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**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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**If you are in any doubt** as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer or registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser.

**If you have sold or transferred** all your shares in **SinoCom Software Group Limited**, you should at once hand this circular together with the enclosed form of proxy to the purchaser or the transferee or to the bank, licensed securities dealer or registered institution in securities, or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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**SinoCom**  
**SINOCOM SOFTWARE GROUP LIMITED**  
**中訊軟件集團股份有限公司**  
*(Incorporated in the Cayman Islands with limited liability)*  
**(Stock code: 299)**

**MAJOR TRANSACTION**  
**SUBSCRIPTION OF NEW SHARES IN A SUBSIDIARY BY**  
**DAIWA INSTITUTE OF RESEARCH BUSINESS INNOVATION LTD.**

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A letter from the Board is set out on pages 4 to 12 of this circular.

A notice convening the Extraordinary General Meeting to be held at Falcon Room I, Gloucester Luk Kwok Hong Kong, 72 Gloucester Road, Wanchai, Hong Kong on 27 April 2011 at 10:30 a.m. is set out on pages 49 to 50 of this circular.

Whether or not you are able to attend the Extraordinary General Meeting in person, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and deposit the same at Tricor Investor Services Limited, the branch share registrar of the Company in Hong Kong, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the Extraordinary General Meeting or any adjournment thereof. The completion and return of the form of proxy will not preclude you from attending and voting in person at the Extraordinary General Meeting or any adjourned meeting should you so wish.

8 April 2011

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## DEFINITIONS

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*In this circular, the following expressions shall have the meanings set out below unless the context requires otherwise:*

“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Call Option”	the call option as described in the paragraph headed “Call Option” under the section headed “The Shareholders’ Agreement” in the Letter from the Board of this circular
“Company”	SinoCom Software Group Limited, a company incorporated in the Cayman Islands with limited liability, whose shares are listed on the Stock Exchange
“DIR-BI”	Daiwa Institute of Research Business Innovation Ltd., a corporation incorporated under the laws of Japan
“DIR-BI Group”	DIR-BI and its associates, namely Daiwa Institute of Research Ltd. and DIR Information Systems Co., Ltd.
“Directors”	the directors of the Company
“Extraordinary General Meeting”	the extraordinary general meeting of the Company to be held at Falcon Room I, Gloucester Luk Kwok Hong Kong, 72 Gloucester Road, Wanchai, Hong Kong on 27 April 2011 at 10:30 a.m. to consider if thought fit, approve the Subscription Agreement, the Shareholders’ Agreement and the Transaction (including the Subscription, the grant and exercise of the Options)
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“JPY”	Japanese Yen, the lawful currency of Japan
“JV Company”	SinoCom DIR Business Innovation Co., Limited, a company incorporated in Hong Kong with limited liability
“JV Group”	JV Company, New PRC Co and SinoCom Jinan
“Latest Practicable Date”	6 April 2011, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained herein

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## DEFINITIONS

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“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange
“New PRC Co”	訊和創新科技(北京)有限公司 (SinoCom DIR Business Innovation (Beijing) Co., Ltd.), a limited liability company established in the PRC
“Options”	the Put Option and the Call Option
“Percentage Ratios”	any of the five ratios set out in Rule 14.07 of the Listing Rules
“Put Option”	the put option as described in the paragraph headed “Put Option” under the section headed “The Shareholders’ Agreement” in the Letter from the Board of this circular
“PRC”	the People’s Republic of China which, for the purpose of this circular, excludes Hong Kong, the Macau Special Administrative Region and Taiwan
“Remaining Group”	the Group excluding the JV Group
“Reorganisation”	the reorganisation as described in the paragraph headed “Reorganisation” under the section headed “The Shareholders’ Agreement” in the Letter from the Board of this circular
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended, supplemented or otherwise from time to time
“Shareholders”	holders of the Shares
“Shareholders’ Agreement”	the shareholders’ agreement dated 28 February 2011 and entered into between the Company, SinoCom BVI and DIR-BI
“Shares”	ordinary shares of HK\$0.025 each in the share capital of the Company
“SinoCom BVI”	SinoCom Holdings (BVI) Limited, a company incorporated in the British Virgin Islands with limited liability
“SinoCom Japan”	日本中訊株式會社(SinoCom Japan Corporation), a company incorporated in Japan with limited liability
“SinoCom Jinan”	中訊信息技術(山東)有限公司 (SinoCom Information Technology (Shandong) Ltd.), a limited liability company established in the PRC

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## DEFINITIONS

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“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription”	subscription of the Subscription Shares by DIR-BI pursuant to the Subscription Agreement
“Subscription Agreement”	the share subscription agreement dated 28 February 2011 and entered into between DIR-BI and JV Company
“Subscription Shares”	4,000 new shares of JV Company to be subscribed by DIR-BI pursuant to the Subscription Agreement
“subsidiary”	has the meaning ascribed to it under the Listing Rules
“Transaction”	the transactions contemplated under the Subscription Agreement and the Shareholders’ Agreement, including the Subscription, the grant and exercise of the Options

