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)

2014 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 2014 (the "Year") as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2014

	NOTE	2014 HK$'000	2013 HK$'000
Revenue	3 & 4	**582,892**	481,115
Cost of services		**(527,672)**	(424,685)
Gross profit		**55,220**	56,430
Administrative expenses		**(92,685)**	(92,274)
Other income, gains/(losses)	5	**(8,183)**	(43,376)
Loss from operations		**(45,648)**	(79,220)
Share of result of an associate		**(341)**	(1,969)
Loss before tax		**(45,989)**	(81,189)
Income tax expense	6	**(10,921)**	(2,886)
Loss for the year	7	**(56,910)**	(84,075)

	NOTE	2014 HK$'000	2013 HK$'000
Other comprehensive income, net of tax:			
Items that may be reclassified to profit or loss:			
Exchange differences arising on translating foreign operations		**(2,091)**	15,271
Exchange differences reclassified to profit or loss on disposal of a subsidiary		**(1,165)**	–
Other comprehensive income for the year, net of tax		**(3,256)**	15,271
Total comprehensive income for the year		**(60,166)**	(68,804)
Loss for the year attributable to:			
Owners of the Company		**(56,799)**	(83,518)
Non-controlling interests		**(111)**	(557)
		(56,910)	(84,075)
Total comprehensive income for the year attributable to:			
Owners of the Company		**(60,045)**	(68,385)
Non-controlling interests		**(121)**	(419)
		(60,166)	(68,804)
Loss per share			
— Basic	9	**HK5.03 cents**	HK7.48 cents
— Diluted	9	**HK5.03 cents**	HK7.48 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2014

	NOTE	**2014** **HK$'000**	2013 HK$'000
Non-current assets			
Plant and equipment		**13,433**	19,057
Goodwill		**7,308**	7,333
Investment in an associate		**2,730**	3,124
Available-for-sale financial assets		**–**	14,690
Deposits paid for acquisitions of subsidiaries		**385,000**	–
Other deposits		**1,610**	425
Deferred tax assets		**2,215**	989
		412,296	45,618
Current assets			
Trade and other receivables	*10*	**74,661**	92,514
Investment receivables	*11*	**102,459**	–
Amount due from a fellow subsidiary		**–**	1,272
Amount due from a related company		**11,422**	–
Current tax assets		**1,742**	–
Term deposits with initial terms of over three months		**20,184**	25,180
Bank balances and cash		**176,642**	535,174
		387,110	654,140
Current liabilities			
Trade and other payables	*12*	**132,351**	111,628
Current tax liabilities		**22,811**	21,077
		155,162	132,705
Net current assets		**231,948**	521,435
Total assets less current liabilities		**644,244**	567,053
Non-current liabilities			
Deferred tax liabilities		**780**	2,181
NET ASSETS		**643,464**	564,872
Capital and reserves			
Share capital		**32,896**	27,896
Reserves		**604,468**	533,013
Equity attributable to owners of the Company		**637,364**	560,909
Non-controlling interests		**6,100**	3,963
TOTAL EQUITY		**643,464**	564,872

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 2001, 20/F., Lippo Centre, Tower 2, No. 89 Queensway, Admiralty, Hong Kong. The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

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. ("SJI"), a company incorporated in Japan, is the ultimate holding company. In December 2014, SJI entered into a sale and purchase agreement to sell 300,000,000 shares in the Company (representing approximately 22.80% of the issued share capital of the Company). Following the completion, SJI ceased to be the controlling shareholder but remained as the single largest holder of the issued shares in the Company as at 31 December 2014.

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

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 (the "HKICPA") that are relevant to its operations and effective for its accounting year beginning on 1 January 2014. HKFRSs comprise Hong Kong Financial Reporting Standards ("HKFRS"); Hong Kong Accounting Standards ("HKAS"); and Interpretations.

(a) Application of new and revised HKFRSs

The following standards have been adopted by the Group for the first time for the financial year beginning 1 January 2014:

Amendment to HKAS 32, Offsetting financial assets and financial liabilities

This amendment clarifies that the right of set-off must not be contingent on a future event. It must also be legally enforceable for all counterparties in the normal course of business, as well as in the event of default, insolvency or bankruptcy. The amendment also considers settlement mechanisms. The amendment did not have a significant effect on the Group financial statements.

