(5,888)
Total comprehensive income for the year attributable to:			
Owners of the Company		**(68,385)**	(7,433)
Non-controlling interests		**(419)**	779
		(68,804)	(6,654)
Loss per share			
— Basic	9	**HK7.48 cents**	HK0.60 cents
— Diluted	9	**HK7.48 cents**	HK0.60 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2013

	NOTE	2013 HK$'000	2012 HK$'000
Non-current assets			
Plant and equipment		**19,057**	12,826
Goodwill		**7,333**	7,110
Investment in an associate		**3,124**	5,334
Available-for-sale financial assets		**14,690**	–
Deposits paid for acquisition of plant and equipment		**–**	5,817
Other deposits		**425**	3,088
Amount due from a fellow subsidiary		**–**	9,867
Deferred tax assets		**989**	4,941
		45,618	48,983
Current assets			
Trade and other receivables	*10*	**92,514**	89,436
Amount due from a fellow subsidiary		**1,272**	–
Available-for-sale financial assets		**–**	16,217
Loan receivables from related companies	*11*	**–**	88,293
Tax recoverables		**–**	1,736
Term deposits with initial terms of over three months		**25,180**	181,457
Bank balances and cash		**535,174**	437,786
		654,140	814,925
Current liabilities			
Trade and other payables	*12*	**111,628**	119,499
Amount due to ultimate holding company		**–**	454
Current tax liabilities		**21,077**	24,295
		132,705	144,248
Net current assets		**521,435**	670,677
Total assets less current liabilities		**567,053**	719,660

	2013	2012
	HK$'000	*HK$'000*
Non-current liabilities		
Deferred tax liabilities	**2,181**	7,876
NET ASSET	**564,872**	711,784
Capital and reserves		
Share capital	**27,896**	27,896
Reserves	**533,013**	679,506
Equity attributable to owners of the Company	**560,909**	707,402
Non-controlling interests	**3,963**	4,382
TOTAL EQUITY	**564,872**	711,784

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 services.

In the opinion of the directors of the Company, as at 31 December 2013, SJI (Hong Kong) Limited, a company incorporated in Hong Kong, is the immediate holding company; SJI Inc., 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 2013. 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 except as stated below.

a. Amendments to HKAS 1 "Presentation of Financial Statements"

Amendments to HKAS 1 titled Presentation of Items of Other Comprehensive Income introduce new terminology for statement of comprehensive income and income statement. Under the amendments to HKAS 1, a statement of comprehensive income is renamed as a statement of profit or loss and other comprehensive income and an income statement is renamed as a statement of profit or loss. 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.

The amendments to HKAS 1 require additional disclosures to be made in the other comprehensive 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 have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the change. Other than the above mentioned presentation changes, the application of the amendments to HKAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

b. HKFRS 12 "Disclosure of Interests in Other Entities"

HKFRS 12 "Disclosure of Interests in Other Entities" specifies the disclosure requirements for subsidiaries, joint arrangements and associates, and introduces new disclosure requirements for unconsolidated structured entities.

The adoption of HKFRS 12 only affects the disclosures relating to the Group's subsidiaries and associates in the consolidated financial statements. HKFRS 12 has been applied retrospectively.

c. **HKFRS 13 "Fair Value Measurement"**

HKFRS 13 "Fair Value Measurement" establishes a single source of guidance for all fair value measurements required or permitted by HKFRSs. It clarifies the definition of fair value as an exit price, which is defined as a price at which an orderly transaction to sell the asset or transfer the liability would take place between market participants at the measurement date under market conditions, and enhances disclosures about fair value measurements.

The adoption of HKFRS 13 only affects disclosures on fair value measurements in the consolidated financial statements. HKFRS 13 has been applied prospectively.

The Group has not applied the new HKFRSs that have been issued but are not yet effective. 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

	2013	2012
	HK$'000	*HK$'000*
Outsourcing software development services	**479,821**	581,624
Technical support services	**1,294**	8,182
	481,115	589,806

Revenue from outsourcing software development services and technical support services are net of business tax and local government levies of approximately HK$111,000 (2012: HK$28,656,000).

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 are analysed on the basis of the location of the customers' headquarters.

The Group has carried on a single business in two geographical locations, which is the outsourcing software development services, and all the assets are principally located in the PRC and Japan. Accordingly, there are two reportable segments of the Group which are regularly reviewed by the chief operating decision maker.