*For the purposes of this circular, unless otherwise indicated, amounts denominated in JPY have been converted into HK\$ at the rate of JPY1,000: HK\$94.18. This is for illustration purposes only and does not constitute a representation that any amounts in HK\$ or JPY have been, could have been, or may be converted, at these or such other rates.*

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LETTER FROM THE BOARD

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**SinoCom**  
**SINOCOM SOFTWARE GROUP LIMITED**  
**中訊軟件集團股份有限公司**  
*(Incorporated in the Cayman Islands with limited liability)*  
**(Stock code: 299)**

*Executive Directors:*

Mr. Wang Zhiqiang (*Chairman*)  
Mr. Wang Xubing  
Dr. Shi Chongming  
Mr. Siu Kwok Leung

*Non-executive Director:*

Mr. Wang Nengguang

*Independent non-executive Directors:*

Mr. Pang Chor Fu  
Professor Liang Neng  
Mr. Lee Kit Wah

*Registered office:*

Century Yard  
Cricket Square  
Hutchins Drive  
P.O. Box 2681 GT  
George Town  
Grand Cayman  
British West Indies

*Principal place of business  
in Hong Kong:*

Unit 1601  
16/F Shui On Centre  
6-8 Harbour Road  
Wanchai  
Hong Kong

8 April 2011

*To the Shareholders*

Dear Sir or Madam,

**MAJOR TRANSACTION**  
**SUBSCRIPTION OF NEW SHARES IN A SUBSIDIARY BY**  
**DAIWA INSTITUTE OF RESEARCH BUSINESS INNOVATION LTD.**

**INTRODUCTION**

On 28 February 2011, the Board announced that (a) DIR-BI and JV Company entered into the Subscription Agreement to provide for the formation of joint venture by way of subscription of new shares in JV Company by DIR-BI; and (b) the Company, SinoCom BVI and DIR-BI entered into the Shareholders' Agreement to provide for, among other matters, the basis on which the JV Group shall be operated and managed, the Reorganisation to be completed by the Company to put in place the corporate structure of the JV Group, and the grant of the Options by the Company and SinoCom BVI to DIR-BI.

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## LETTER FROM THE BOARD

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The purpose of this circular is to provide you with further information relating to the Transaction and to give you a notice of the Extraordinary General Meeting at which a resolution will be proposed to consider and, if thought fit, approve the Subscription Agreement, the Shareholders' Agreement and the Transaction (including the Subscription, the grant and exercise of the Options).

### THE SUBSCRIPTION AGREEMENT

#### Date

28 February 2011

#### Parties

- (a) DIR-BI
- (b) JV Company

SinoCom BVI is an investment holding company and a wholly-owned subsidiary of the Company.

To the best knowledge, information and belief of the Directors having made all reasonable enquiries, DIR-BI and its ultimate beneficial owners were, as at the Latest Practicable Date, third parties independent of the Company and its connected persons (as defined in the Listing Rules).

#### Subscription

Pursuant to the Subscription Agreement, DIR-BI has conditionally agreed to subscribe for, and the JV Company has conditionally agreed to allot and issue to DIR-BI, the Subscription Shares.

#### Consideration

The total consideration for the Subscription is JPY1 billion (equivalent to approximately HK\$94,180,000), which will be payable by DIR-BI to JV Company in cash at completion.

The consideration was determined after arm's length negotiations between the Company and DIR-BI, taking into consideration the business prospects and development potential of the JV Group.

It is intended that the consideration for the Subscription received by JV Company will be applied as general working capital of JV Group.

#### Completion

Completion of the Subscription is conditional on the Subscription Agreement and the Shareholders' Agreement having been approved at the Extraordinary General Meeting. If approved, completion of the Subscription will take place on 25 April 2011 or such other date which the parties may separately agree in writing.

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## LETTER FROM THE BOARD

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In the event that the Subscription Agreement and the Shareholders' Agreement are not approved at the Extraordinary General Meeting, or the Extraordinary General Meeting is not held within 60 days from the date of the Subscription Agreement (or such other date as may be agreed by the parties in writing), the Subscription Agreement shall lapse in all respects and no party shall be liable to the other party for damages (except for breach of the obligations of confidentiality and issue of public announcements).

Upon completion of the Subscription, JV Company will be owned as to 60% by SinoCom BVI and 40% by DIR-BI. Under the Listing Rules, JV Company will continue to be a subsidiary of the Company upon completion of the Subscription by virtue of it being a subsidiary undertaking of the Company as defined in the Companies Ordinance (Chapter 32 of the Laws of Hong Kong).