Amendment to HKAS 36, Recoverable amount disclosures for non-financial assets

The amendments reduce the circumstances in which the recoverable amount of assets or cash-generating units is required to be disclosed, clarify the disclosures required, and introduce an explicit requirement to disclose the discount rate used in determining impairment (or reversals) where recoverable amount based on fair value less costs of disposal is determined using a present value technique. The amendments do not have an impact on these consolidated financial statements as the recoverable amounts of assets or cash-generating units have been determined on the basis of their value in use.

Amendments to HKFRS 2 (Annual Improvements to HKFRSs 2010–2012 Cycle)

This amendment clarifies the definitions of "vesting condition" and "market condition" and adds definitions for "performance condition" and "service condition". The amendment is applicable prospectively to share-based payment transactions for which the grant date is on or after 1 July 2014 and had no effect on the Group's consolidated financial statements.

Amendments to HKFRS 3 (Annual Improvements to HKFRSs 2010–2012 Cycle)

This amendment, applicable prospectively to business combinations for which the acquisition date is on or after 1 July 2014, requires any contingent consideration that is classified as an asset or a liability (i.e. non-equity) to be measured at fair value at each reporting date with changes in fair value recognised in profit or loss. It had no effect on the Group's consolidated financial statements.

Amendments to HKFRS 13 (Annual Improvements to HKFRSs 2010–2012 Cycle)

This amendment to the standard's basis for conclusions only clarifies that the ability to measure certain short-term receivables and payables on an undiscounted basis is retained.

(b) New and revised HKFRSs in issue but not yet effective

The Group has not early applied new and revised HKFRSs that have been issued but are not yet effective for the financial year beginning 1 January 2014. The directors anticipate that the new and revised HKFRSs will be adopted in the Group's consolidated financial statements when they become effective. The Group is in the process of assessing, where applicable, the potential effect of all new and revised HKFRSs that will be effective in future periods but is not yet in a position to state whether these new and revised HKFRSs would have a material impact on its results of operations and financial position.

These include the following which may be relevant to the Group.

HKFRS 9	Financial Instruments[1]
HKFRS 15	Revenue from Contracts with Customers[2]
Amendments to HKAS 27	Equity Method in Separate Financial Statements[3]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2010–2012 Cycle[4]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2011–2013 Cycle[5]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012–2014 Cycle[3]

[1] Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.

[2] Effective for annual periods beginning on or after 1 January 2017, with earlier application permitted.

[3] Effective for annual periods beginning on or after 1 January 2016, with earlier application permitted.

[4] Effective for annual periods beginning on or after 1 July 2014, with limited exceptions. Earlier application is permitted.

[5] Effective for annual periods beginning on or after 1 July 2014, with earlier application permitted.

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

3. REVENUE

	2014	2013
	HK$'000	*HK$'000*
Outsourcing software development services	**579,771**	479,821
Technical support services	**3,121**	1,294
	582,892	481,115

Revenue from outsourcing software development services and technical support services are net of business tax and local government levies of approximately HK$174,000 (2013: HK$111,000).

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 of the outsourcing software development services in two geographical locations — the PRC and Japan. All the assets of the Group 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 2014

	PRC	**Japan**	**Total**
	HK$'000	***HK$'000***	***HK$'000***
Revenue	**31,615**	**551,277**	**582,892**
Cost of services	**(32,066)**	**(495,606)**	**(527,672)**
Gross (loss)/profit	**(451)**	**55,671**	**55,220**
Administrative expenses	**(2,263)**	**(58,673)**	**(60,936)**
Segment results	**(2,714)**	**(3,002)**	**(5,716)**
Share of result of an associate			**(341)**
Other income, gains/(losses)			**(8,183)**
Unallocated corporate expenses			**(31,749)**
Loss before tax			**(45,989)**

Year ended 31 December 2013

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

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 represent the profit or loss of each segment without allocation of share of result of an associate, (loss)/gain on disposal of available-for-sale financial assets, other income, gains/(losses), 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 2014

	PRC *HK$'000*	**Japan** *HK$'000*	**Total** *HK$'000*
Segment assets	**160,676**	**123,576**	**284,252**
Unallocated assets			**515,154**
Consolidated total			**799,406**
Segment liabilities	**21,350**	**128,720**	**150,070**
Unallocated liabilities			**5,872**
Consolidated total			**155,942**

At 31 December 2013

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

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, deposits paid for acquisitions of subsidiaries, 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 2014