Segment revenue and results

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

Year ended 31 December 2013

	PRC *HK$'000*	**Japan** *HK$'000*	**Total** *HK$'000*
Revenue	**18,050**	**463,065**	**481,115**
Cost of services	**(16,313)**	**(408,372)**	**(424,685)**
Gross profit	**1,737**	**54,693**	**56,430**
Administrative expenses	**(2,325)**	**(64,306)**	**(66,631)**
Segment results	**(588)**	**(9,613)**	**(10,201)**
Share of result of an associate			**(1,969)**
Other income, gains/(losses)			**(43,376)**
Unallocated corporate expenses			**(25,643)**
Loss before tax			**(81,189)**

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 joint ventures	–	10,194	10,194
Segment results	(1,903)	73,978	72,075
Share of result of an associate			(3,442)
Impairment loss on investment in an associate			(15,854)
Gain on disposal of joint ventures			11,073
Other income, gains/(losses)			(16,425)
Unallocated corporate expenses			(31,752)
Profit before tax			15,675

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 results represents the profit or loss of each segment without allocation of share of result of an associate, impairment loss on investment in an associate, gain on disposal of available-for-sale financial assets, gain on disposal of joint ventures, other income, gains/(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 2013

	PRC	**Japan**	**Total**
	HK$'000	***HK$'000***	***HK$'000***
Segment assets	**392,054**	**251,820**	**643,874**
Unallocated assets			**55,884**
Consolidated total			**699,758**
Segment liabilities	**29,375**	**93,446**	**122,821**
Unallocated liabilities			**12,065**
Consolidated total			**134,886**

At 31 December 2012

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

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 of over three months and bank balances and cash are allocated to operating segments based on the location of the term deposits with initial terms of 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 2013

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

	PRC	**Japan**	**Consolidated**
	HK$'000	***HK$'000***	***HK$'000***
Additions to non-current assets *(Note)*	**17,679**	**836**	**18,515**
Depreciation	**12,468**	**174**	**12,642**
Loss/(gain) on disposal of plant and equipment	**84**	**(18)**	**66**
Allowance for doubtful debts	**1,492**	**–**	**1,492**

Year ended 31 December 2012

Amounts included in the measure of segment results 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 doubtful debts	(708)	–	(708)

Note: Non-current assets excluded goodwill, 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 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:

	2013	2012
	HK$'000	*HK$'000*
PRC	**18,315**	18,480
Japan	**742**	163
	19,057	18,643

Information about major customers

Revenue from customers contributing over 10% of the total revenue of the Group is as follows:

	Year ended 31 December	
	2013	2012
	HK$'000	*HK$'000*
Customer A	**293,088**	368,880

5. OTHER INCOME, GAINS/(LOSSES)

Other income, gains/(losses) include the following:

	2013	2012
	HK$'000	*HK$'000*
Interest income from short term investments	**4,626**	6,737
Interest income from loan receivables	**1,758**	1,989
Interest income from bank balances	**3,885**	5,957
Government subsidies	**7,219**	4,891
Net foreign exchange loss *(Note)*	**(73,574)**	(35,597)
Loss on disposal of held for trading investments	**–**	(248)
(Allowance for)/reversal of doubtful debts	**(1,492)**	708
Gain on disposal of available-for-sale financial assets	**14,251**	–
Others	**(49)**	(862)
	(43,376)	(16,425)

Note: The foreign exchange loss is mainly attributable to bank balances and cash, trade receivables and loan receivables from related companies denominated in Japanese Yen ("JPY") arising from the deprecation in JPY against the functional currency of each of the Group's entities.

Government subsidies include subsidies from local government for the employment of new university graduates of approximately HK$3,518,000 (2012: HK$1,743,000) and for its exports of outsourcing software development services of approximately HK$3,555,000 (2012: HK$3,048,000). The Group recognises 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

	2013	2012
	HK$'000	*HK$'000*
Current tax:		
PRC Enterprise Income Tax	**64**	8,450
Japan income tax	**9,225**	9,179
PRC withholding tax	**–**	198
Enterprise Income Tax on capital gain on disposal of joint ventures	**–**	16,809
	9,289	34,636
Overprovision in prior years:		
PRC Enterprise Income Tax	**(3,831)**	(3,171)
Japan income tax	**(888)**	–
	(4,719)	(3,171)
Deferred tax:		
Current year	**(1,684)**	(9,902)
	2,886	21,563

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 rate of 15% as compared to the unified tax rate of 25% from 2012 to 2014.