### THE SHAREHOLDERS' AGREEMENT

#### Date

28 February 2011

#### Parties

- (a) the Company
- (b) SinoCom BVI
- (c) DIR-BI

#### Effect of the agreement

The Shareholders' Agreement will take effect upon the Subscription Agreement and the Shareholders' Agreement having been approved at the Extraordinary General Meeting and the Subscription is completed in accordance with the terms of the Subscription Agreement.

In the event that the Subscription Agreement and the Shareholders' Agreement are not approved at the Extraordinary General Meeting, or the Subscription is not completed in accordance with the terms of the Subscription Agreement, or the Extraordinary General Meeting is not held within 60 days from the date of the Shareholders' Agreement (or such other date as may be agreed by the parties in writing), the Shareholders' Agreement shall lapse in all respects and no party shall be liable to any other party for damages (except for breach of the obligations of confidentiality and issue of public announcements).

#### Reorganisation

The Company and SinoCom BVI have undertaken to complete the Reorganisation as follows:

- (1) JV Company will establish New PRC Co which will have a branch in Hangzhou, the PRC;
- (2) the Company and SinoCom BVI will use their best endeavours to transfer the employment of certain existing employees of members of the Group to New PRC Co by 1 May 2011; and

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## LETTER FROM THE BOARD

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- (3) SinoCom BVI will transfer the entire equity interest in SinoCom Jinan held by it to New PRC Co.

As at the Latest Practicable Date, New PRC Co has been established as a wholly-owned subsidiary of JV Company and a temporary business licence has been granted to New PRC Co.

### **Business**

The JV Group will be principally engaged in the business of software development and provision of information system consulting services. It is the parties' current intention that the JV Group will provide such services to members of the DIR-BI Group only, but the parties may agree otherwise in the future.

### **Board composition**

The board of directors of each of JV Company and New PRC Co will consist of seven directors, four of whom will be nominated by SinoCom BVI and the remaining three will be nominated by DIR-BI. For all matters to be resolved by the board of directors of JV Company or New PRC Co, the quorum will be all seven directors and the unanimous consent of all present directors is required.

The board of directors of SinoCom Jinan currently consists of five directors. Its composition will remain unchanged, subject to future discussion between the parties. For all matters to be resolved by the board of directors of SinoCom Jinan, the quorum will be all five directors and the unanimous consent of all present directors is required.

Matters to be resolved by the board of directors of JV Company include: (a) matters for resolution under the laws of Hong Kong; (b) matters for which voting rights as the investor in New PRC Co are exercised; and (c) other matters deemed necessary by DIR-BI (including but not limited to matters for resolution under the laws of Japan). Matters to be resolved by the board of directors of New PRC Co include: (a) authorities given to the board of directors under the laws of the PRC; (b) matters for which voting rights as the investor in SinoCom Jinan are exercised; and (c) other matters deemed necessary by DIR-BI (including but not limited to matters for resolution under the laws of Japan). Matters to be resolved by the board of directors of SinoCom Jinan include: (a) authorities given to the board of directors under the laws of the PRC; and (b) other matters deemed necessary by DIR-BI (including but not limited to matters for resolution under the laws of Japan). Specific matters to be resolved by the board of directors of any of JV Company, New PRC Co and SinoCom Jinan are to be further discussed between the parties.

### **Restriction on transfer of the shares of JV Company**

None of the parties may transfer or pledge to any third party any or all of the shares of JV Company held by it, except a transfer to any of its affiliated companies where prior written consent of the other party has been obtained.

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## LETTER FROM THE BOARD

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### **Term**

If the Subscription Agreement and the Shareholders' Agreement are approved at the Extraordinary General Meeting and the Subscription is completed in accordance with the terms of the Subscription Agreement, the term of the JV Company will be deemed to commence on the date of execution of the Shareholders' Agreement and end on the last day of March 2031.

### **Options**

#### *Put Option*

Upon the occurrence of any of the following events, DIR-BI will have the right, at its discretion, to request the Company or SinoCom BVI to purchase the shares of JV Company held by DIR-BI for 40% of the total corporate value of JV Group (as adjusted for any change in the composition of JV Group and determined by a third party valuation) or the consolidated net asset value of JV Group (as adjusted for any change in the composition of JV Group):

- (1) expiry of the term of JV Company;
- (2) exercise by any party of its rights to terminate the Shareholders' Agreement in the event of, for example, commencement of liquidation or corporate reorganization proceedings against the other party, discontinuance of business by the other party, or breach of any provision of the Shareholders' Agreement by the other party which fails to remedy such breach within 20 days from the date on which a written notice is sent by the other party;
- (3) the shareholding of any party in JV Company becoming zero;
- (4) a deadlock;
- (5) a Japanese corporation belonging to corporate groups whose principal business is securities business, provision of information processing service or software development, directly or indirectly, holding 25% or more of the total voting shares of the Company or SinoCom BVI, and such situation not being remedied within 20 days from the date on which a written request is sent by DIR-BI;
- (6) any party, on or after 1 October 2013, notifying the other party in writing of its intention to terminate the Shareholders' Agreement; or
- (7) continuance of business being rendered difficult due to an event of force majeure.