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

	PRC *HK$'000*	**Japan** *HK$'000*	**Consolidated** *HK$'000*
Additions to non-current assets *(Note)*	**9,323**	**46**	**9,369**
Depreciation	**12,446**	**240**	**12,686**
Loss on disposal of plant and equipment	**246**	**–**	**246**
Allowance for doubtful debts	**326**	**–**	**326**

Year ended 31 December 2013

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

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

Note: Non-current assets excluded goodwill, investment in an associate, available-for-sale financial assets, deposits paid for acquisitions of subsidiaries, other deposits 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 by geographical location of the assets is detailed below:

	2014	2013
	HK$'000	*HK$'000*
PRC	**12,945**	18,315
Japan	**488**	742
	13,433	19,057

Information about major customers

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

	Year ended 31 December	
	2014	2013
	HK$'000	*HK$'000*
Customer A	**364,099**	293,088

5. OTHER INCOME, GAINS/(LOSSES)

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

	2014	2013
	HK$'000	*HK$'000*
Interest income from short term investments	**5,043**	4,626
Interest income from loan receivables	**1,740**	1,758
Interest income from bank balances	**1,246**	3,885
Government subsidies	**9,524**	7,219
Compensation for early termination of the lease on office premises	**10,086**	–
Net foreign exchange loss *(Note)*	**(31,767)**	(73,574)
Allowance for doubtful debts	**(326)**	(1,492)
(Loss)/gain on disposal of available-for-sale financial assets	**(1,362)**	14,251
Loss on disposal of a subsidiary	**(2,055)**	–
Others	**(312)**	(49)
	(8,183)	(43,376)

Note: The foreign exchange loss is mainly attributable to bank balances and cash, and trade receivables denominated in JPY arising from the depreciation 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$2,149,000 (2013: HK$3,518,000) and for its exports of outsourcing software development services of approximately HK$7,327,000 (2013: HK$3,555,000). The Group recognises the government subsidies when it fulfills all the conditions specified in the subsidy notice or relevant law and regulations.

6. INCOME TAX EXPENSE

	2014	2013
	HK$'000	*HK$'000*
Current tax:		
PRC Enterprise Income Tax	**3,634**	64
Japan income tax	**10,074**	9,225
	13,708	9,289
Under/(over)-provision in prior years:		
PRC Enterprise Income Tax	**662**	(3,831)
Japan income tax	**(831)**	(888)
	(169)	(4,719)
Deferred tax:		
Current year	**(2,618)**	(1,684)
	10,921	2,886

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 10% (2013: 15%) as compared to the unified tax rate of 25% in 2014.

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% (2013: 15%) on the portion of taxable income not exceeding JPY8,000,000 (equivalent to approximately HK$521,000 (2013: HK$588,000)) and 25.5% (2013: 25.5%) 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 to 31 March 2014. Corporate enterprise tax is calculated at a progressive statutory rate of 2.95% (2013: 2.95%) on the portion of taxable income not exceeding JPY4,000,000 (equivalent to approximately HK$260,000 (2013: HK$294,000)), 4.365% (2013: 4.365%) on the portion of taxable income in excess of JPY4,000,000 but not exceeding JPY8,000,000 and 5.78% (2013: 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 (2013: HK$5,000)) to JPY200,000 (equivalent to approximately HK$13,000 (2013: HK$15,000)), depending on the headcount and capital of the entities.

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

	2014	2013
	HK$'000	*HK$'000*
Loss before tax	**(45,989)**	(81,189)
Taxation at the applicable PRC Enterprise Income Tax rate of 25% (2013: 25%)	**(11,497)**	(20,297)
Tax effect of share of result of an associate	**85**	492
Tax effect of income not taxable in determining taxable profit	**(593)**	(3,552)
Tax effect of expenses not deductible in determining taxable profit	**13,254**	11,903
Tax effect of temporary differences not recognised	**(1,453)**	3,816
Effect of tax exemption and concessions granted to PRC subsidiaries	**(363)**	(55)
Withholding tax on the profits of PRC subsidiaries	**(1,169)**	(5,492)
Tax effect of tax losses not recognised	**8,197**	13,127
Tax effect of utilisation of tax losses not previously recognised	**(2,026)**	–
Overprovision in prior years	**(169)**	(4,719)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**6,655**	7,663
Income tax expense	**10,921**	2,886