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 joint ventures when the gain is realised from a 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, special corporate tax for reconstruction, corporate enterprise tax, special local corporate tax and corporate inhabitant tax. Corporate tax is calculated at a progressive statutory rate of 15% (2012: 18%) on the portion of taxable income not exceeding JPY8,000,000 (equivalent to approximately HK$588,000 (2012: HK$721,000)) and 25.5% (2012: 30%) on the portion of taxable income in excess of JPY8,000,000. Special corporate tax for reconstruction is calculated at a fixed tax rate of 10% of corporate tax starting from 1 January 2013. Corporate enterprise tax is calculated at a progressive statutory rate of 2.95% (2012: 2.95%) on the portion of taxable income not exceeding JPY4,000,000 (equivalent to approximately HK$294,000 (2012: HK$389,000)), 4.365% (2012: 4.365%) on the portion of taxable income in excess of JPY4,000,000 but not exceeding JPY8,000,000 and 5.78% (2012: 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$5,000 (2012: HK$7,000)) to JPY200,000 (equivalent to approximately HK$15,000 (2012: HK$20,000)), depending on the headcount and capital of the entities.

The income tax expense for the year can be reconciled to the (loss)/profit before tax per the consolidated statement of profit or loss and other comprehensive income as follows:

	2013	2012
	HK$'000	*HK$'000*
(Loss)/profit before tax	**(81,189)**	15,675
Taxation at the applicable PRC Enterprise Income Tax rate of 25% (2012: 25%)	**(20,297)**	3,919
Tax effect of share of results of joint ventures	**–**	(2,549)
Tax effect of share of result of an associate	**492**	861
Tax effect of income not taxable in determining taxable profit	**(3,552)**	(687)
Tax effect of expenses not deductible in determining taxable profit	**11,903**	20,003
Tax effect of temporary differences not recognised	**3,816**	3,948
Effect of tax exemption and concessions granted to PRC subsidiaries	**(55)**	(3,630)
Withholding tax on the profits of PRC subsidiaries	**(5,492)**	(1,097)
Tax effect of tax losses not recognised	**13,127**	287
Overprovision in prior years	**(4,719)**	(3,171)
Effect of different tax rate on gain on disposal of joint ventures	**–**	(1,661)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**7,663**	5,340
Income tax expense	**2,886**	21,563

7. LOSS FOR THE YEAR

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

	2013	2012
	HK$'000	*HK$'000*
Auditors' remuneration	**2,880**	10,536
Depreciation of plant and equipment	**12,642**	4,469
Loss on disposal of plant and equipment	**66**	1,229
Minimum lease payments paid under operating leases during the year in respect of office premises	**24,273**	20,472
Allowance for/(reversal of) doubtful debts	**1,492**	(708)
Staff costs:		
Directors' emoluments	**9,780**	12,050
Other staff costs		
— Salaries and other benefits	**305,508**	334,846
— Retirement benefits schemes contributions	**30,328**	35,174
	345,616	382,070

8. DIVIDENDS

During the year ended 31 December 2013, a special dividend of HK7 cents per ordinary share (total dividend of HK$78,108,000) was declared on 9 October 2013 by the directors of the Company and was duly approved by the shareholders of the Company at an extraordinary general meeting on 11 November 2013 by way of reduction of the share premium account and the retained earnings account and was paid to the shareholders of the Company during the year ended 31 December 2013.

The directors of the Company did not recommend payment of any final dividend for the year ended 31 December 2013 (2012: Nil).

9. LOSS PER SHARE

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

	2013	2012
	HK$'000	*HK$'000*
Loss		
Loss for the purposes of basic and diluted loss per share	**(83,518)**	(6,663)

Number of shares

	2013	2012
	'000	*'000*
Number of shares:		
Weighted average number of ordinary shares for the purpose of calculating basic loss per share	**1,115,835**	1,115,297

The effects of all potential ordinary shares are anti-dilutive for the years ended 31 December 2012 and 2013.