#### *Call Option*

If (a) DIR-BI exercises its rights to terminate the Shareholders' Agreement in accordance with its terms under (2) above; (b) a deadlock referred to in (4) above occurs (other than due to the willful intent of DIR-BI); (c) the event referred to in (5) above occurs; or (d) the Company or SinoCom BVI notifies DIR-BI of its intention to terminate the Shareholders' Agreement under (6) above, DIR-BI may, instead

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## LETTER FROM THE BOARD

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of requesting the Company or SinoCom BVI to purchase its shares in JV Company, at its discretion request SinoCom BVI to sell its shares in JV Company to DIR-BI for 60% of the total corporate value of JV Group (as adjusted for any change in the composition of JV Group and determined by a third party valuation).

If DIR-BI decides not to exercise the Put Option or the Call Option, all companies within the JV Group will be dissolved and the residual properties will be distributed to the parties in proportion to their respective shareholding in JV Company.

### INFORMATION ABOUT THE JV GROUP

JV Company is a limited company newly incorporated under the laws of Hong Kong and was, as at the Latest Practicable Date, wholly-owned by SinoCom BVI. New PRC Co is a limited liability company newly established under the laws of the PRC and was, as at the Latest Practicable Date, wholly-owned by JV Company. Neither JV Company nor New PRC Co has commenced business operation. Upon the completion of the Reorganisation pursuant to the Shareholders' Agreement, New PRC Co will hold the entire equity interest in SinoCom Jinan.

SinoCom Jinan was established in December 2007 under the laws of the PRC and was, as at the Latest Practicable Date, indirectly wholly-owned by the Company. It is principally engaged in the business of software development, sales of computer devices, system maintenance and operation and business process outsourcing.

Based on the audited financial statements of SinoCom Jinan for the year ended 31 December 2009 prepared in accordance with PRC Generally Accepted Accounting Principles (as adjusted by the Company in accordance with Hong Kong Financial Reporting Standards on consolidation), the total assets of SinoCom Jinan as at 31 December 2009 amounted to HK\$15,059,000, and the net profit before and after taxation and extraordinary items of SinoCom Jinan for the year ended 31 December 2009 amounted to HK\$7,280,000 and HK\$5,439,000, respectively. Based on the audited financial statements of SinoCom Jinan for the year ended 31 December 2008 prepared in accordance with PRC Generally Accepted Accounting Principles (as adjusted by the Company in accordance with Hong Kong Financial Reporting Standards on consolidation), the net profit before and after taxation and extraordinary items of SinoCom Jinan for the year ended 31 December 2008 were approximately HK\$2,912,000, and HK\$2,096,000, respectively.

### FINANCIAL EFFECTS OF THE TRANSACTION

Upon completion of the Transaction, the Group will lose control over the JV Group as DIR-BJ will have significant veto rights in certain of the key financial and operating matters of the JV Group. As such, the Group will account for its 60% equity interest in the JV Group using equity method of accounting. Set out in Appendix III to this circular is the unaudited pro forma financial information of the Remaining Group, which illustrates the possible financial impact of the Transaction on the assets and liabilities of the Group, assuming the Transaction had been completed on 31 December 2010.

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## LETTER FROM THE BOARD

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The Group's audited total assets and total liabilities as at December 2010 were HK\$752,691,000 and HK\$126,823,000, respectively. Based on the unaudited pro forma consolidated statement of financial position of the Remaining Group as at 31 December 2010 as set out in Appendix III to this circular, the total assets and total liabilities of the Remaining Group, assuming that the Transaction had been completed on 31 December 2010, would be HK\$876,491,000 and HK\$131,823,000, respectively.

Assuming the Transaction had been completed on 31 December 2010, the unaudited estimated gain from the Transaction would be approximately HK\$118,800,000, representing the difference between the fair value of the 60% equity interest in the JV Group amounting to HK\$143,249,000 and the carrying value of the net assets of the JV Group amounting to HK\$24,449,000 as of 31 December 2010.

In the event that the Put Option is exercised and the Company or SinoCom BVI is required to acquire the 40% equity interest in JV Company held by DIR-BI, the 60% equity interest already held by the Company indirectly in the JV Group (which is regarded as a jointly controlled entity) will be treated as if it were disposed of and reacquired at fair value on the date of acquisition. Accordingly, it is re-measured to its acquisition-date fair value on the date of acquisition, and any resulting gain or loss compared to its carrying amount is recognised in profit or loss. Any amount which has previously been recognised in other comprehensive income, and which would be reclassified to profit or loss following a disposal, is reclassified from equity to profit or loss and goodwill is measured as the aggregate of consideration transferred to obtain control and fair value of previously-held 60% equity interest, less 100% of fair value of the identifiable net assets of the JV Group.