7. LOSS FOR THE YEAR

Loss for the year has been arrived at after charging:

	2014	2013
	HK$'000	*HK$'000*
Auditors' remuneration	**2,930**	2,880
Depreciation of plant and equipment	**12,686**	12,642
Loss on disposal of plant and equipment	**246**	66
Minimum lease payments paid under operating leases during the year in respect of office premises	**27,822**	24,273
Allowance for doubtful debts	**326**	1,492
Staff costs:		
Directors' emoluments	**8,104**	9,780
Other staff costs		
— Salaries and other benefits	**328,872**	305,508
— Retirement benefits schemes contributions	**51,471**	30,328
	388,447	345,616

8. DIVIDENDS

During the year ended 31 December 2013, a special dividend of HK7 cents per ordinary share (total dividend of approximately 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 2014 (2013: 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:

	2014	2013
	HK$'000	*HK$'000*
Loss:		
Loss for the purposes of calculating basic loss per share	**(56,799)**	(83,518)

	2014	2013
	'000	*'000*
Number of shares:		
Weighted average number of ordinary shares for the purpose of calculating basic loss per share	**1,128,985**	1,115,835

The effects of all potential ordinary shares are anti-dilutive for the years ended 31 December 2013 and 2014.

10. TRADE AND OTHER RECEIVABLES

	2014	2013
	HK$'000	*HK$'000*
Trade receivables	**37,045**	77,239
Less: allowance for doubtful debts	**–**	(1,500)
	37,045	75,739
Other receivables	**27,380**	4,538
Other deposits	**3,939**	3,574
Prepayments	**6,297**	8,663
Total trade and other receivables	**74,661**	92,514

Other receivables included an amount of approximately HK$20,790,000 (2013: Nil) representing a loan to an independent third party (the "Seller") and the interests accrued in respect of the loan. The loan is guaranteed by a related company of the Seller, interest-bearing at 10% per annum and repayable within one year.

The Group allows an average credit period of 30 to 210 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.

	2014	2013
	HK$'000	*HK$'000*
0–30 days	**29,479**	46,361
31–60 days	**4,993**	13,265
61–90 days	**1,040**	1,690
91–180 days	**1,275**	3,828
181–360 days	**15**	6,149
Over 360 days	**243**	4,446
	37,045	75,739

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 (2013: HK$243,000) 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 over 360 days (2013: 135 days).

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

	2014 ***HK$'000***	2013 *HK$'000*
91–180 days	**–**	243
Over 360 days	**243**	–
	243	243

Movement in the allowance for doubtful debts:

	2014 ***HK$'000***	2013 *HK$'000*
At 1 January	**1,500**	–
Allowance for doubtful debts	**326**	1,492
Amounts written off as uncollectible	**(1,500)**	–
Disposal of a subsidiary	**(330)**	–
Exchange differences	**4**	8
At 31 December	**–**	1,500

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

	2014 ***HK$'000***	2013 *HK$'000*
JPY	**35,820**	64,871

11. INVESTMENT RECEIVABLES

The investment receivables represent wealth management products which mainly invest in debt securities in the PRC and are denominated in RMB.

The wealth management products were carried at cost less impairment loss as they do not have a quoted market price in an active market and their fair value cannot be reliably measured.

Subsequent to 31 December 2014, the investment receivables were fully received.

12. TRADE AND OTHER PAYABLES

	2014	2013
	HK\$'000	*HK\$'000*
Trade payables	**17,993**	16,861
Wages and salaries payables	**88,326**	76,887
Accruals	**7,089**	9,757
Other tax payables	**16,026**	4,483
Other payables	**2,917**	3,640
	132,351	111,628

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:

	2014	2013
	HK\$'000	*HK\$'000*
0–30 days	**11,349**	11,752
31–60 days	**6,599**	5,048
61–90 days	**23**	61
91–180 days	**22**	–
	17,993	16,861