10. TRADE AND OTHER RECEIVABLES

	2013	2012
	HK$'000	*HK$'000*
Trade receivables	**77,239**	76,281
Less: allowance for doubtful debts	**(1,500)**	–
	75,739	76,281
Other receivables	**4,538**	4,252
Interest receivable from related companies *(Note)*	**–**	1,217
Other deposits	**3,574**	3,282
Prepayments	**8,663**	4,404
Total trade and other receivables	**92,514**	89,436

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 150 days 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.

	2013	2012
	HK$'000	*HK$'000*
0–30 days	**46,361**	41,697
31–60 days	**13,265**	19,140
61–90 days	**1,690**	3,828
91–180 days	**3,828**	3,584
181–360 days	**6,149**	8,032
Over 360 days	**4,446**	–
	75,739	76,281

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 approximately HK$243,000 (2012: HK$908,000) 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 (2012: 135 days).

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

	2013	2012
	HK$'000	*HK$'000*
91–180 days	**243**	908

Movement in the allowance for doubtful debts:

	2013	2012
	HK$'000	*HK$'000*
At 1 January	**–**	6,571
Allowance for/(reversal of) doubtful debts	**1,492**	(708)
Amounts written off as uncollectible	**–**	(5,839)
Exchange differences	**8**	(24)
At 31 December	**1,500**	–

As at 31 December 2013, the allowance for doubtful debts was for individually impaired trade receivables with an aggregate balance of approximately HK$1,500,000, which were made based on estimated irrecoverable amounts from the outsourcing software development services provided with 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:

	2013	2012
	HK$'000	HK$'000
JPY	**64,871**	67,602

11. LOAN RECEIVABLES FROM RELATED COMPANIES

	2013	2012
	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 JPY400,000,000 (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 ("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.

During the year ended 31 December 2013, 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

	2013	2012
	HK$'000	*HK$'000*
Trade payables	**16,861**	11,372
Wages and salaries payables	**76,887**	84,121
Accruals	**9,757**	13,589
Other tax payables	**4,483**	5,690
Other payables	**3,640**	4,727
	111,628	119,499

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:

	2013	2012
	HK$'000	*HK$'000*
0–30 days	**11,752**	8,800
31–60 days	**5,048**	2,572
61–90 days	**61**	–
	16,861	11,372

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

	2013	2012
	HK$'000	*HK$'000*
JPY	**26,028**	24,124
HK$	**9,884**	15,788

BUSINESS REVIEW

In 2013, a number of uncertainties continued to plague the global economy and downside risks were prevailing all around. On the other hand, the economy of China witnessed increasing downside risks while inflation stayed high. As a result, the software development industry also saw a slow trend.

In respect of software outsourcing services for the Japanese market, which is the Group's core business, along with the improved Japanese economy, the demand for overseas software outsourcing services increased, particularly because of the shortage of software development experts in the IT industry in Japan and the continual pursuit of lower production costs. Nevertheless, the sharp depreciation of Japanese Yen ("JPY") and the ever-rising labor costs in China became onerous burdens for the operation of software outsourcing services for Japanese market. Accordingly, the priority for enterprises in the sector was to cut development costs on one hand and extend the business scale and enhance the efficiency.

It was expected that the software market in Japan would record an increase of 3.7% when compared with that of 2012. On the other hand, the performance of the software development industry in China was also promising and the growth rate was over 20% when compared with that of 2012. As to the export of software products, the market saw better performance whereas the software outsourcing services segment registered a rise too. Despite the decrease in revenue resulted from the depreciation of JPY at an annual rate of approximately 25% and the increase in labor costs, with the joint efforts of the management and our staff, the Group's job orders secured in Japan recorded an increase of approximately 7% when compared with that of 2012.

In order to cut our development cost further and to step up our efforts in business localization, the Group established Jilin SinoCom in March 2013. Sales volume concluded by relevant on-site sales persons stationed in Japan decreased significantly because SinoCom DIR was divested from the Group. In spite of the 7% increase in job orders confirmed, the sales of the Group's software outsourcing services for the Japanese market (translated into Hong Kong dollars) recorded a decrease of approximately 17.5% when compared with that of 2012. However, taking the 25% depreciation of JPY recorded in 2012 into consideration, the sales performance of the Group was able to mediate the impact of the depreciated JPY to a certain extent.