In the event that the Call Option is exercised and SinoCom BVI is required to sell its 60% equity interest in JV Company to DIR-BI, the Group will derecognize the 60% equity interest originally held in the JV Group accounted for using the equity method and a gain or loss will be recognised on the date of disposal in the statement of comprehensive income representing the difference between the consideration received and the carrying amount of the Group's 60% equity interest in the JV Group and any gain or loss previously recognised in other comprehensive income by that JV Group would be reclassified to profit or loss on the date of disposal.

Save as disclosed above, the Directors do not expect that the Options will have any significant impact on the Group's consolidated financial statements.

### **REASONS FOR AND BENEFITS OF THE TRANSACTION**

The Group is principally engaged in the provision of outsourcing software development services. DIR-BI is a Japanese corporation which is principally engaged in the business of computer system consulting and integration. Members of the DIR-BI Group have been entrusting software development and other related activities to SinoCom Japan, a non-wholly owned subsidiary of the Company, which in turn entrust such activities to other members of the Group including SinoCom Jinan. For the year ended 31 December 2010, revenue derived from the provision of services by the Group to DIR-BI and its associates accounted for approximately 33.5% of the total revenue of the Group.

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## LETTER FROM THE BOARD

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It is intended that DIR-BI may continue to entrust future software development and other related activities to be carried out in Japan to SinoCom Japan, and entrust other similar activities to members of the JV Group after completion of the Subscription. As far as the Company is aware, members of the DIR-BI Group have been engaging service providers other than members of the Group for the provision of software development and related services. Given that (a) the Transaction would foster the relationship of the Company with DIR-BI, a key client of the Group; and (b) the JV Group would benefit from the know-how possessed by DIR-BI, the project management skills and quality assurance control of DIR-BI as well as training to be provided by DIR-BI to the employees within the JV Group and would hence enhance its capabilities, and taking into account the costs benefit DIR-BI is expected to enjoy by engaging the JV Group to provide software development and related services, the Directors expect that there will be a gradual shift of orders originally placed by members of the DIR-BI Group with other PRC service providers to the JV Group as a result of the establishment of the joint venture between the Company and DIR-BI through the JV Company. The JV Group may also benefit from the potential business growth of the DIR-BI Group as a result of reduced costs and increased competitiveness of DIR-BI Group gaining access to cheaper labour force in the PRC through the JV Group. Notwithstanding that the Group will lose control over the JV Group upon completion of the Transaction and will account for its 60% equity interest in the JV Group using equity method of accounting as described in the section headed “Financial effects of the Transaction” in the Letter from the Board of this circular, the Directors consider the establishment of the JV Group to be significant in maintaining the Group’s relationship with DIR-BI, which has been making considerable contribution to the Group’s revenue. On the basis of the above, the Directors consider that the Transaction is in the interests of the Group and the Shareholders as a whole.

### LISTING RULES IMPLICATION

The Subscription constitutes a deemed disposal of 40% interest in JV Company by the Company pursuant to Rule 14.29 of the Listing Rules. One or more of the applicable Percentage Ratios in respect of the Subscription, on its own, exceeds 5% but none of them exceeds 25%.

Under Rule 14.74(1) of the Listing Rules, on the grant of the Options, the exercise of which is not at the discretion of the Company, the transaction will be classified as if the Options had been exercised and for the purpose of the Percentage Ratios, the consideration includes the premium and the exercise price of the Options. No premium is payable for the Options. Since no actual monetary value of the exercise price of the Options has been determined and no highest possible monetary value is able to be demonstrated, pursuant to Rule 14.76(1) of the Listing Rules, the grant of the Options will be classified as a major transaction for the Company.

Hence, the Transaction constitutes a major transaction for the Company under Chapter 14 of the Listing Rules. The Transaction is therefore subject to the notification, announcement, circular and shareholders’ approval requirement under Chapter 14 of the Listing Rules.

As at the Latest Practicable Date, to the best of the Directors’ knowledge, information and belief, no Shareholder had any material interest in the Transaction and therefore no Shareholder is required to abstain from voting on the resolution to be proposed at the Extraordinary General Meeting.

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## LETTER FROM THE BOARD

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### THE EXTRAORDINARY GENERAL MEETING

A notice convening the Extraordinary General Meeting is set out on pages 49 to 50 of this circular. A form of proxy for the Extraordinary General Meeting is enclosed with this circular. Whether or not you intend to be present at the Extraordinary General Meeting, you are advised to complete the form of proxy in accordance with the instructions printed thereon and return it to Tricor Investor Services Limited, the branch share registrar of the Company in Hong Kong, at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for the holding of the Extraordinary General Meeting or any adjournment thereof. The completion and return of the form of proxy will not preclude you from attending and voting in person at the Extraordinary General Meeting or any adjourned meeting should you so wish.