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

	2014	2013
	HK\$'000	*HK\$'000*
JPY	**42,896**	26,028
HK$	**5,091**	9,884

INDUSTRY AND MARKET OVERVIEW

In 2014, the global economy was clouded by a number of uncertainties and imbalance, as well as the downside pressure of the economy of China. At the same time, there was accelerating investment in information platforms for the software development industry. In addition to the demand from the securities and financial sectors that heavily relied on the IT industry, the rapid development of e-commerce, smart phones, mobile internet and cloud computing resulted in a surge in demand for experts in the software development industry. In respect of software outsourcing services for the Japanese market, which is the Group's core market, along with the recovery of the Japanese economy, the shortage of software development experts in the IT industry in Japan was particularly prominent and the demand for overseas experts was ever-increasing. Japanese enterprises needed to pursuit of lower costs to strengthen their competitive edge, resulting in an increasing quantity of orders placed with overseas software outsourcing services providers. However, in light of the larger-than expected depreciation of Japanese Yen ("JPY") seen since the last quarter of 2014, the pressure on enterprises engaged in the provision of software outsourcing services for the Japanese market was increasing, thus impeding the business growth and development of these enterprises. The majority of Japanese enterprises noticed the impact of the further depreciation of JPY on overseas software outsourcing services providers, thereby coming up with upward adjustments of unit prices of services as requested. In addition, many enterprises engaged in the provision of software outsourcing services for the Japanese market opted for business localization so as to cut their development cost further for the purpose of improving the operating environment.

BUSINESS REVIEW

A. Software Outsourcing Development Business

The software development market in Japan was promising in 2014 when compared with that of 2013. Although the continuous depreciation of JPY seen in the second half of 2014, representing a decrease of over 15% when compared with that of early 2014, the growth of the software development market in Japan began accelerating throughout 2014. In addition, to cope with the ever increasing development costs mostly denominated in RMB, the Group has increased our unit prices of outsourcing software development services charged to Japanese customers by at least 9% since the beginning of 2014. With the devoted efforts of our management and staff and increase in our unit prices, the Group recorded an increase of 19.0% in revenue for the market in Japan for the year ended 31 December 2014 when compared with that of 2013. With the increasing development costs and the impact of the continued depreciation of JPY, the Group's gross profit for the Japanese market in 2014 only recorded a small increase of approximately HK$978,000, representing 1.8% increase, as compared with that of 2013. The gross profit margin decreased from 11.8% for the year ended 31 December 2013 to 10.1% for the year ended 31 December 2014.

To cope with shortage of IT human resource in China, the Group entered into an agreement with Shijiazhuang College (石家莊學院) on 5 March 2014 to provide training opportunities for the industry and create more IT job openings for IT students of tertiary institutions in China. According to the agreement, a vocational training center was established within the IT department of the college to strengthen the co-operation between the sector and various tertiary institutions so as to contribute to the future development of the industry. Finally, the Group would benefit from this co-operation by accessing the reliable source of IT human resource.

In 2014, the Group continued its effort to shift our development centers from cities with high cost of living, like Beijing and Shanghai to cities with lower cost of living, like Wuxi, Dalian and Jilin, so as to lower the Group's development costs in the PRC.

B. Mobile and Web-based Gaming Business

The Group is principally engaged in the provision of outsourcing software development services and technical support services. However, with an aim to develop and expand the business scope, the Group has been looking for acquisition opportunities with significant potential for enhanced long-term growth. Taking into account the potential of the mobile gaming industry, the Group announced on 10 December 2014 the acquisition of the entire issued share capital of Heroic Coronet Limited ("Heroic Coronet"), a wholly-owned subsidiary of Prime Castle Holdings Limited, at a consideration of HK$260 million. Upon completion of restructuring of all related companies, 北京開心就好科技有限公司 (Beijing Kaixin Jiuhao Technology Company Limited, "Kaixin Jiuhao") would become a 65% indirect subsidiary of Heroic Coronet. Kaixin Jiuhao is principally engaged in the design, development and operation of mobile and web games. The acquisition was completed on 30 January 2015.

In addition to the acquisition mentioned above, in order to further develop and expand the gaming business, the Company entered into a framework agreement on 18 December 2014 to acquire the 100% equity interest in 九合天下(北京)科技有限公司 (Kingworld (Beijing) Technology Co., Ltd.) ("Kingworld") at a consideration of HK$450 million. Kingworld is principally engaged in distributing, selling, developing and investing in internet and mobile interaction entertainment products, including online games, browser-based games and games on mobile platforms. A formal agreement in this regard is expected to be entered into on or before 31 March 2015.