In view of the pressure originated from diminishing income and thinner margin brought about by the depreciation of JPY, the Group has taken the following proactive measures to facilitate its business development: (i) to broaden our income sources by securing new projects from existing and new customers; (ii) to expand and set up development centers in cities with lower living standard to attract more professionals, reduce development costs and improve our profit margin; (iii) to be committed to strengthen our productivity and provide customers with services of the best quality for the sake of striving for more job orders; (iv) to continue the incentive policy which links remunerations with results, and to enhance the communication channel for employees; and (v) to apply effective foreign exchange hedging tools to mitigate exposures in this regard. At the same time, in order to secure more development projects, the Company continued to strengthen the co-operation with our controlling shareholder to improve our sales competency in Japan and upstream development capabilities, aiming at making both parties the leading software development company in China and Japan.

The market has been complicated and volatile throughout 2013. As a result, the management established a principle of "Go from strength to strength and build a brighter future", requiring the Group to uphold our down-to-earth entrepreneurial spirit and take the opportunity of working together with our controlling shareholder for laying solid ground for our business development in the future.

OUTLOOK

Looking ahead, the movement of the exchange rate of JPY is going to have direct impact on the Group's results and the performance of the software outsourcing services industry for the Japanese market. In 2014, the demand for software outsourcing services for the Japanese market will see an increase. In addition, the shortage of experts in software development in Japan will also bring about more business opportunities to the Group. Meanwhile, the industry is experiencing an increase in the investment in information platforms, a booming demand for information consumption and a rapid change in the form of software services, and as a result, it will probably generate an industry-wide business growth in spite of market adversities.

Research and development plans for specific tools for software development have been prepared by the Group for the sake of improving our production efficiency. With our reasonable appraisal system and the compensation mechanism featuring more effort for more return, the Group will be able to mobilize our staff, making them willing to devote themselves to uplift our equipment utilization rate and improve our efficiency in product development, with a view to increase the business volume to be committed by the Group. Meanwhile, with the enlarged scale of upstream business, the increase in added-value of our services and the increase in the unit price of our sales, the sales revenue of the Group is expected to increase accordingly.

In addition, the Group will explore new ideas and seek a new drive for business development, such as customer acquisition and sharing of human resources. The Group also hopes to enhance our operation and accelerate our business development through merger and acquisitions. The Board believes that the management will be able to lead the way to strengthen a customer-oriented development system, thus capitalizing on new opportunities in the market on an ongoing basis.

In order to ensure a stable environment for business development, the Group will step up its efforts in implementing the strategy of business localization so as to cut our software development cost further. The Group will also take an active role to enlarge the scale of its upstream business according to the demand from clients, to increase the added-value of its services and to enhance the efficiency of product development for the purpose of generating more revenue for the Company.

REVIEW OF RESULTS AND OPERATIONS

The Group's consolidated turnover for the year ended 31 December 2013 was approximately HK$481,115,000, representing a decrease of approximately 18.4% when compared with HK$589,806,000 for 2012. The decrease was mainly attributable to the depreciation of JYP in which 96.2% of total turnover for the year ended 31 December 2013 was denominated. Turnover generated from Japan decreased by approximately 18% from HK$564,546,000 for 2012 to HK$463,065,000 for the year ended 31 December 2013. In addition,turnover sourced from China decreased by approximately 28.5% from HK$25,260,000 for 2012 to HK$18,050,000 for the year ended 31 December 2013. Turnover derived from outsourcing software development work decreased by approximately 17.5% to approximately HK$479,821,000 from HK$581,624,000 for 2012. Top five customers accounted for approximately 81.9% of the total turnover. Turnover from the provision of technical support services decreased by approximately 84.2% to approximately HK$1,294,000. Turnover from outsourcing software development services and from technical support services accounted for approximately 99.7% and 0.3% of the total turnover respectively.

With the sharp depreciation of JPY and the inflated direct labour cost in China, the Group's gross profit margin decreased from approximately 22.1% for 2012 to 11.7% for 2013. The Group's performance was adversely affected by the exchange loss resulted from the depreciation of JPY. Accordingly, the Group recorded net loss of HK$84,075,000 for the year ended 31 December 2013, when compared with the net loss of HK$5,888,000 for 2012. The Group's net loss for the year ended 31 December 2013 mainly included the net foreign exchange loss of approximately HK$73,574,000 (2012: HK$35,597,000) and gain on disposal of available-for-sale financial assets of approximately HK$14,251,000.