### RECOMMENDATION

The Directors consider that the terms of the Transaction are fair and reasonable and in the interests of the Group and the Shareholders as a whole. Accordingly, the Directors recommend that all Shareholders to vote in favour of the resolution to be proposed at the Extraordinary General Meeting to approve the Subscription Agreement, the Shareholders' Agreement and the Transaction (including the Subscription, the grant and exercise of the Options).

### GENERAL

Your attention is drawn to the information set out in the appendices to this circular and the notice of the Extraordinary General Meeting.

By Order of the Board  
**SinoCom Software Group Limited**  
**Wang Zhiqiang**  
*Chairman*

**1. SUMMARY OF AUDITED FINANCIAL INFORMATION OF THE GROUP**

Financial information of the Group for each of the three years ended 31 December 2010 is disclosed in the following documents which have been published on the websites of the Stock Exchange (<http://www.hkexnews.hk>) and the Company (<http://www.sinocom.cn>):

- annual report of the Company for the year ended 31 December 2008 published on 15 April 2009 (pages 26 to 68);
- annual report of the Company for the year ended 31 December 2009 published on 12 April 2010 (pages 29 to 86); and
- announcement of the Company dated 30 March 2011 (pages 1 to 16).

**2. WORKING CAPITAL**

After due and careful enquiry, the Directors are of the opinion that in the absence of unforeseen circumstances and taking into account the present internal financial resources and current bank balances of the Group, the Group will, following the Subscription, have sufficient working capital for its requirements for at least twelve months from the date of this circular.

**3. INDEBTEDNESS**

At the close of business on 28 February 2011, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Group had no outstanding borrowings or material contingent liabilities.

Save as aforesaid or otherwise disclosed herein, and apart from intra-group liabilities and normal trade payables, the Group did not have any outstanding mortgages, charges, debentures or other loan capital, bank overdrafts, loans, debt securities or other similar indebtedness, liabilities under acceptances or acceptances credits, finance leases or hire purchase commitments, guarantees or other material contingent liabilities at the close of business on 28 February 2011.

**4. FINANCIAL AND TRADING PROSPECTS**

It is intended that DIR-BI would continue to entrust future software development and other related activities to members of the Group after completion of the Subscription. On top of the existing business from the DIR-BI Group, potential business growth from the DIR-BI Group is expected to derive from (i) the gradual shift of orders by DIR-BI and its associates from other PRC service providers to the JV Group after its formation; (ii) the increase in market competitiveness following the JV Group's staff skill-set is enhanced by sharing of know-how, project management skills and quality assurance control possessed by DIR-BI and training provided by the DIR-BI Group; and (iii) the anticipated increase in demand for software development services including basic design, system analysis, functional design, programming, testing and implementation resulting from the possible large-scale software development in the Japan insurance sector in 2012 or 2013.

Profit margin will remain a challenge to the Group under the cost inflationary environment in the PRC, in particular, labour costs which are the major costs of services provided. It may be difficult to increase charge rates for services to customers including DIR-BI and its associates due to poor economy in Japan. However, charge rates are negotiable when the Group has equipped itself with more skilled labour capable of handling more high level software development work and higher charge rates may be applicable for such work. Anticipated increase in revenue from DIR-BI Group may compensate the Group's bottom line in absolute dollar amount to the pressure from potential profit margin shrinkage.

Japan remains a major market of the Group. Potential business impact on the Group of the recent earthquake in Japan is difficult to estimate yet. On the negative side, IT investments in Japan may reduce and hence affecting the volume of business being outsourced to the PRC. On the positive side, customers may be under pressure to cut costs further and hence migrating software development they used to outsource locally in Japan to the PRC, from which the Group will be benefited.

#### **5. MATERIAL ADVERSE CHANGE**

The Directors confirm that save as disclosed in the section headed "Financial effects of the Transaction" in the Letter from the Board of this circular, they are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2010, being the date to which the latest published audited consolidated financial statements of the Group were made up, and up to and including the Latest Practicable Date.

## 1. ACCOUNTANTS' REPORT ON SINOCOM JINAN

The following is the text of a report dated 8 April 2011, prepared for the purpose of inclusion in this circular, received from the reporting accountants, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong.

**Deloitte.**  
**德勤**

德勤•關黃陳方會計師行  
香港金鐘道88號  
太古廣場一座35樓

Deloitte Touche Tohmatsu  
35/F One Pacific Place  
88 Queensway  
Hong Kong

8 April 2011

The Directors  
SinoCom Software Group Limited

Dear Sirs,

We set out below our report on the financial information (the “Financial Information”) regarding SinoCom Information Technology (Shandong) Ltd. (the “Company”) for each of three years ended 31 December 2010 (the “Relevant Periods”) for inclusion in the circular of SinoCom Software Group Limited (“SinoCom Group”) dated 8 April 2011 (the “Circular”) in connection with the subscription of shares in the Company by Daiwa Institute of Research Business Innovation Ltd.