SHARE CAPITAL AND MAJOR SHAREHOLDER

In order to broaden the shareholders' base and the capital base of the Company, the Company announced on 28 November 2014 a placing of 200,000,000 new shares (representing approximately 15.2% of the total issued share capital of the Company) to not less than six Placees at a price of HK$0.70 per placing share. Placees were not connected with any director, chief executive or substantial shareholder (if any) of the Company or its subsidiaries and their respective associates. The aggregate gross proceeds and the net proceeds (after deduction of applicable costs and expenses relating to the placing) from the placing were approximately HK$140.0 million and HK$136.5 million respectively, and would be used for future new business development opportunities in the mobile gaming industry. The Group is of the view that the placing can: (i) strengthen the financial position of the Group; (ii) raise further capital for future investment; and (iii) provide general working capital for the Group, and is in the interest of the Company and its shareholders as a whole.

SJI (Hong Kong) Limited ("SJI"), a wholly owned subsidiary of SJI Inc. that was incorporated in Japan and listed on Tokyo Stock Exchange and the controlling shareholder of the Company, sold 300,000,000 shares in the Company (representing approximately 22.8% of the issued share capital of the Company as at the date of the announcement) to Power View Group Limited at a consideration of US$19,346,550 on 18 December 2014.

SJI further announced on 11 March 2015 the disposal of (i) 221,000,000 shares in the Company (representing approximately 16.8% of the issued share capital of the Company as at the date of announcement) to Benefit Power Inc., a company duly incorporated in the British Virgin Islands, at the consideration of HK$170,170,000 and (ii) 65,000,000 shares in the Company (representing approximately 4.9% of the issued share capital of the Company as at the date of announcement) to Sunny Idea International Limited, a company incorporated in Hong Kong, at the consideration of HK$52,000,000. Following completion that is expected to take place on or before 8 April 2015, SJI will immediately cease to be the single largest shareholder and a substantial shareholder of the Company.

OUTLOOK

Looking ahead, the movement of the exchange rate of JPY will continue to have direct impact on the Group's results and the performance of the software outsourcing services industry for the Japanese market. Along with the improvement of the Japanese economy witnessed in 2014, the Japanese software market will regain its growth momentum in 2015 in light of a series of large scale development projects being launched consecutively. However, we expect the severe shortage of experts in software development in Japan will be extended to 2016, which will bring about more business opportunities to the Group. Meanwhile, since 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, it will probably generate an industry-wide business growth in spite of market adversities as a result. Furthermore, the software market in China has been well developing, and the growth rate is expected to be higher than that of 2014, thus benefiting the software outsourcing services industry.

In addition, the Group will explore new ideas and seek a new drive for business development, and will also broaden its clientele and enable sharing of human resources. The Group 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 2014 was approximately HK$582,892,000, representing an increase of approximately 21.2% when compared with HK$481,115,000 for 2013. The increase was mainly attributable to the increase in our service price at the beginning of 2014 and increase in customers' services orders for the Japanese market which accounted for 94.6% of total turnover for the year ended 31 December 2014. Turnover generated from Japan increased by approximately 19.0% from approximately HK$463,065,000 for 2013 to approximately HK$551,277,000 for the year ended 31 December 2014. In addition, turnover sourced from China increased by approximately 75.2% from approximately HK$18,050,000 for 2013 to approximately HK$31,615,000 for the year ended 31 December 2014. Turnover derived from outsourcing software development work increased by approximately 20.8% to approximately HK$579,771,000 from approximately HK$479,821,000 for 2013. Turnover from the provision of technical support services increased by approximately 141.2% to approximately HK$3,121,000 from approximately HK$1,294,000 for 2013. Turnover from outsourcing software development services and from technical support services accounted for approximately 99.5% and 0.5% of the total turnover for the year ended 31 December 2014 respectively. The largest single customer accounted for approximately 62.5% and 60.9% of the total turnover for the year ended 31 December 2014 and 2013 respectively.

With the sharp depreciation of JPY and the inflated direct labour cost in China, the Group's gross profit margin decreased from approximately 11.7% for 2013 to approximately 9.5% for 2014. The Group's performance was adversely affected by the exchange loss resulted from the continued depreciation of JPY. Accordingly, the Group recorded net loss of approximately HK$56,910,000 for the year ended 31 December 2014, when compared with the net loss of approximately HK$84,075,000 for 2013. The Group's net loss for the year ended 31 December 2014 mainly included the net foreign exchange loss of approximately HK$31,767,000 (2013: approximately HK$73,574,000) and loss on disposal of available-for-sale financial assets of approximately HK$1,362,000 (2013: gain of approximately HK$14,251,000).