Average full time production head counts were 1,598 for the year ended 31 December 2013, representing a light increase of 32 from that of 1,566 for 2012. Increased head counts were mainly attributable to the opening of new offices in Jilin, the PRC.

Gross profit for the year ended 31 December 2013 decreased to approximately HK$56,430,000 or by 56.7%, when compared to the gross profit of approximately HK$130,443,000 for 2012.

Operating loss of approximately HK$79,220,000 was recorded for the year ended 31 December 2013 when compared with the operating profit of approximately HK$13,704,000 for 2012. The decrease in operating profit was mainly attributable to the decrease in gross profit by approximately HK$74,013,000 and the exchange loss of approximately HK$73,574,000 resulting from the depreciation of JYP.

Net loss attributable to owners of the Company was approximately HK$83,518,000 for the year ended 31 December 2013 whereas net loss attributable to owners of the Company was approximately HK$6,663,000 for 2012.

LIQUIDITY AND FINANCIAL RESOURCES

Since inception, the Group has no bank borrowing, and has funded its operations through equity funding and operating cash flow. The Group managed to maintain this strong cash generating capability during the year. In 2013, the Group financed its operations and investing activities solely with internally generated cash flows. As at 31 December 2013, the Company maintained a high level of bank balances and cash and term deposits with initial terms of over three months of approximately HK$560,354,000 and there was no bank borrowing as at that date.

SHARE CAPITAL

As at 31 December 2013, the number of shares in respect of which options had been granted but remained outstanding under the Company's share option scheme was 13,580,000 (31 December 2012: 16,390,000), representing 1.21% (31 December 2012: 1.47%) of issued shares of the Company as at that date.

PLEDGE OF ASSETS

As at 31 December 2013, the Group had no pledged asset.

EMPLOYEE AND REMUNERATION POLICIES

The Group had 1,585 full time staff as at 31 December 2013 (2012: 1,652). Most of them were engineers stationed in China. There were also 160 (2012: 169) employees in Japan, most of them were bridged system engineers working at customers' premises in Japan. Their remuneration, promotion and salary review were assessed based on their respective job responsibilities, work performance, professional experiences and the prevailing industry practice. The Group maintained social insurance schemes for retirement, unemployment, personal injury and hospitalisation for all of its employees in China and a housing provident fund system has also been implemented for its employees in China. Staff in Japan was enrolled under the 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, and was denominated in JPY while expenses were settled in Renminbi ("RMB"), any depreciation of JPY against RMB would reduce the Group's income measured in RMB and have an adverse impact on the profitability of the Group. The management is of the view that there is no effective hedging tool suitable to reduce this exchange rate exposure in consideration of the monthly recurring nature of JPY revenue.

CONTINGENT LIABILITIES

As at 31 December 2013, the Group had no material contingent liability.

CAPITAL COMMITMENTS

As at 31 December 2013, the Group had no material capital commitment.

FINAL DIVIDEND

The directors of the Company do not recommend payment of any final dividend for the year ended 31 December 2013 (2012: Nil).

CHANGE OF DIRECTORS' INFORMATION

The change of Director's information as required to be disclosed pursuant to Rule 13.51B of the Listing Rules are set out below:

1. Mr. Wang Xubing and Dr. Shi Chongming retired as non-executive Directors of the Company from the conclusion of the Annual General Meeting held on 26 March, 2014.

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 2013.

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 2013. 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 2013.

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 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.
C.1.2	Management should provide all members of the Board with monthly updates of the Group's business performance.	The Company did not provide all members of the Board with monthly updates of the Group's business performance.	Due to inadvertent oversight, the Company failed to update itself on the recent changes to CG Code.
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 2013. The results have been audited by RSM Nelson Wheeler, the auditor of the Company.

PRELIMINARY ANNOUNCEMENT OF THE RESULTS AGREED BY AUDITOR

The figures in respect of the preliminary announcement of the Group's results for the year ended 31 December 2013 have been agreed by the Company's auditor, RSM Nelson Wheeler, to the amounts set out in the Group's audited consolidated financial statements for the year ended 31 December 2013. 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	**Zuo Jian Zhong**
Co-Chairman	*Co-Chairman*

Hong Kong, 27 March, 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 is Mr. Li Jian, and the independent non-executive directors are Mr. Chui Man Lung Everett, Mr. Wu Hong, and Mr. Yamamoto Yoshimasa.