The Company was incorporated in the People’s Republic of China (the “PRC”) on 4 December 2007 and is principally engaged in the provision of outsourcing software development and technical support services.

For the purpose of this report, the directors of the Company have prepared the financial statements of the Company for the Relevant Periods in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) (the “Underlying Financial Statements”). We have performed audit procedures on the Underlying Financial Statements in accordance with the Hong Kong Standards on Auditing issued by the HKICPA. We have examined the Underlying Financial Statements in accordance with the Auditing Guideline 3.340 “Prospectuses and the Reporting Accountant” as recommended by the HKICPA.

The Financial Information set out in this report has been prepared from the Underlying Financial Statements. No adjustments were deemed necessary by us to the Underlying Financial Statements in preparing our report for inclusion in the Circular.

The directors of the Company are responsible for preparing the Underlying Financial Statements. The directors of SinoCom Group are responsible for the contents of the Circular in which this report is included. It is our responsibility to compile the Financial Information set out in this report from the Underlying Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of the Company as at 31 December 2008, 2009 and 2010, and of the profit and cash flows of the Company for the Relevant Periods.

## A. FINANCIAL INFORMATION

## Statements of comprehensive income

		<b>2008</b>	<b>2009</b>	<b>2010</b>
	<i>NOTES</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	4 & 5	10,997	15,089	24,302
Cost of services		(6,466)	(6,261)	(9,422)
Gross profit		4,531	8,828	14,880
Administrative expenses		(2,395)	(2,707)	(4,778)
Other income and gains	6	776	1,159	911
Profit before tax		2,912	7,280	11,013
Taxation (charge) benefit	7	(816)	(1,841)	2,698
Profit for the year	8	2,096	5,439	13,711
Other comprehensive income				
Exchange differences arising on translation from functional currency to presentation currency		171	11	681
Total comprehensive income for the year		<u>2,267</u>	<u>5,450</u>	<u>14,392</u>

## Statements of financial position

	NOTES	2008 HK\$'000	2009 HK\$'000	2010 HK\$'000
<b>Non-current assets</b>				
Plant and equipment	13	843	882	1,018
Other deposits	14	66	66	–
		909	948	1,018
<b>Current assets</b>				
Trade and other receivables	15	62	92	178
Amounts due from related parties	16	3,231	9,863	6,480
Bank balances and cash	17	3,687	4,156	18,615
		6,980	14,111	25,273
<b>Current liabilities</b>				
Other payables	18	818	969	1,480
Amounts due to related parties	16	2,435	1,571	362
Tax payable		29	2,462	–
		3,282	5,002	1,842
<b>Net current assets</b>		3,698	9,109	23,431
		4,607	10,057	24,449
<b>Capital and reserves</b>				
Registered capital	19	2,339	2,339	2,339
Reserves		2,268	7,718	22,110
		4,607	10,057	24,449
<b>Total equity</b>		4,607	10,057	24,449

## Statements of Changes in Equity

	Registered capital <i>HK\$'000</i>	Translation reserve <i>HK\$'000</i>	Accumulated profits <i>HK\$'000</i>	Total equity <i>HK\$'000</i>
Balance at 1 January 2008	2,339	1	–	2,340
Exchange differences arising on translation from functional currency to presentation currency	–	171	–	171
Profit for the year	–	–	2,096	2,096
Total comprehensive income for the year	–	171	2,096	2,267
Balance at 31 December 2008	2,339	172	2,096	4,607
Exchange differences arising on translation from functional currency to presentation currency	–	11	–	11
Profit for the year	–	–	5,439	5,439
Total comprehensive income for the year	–	11	5,439	5,450
Balance at 31 December 2009	2,339	183	7,535	10,057
Exchange differences arising on translation from functional currency to presentation currency	–	681	–	681
Profit for the year	–	–	13,711	13,711
Total comprehensive income for the year	–	681	13,711	14,392
Balance at 31 December 2010	<u>2,339</u>	<u>864</u>	<u>21,246</u>	<u>24,449</u>