Gross profit for the year ended 31 December 2014 decreased to approximately HK$55,220,000 or by 2.1%, when compared to the gross profit of approximately HK$56,430,000 for 2013.

Operating loss of approximately HK$45,648,000 was recorded for the year ended 31 December 2014 when compared with the operating loss of approximately HK$79,220,000 for 2013. The decrease in operating loss of approximately HK$33,572,000 was mainly attributable to the decrease in gross profit by approximately HK$1,210,000 and the decrease in net exchange loss of approximately HK$41,807,000 resulting from the depreciation of JPY offset by the inclusion of compensation gain for early termination of the lease on office premises of approximately HK$10,086,000 (2013: Nil).

Income tax expense for the year ended 31 December 2014 was approximately HK$10,921,000 as compared with that for 2013 of approximately HK$2,886,000.

Net loss attributable to owners of the Company was approximately HK$56,799,000 for the year ended 31 December 2014 whereas net loss attributable to owners of the Company was approximately HK$83,518,000 for 2013.

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 2014, the Group financed its operations and acquisition activities with internally generated cash flows and the fund from placing of new shares in December 2014. As at 31 December 2014, the Company maintained a high level of cash and bank balances and term deposits with initial terms of over three months of approximately HK$196,826,000 and there was no bank borrowing as at that date.

SHARE CAPITAL

As at 31 December 2014, the number of shares in respect of which options had been granted but remained outstanding under the Company's share option scheme was 10,080,000 (31 December 2013: 13,580,000), representing 0.77% (31 December 2013: 1.21%) of total issued shares of the Company as at that date.

During the final quarter ended 31 December 2014, the Company completed a placing of 200,000,000 new shares (representing approximately 15.2% of the total issued share capital of the Company) to not less than six placees at a price of HK$0.70 per placing share and successfully raised the aggregate gross and net proceeds (after deduction of applicable costs and expenses relating to the placing) from the placing of approximately HK$140 million and HK$136.5 million respectively.

PLEDGE OF ASSETS

As at 31 December 2014, the Group had no pledged asset.

EMPLOYEE AND REMUNERATION POLICIES

The Group had 1,517 full time staff as at 31 December 2014 (2013: 1,585), representing a decrease of 4.3%. The decrease in head counts was mainly attributable to cost control in 2014. Most of our staff were engineers stationed in China. There were also 172 (2013: 160) 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 Hong Kong 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 2014, the Group had no material contingent liability.

CAPITAL COMMITMENTS

The Group's capital commitments at the end of the reporting period are as follows:

	2014	2013
	HK$'000	*HK$'000*
Contracted but not provided for:		
Acquisition of Heroic Coronet	**60,000**	–
Acquisition of Kingworld	**315,000**	–
Acquisition of Hangzhou Zhiwan Network Co., Ltd	**103,000**	–
	478,000	–

In respect of the acquisition of Heroic Coronet, HK$60,000,000 of the consideration will be settled by the Company's shares ("Consideration Shares"). The Company will issue the Consideration Shares under a specific mandate to be obtained at an extraordinary general meeting to be convened by the Company to consider and approve the specific mandate. The Consideration Shares shall, upon issuance, rank pari passu in all respects with the shares in issue.

FINAL DIVIDEND

The directors of the Company do not recommend payment of any final dividend for the year ended 31 December 2014 (2013: Nil).

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 2014.

Save as disclosed above, all the Directors have confirmed that they have complied with the required standards set out in the Model Code and the Code of Conduct throughout the year ended 31 December 2014.

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 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 Chief Executive Officer in the same person facilitates the execution of the Group's business strategies and maximizes effectiveness of its operation. Further, as 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.

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. Han Chu and Mr. Wu Hong.

The Audit Committee has reviewed and approved the Group's audited results for the year ended 31 December 2014. 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 2014 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 2014. 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.

By order of the board
Wang Zhiqiang **Zuo Jian Zhong**
Co-Chairman *Co-Chairman*

Hong Kong, 23 March 2015

As at the date of this announcement, the Company's executive directors are Mr. Wang Zhiqiang, Mr. Zuo Jian Zhong and Mr. Tang Yau Sing and the non-executive director is Mr. Kotoi Hirofumi, and the independent non-executive directors are Mr. Chui Man Lung Everett, Mr. Han Chu and Mr. Wu Hong.