## Statements of cash flows

	<b>2008</b>	<b>2009</b>	<b>2010</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>OPERATING ACTIVITIES</b>			
Profit before tax	2,912	7,280	11,013
Adjustments for:			
Depreciation of plant and equipment	150	247	260
Interest income	(15)	(6)	(37)
	<hr/>	<hr/>	<hr/>
Operating cash flows before movements in working capital changes	3,047	7,521	11,236
Increase in trade and other receivables	(38)	(30)	(80)
(Increase) decrease in amounts due from related parties	(3,191)	(6,621)	3,638
(Increase) decrease in other deposits	(65)	–	66
Increase in other payables	808	149	467
Increase (decrease) in amounts due to related parties	2,309	(868)	(1,234)
	<hr/>	<hr/>	<hr/>
Cash generated from operations	2,870	151	14,093
Tax (paid) refunded	(787)	590	209
Interest received	15	6	37
	<hr/>	<hr/>	<hr/>
<b>NET CASH FROM OPERATING ACTIVITIES</b>	<b>2,098</b>	<b>747</b>	<b>14,339</b>
	<hr/>	<hr/>	<hr/>
<b>INVESTING ACTIVITIES</b>			
Purchases of plant and equipment	(911)	(284)	(363)
	<hr/>	<hr/>	<hr/>
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(911)</b>	<b>(284)</b>	<b>(363)</b>
	<hr/>	<hr/>	<hr/>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>			
	1,187	463	13,976
<b>CASH AND CASH EQUIVALENTS AT 1 JANUARY</b>			
	2,340	3,687	4,156
<b>EFFECT OF FOREIGN EXCHANGE RATE CHANGES</b>			
	160	6	483
	<hr/>	<hr/>	<hr/>
<b>CASH AND CASH EQUIVALENTS AT 31 DECEMBER, REPRESENTED BY BANK BALANCES AND CASH</b>			
	<b>3,687</b>	<b>4,156</b>	<b>18,615</b>
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

## Notes to the financial information

### 1. GENERAL

The Company was incorporated and registered in the PRC on 4 December 2007. Its ultimate holding company is SinoCom Group, a company with its shares listed on The Stock Exchange of Hong Kong Limited (“SEHK”). The registered address and principal place of business of the Company is Section D4F, Pioneer Square, Qilusoft Park, No.1 Shunhua Road, Hi-tech Zone Shandong, Jinan, the PRC. The Company is principally engaged in the provision of outsourcing software development services and technical support services.

The functional currency of the Company is Renminbi (“RMB”). The Financial Information is presented in HK\$, which is different from the functional currency of the Company because the directors of the Company consider it more appropriate in view of the place of listing of SinoCom Group.

### 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The HKICPA issued a number of new HKFRSs, amendments and the related interpretations which are effective for the Company’s accounting periods beginning on 1 January 2010. For the purposes of preparing and presenting the Financial Information of the Relevant Periods, the Company has adopted all these new HKFRSs consistently throughout the Relevant Periods.

The Company has not early applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2010 <sup>1</sup>
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets <sup>5</sup>
HKAS 24 (Revised in 2009)	Related Party Disclosures <sup>6</sup>
HKAS 32 (Amendments)	Classification of Rights Issues <sup>7</sup>
HKFRS 7 (Amendments)	Disclosures – Transfers of Financial Assets <sup>3</sup>
HKFRS 9	Financial Instruments <sup>4</sup>
HK (IFRIC) – Int 14 (Amendments)	Prepayments of a Minimum Funding Requirement <sup>6</sup>
HK (IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments <sup>2</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 July 2010 or 1 January 2011, as appropriate.

<sup>2</sup> Effective for annual periods beginning on or after 1 July 2010.

<sup>3</sup> Effective for annual periods beginning on or after 1 July 2011.

<sup>4</sup> Effective for annual periods beginning on or after 1 January 2013.

<sup>5</sup> Effective for annual periods beginning on or after 1 January 2012.

<sup>6</sup> Effective for annual periods beginning on or after 1 January 2011.

<sup>7</sup> Effective for annual periods beginning on or after 1 February 2010.

HKFRS 9 Financial Instruments (as issued in November 2009) introduces new requirements for the classification and measurement of financial assets. HKFRS 9 Financial Instruments (as revised in November 2010) adds requirements for financial liabilities and for derecognition.

- Under HKFRS 9, all recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement are subsequently measured at either amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.
- In relation to financial liabilities, the significant change relates to financial liabilities that are designated as at fair value through profit or loss (“FVTPL”). The Company has no financial liabilities that designated as at FVTPL.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors anticipate that HKFRS 9 that will be adopted in the Company's financial information for financial year ending 31 December 2013 and that the application of the new Standard might have an impact on amounts reported in respect of the Company's financial assets.

The directors of the Company anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the Financial Information.

### 3. SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared on the historical cost basis and in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA. In addition, the Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on the SEHK and by the Hong Kong Companies Ordinance.

The principal accounting policies are set out below.

#### Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for services provided in the normal course of business, net of discounts and sales related taxes.

Revenue from provision of outsourcing software development services and technical support services is recognised when the services are provided.

Interest income from a financial asset is recognised when it is probable that the economic benefit will flow to the Company and the amount of revenue can be measured reliably. Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

#### Government grants

Government grants are not recognised until there is reasonable assurance that the Company will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Company recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Company should purchase, construct or otherwise acquire non-current assets are recognised as a deduction from the carrying amount of the relevant asset in the statements of financial position and transferred to profit or loss over the useful lives of the related assets. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Company with no future related costs are recognised in profit or loss in the period in which they become receivable.

#### Foreign currencies

In preparing the Financial Information of the Company, transactions in currencies other than the functional currency of the Company (foreign currencies) are recorded in the functional currency (i.e. RMB) at the rates of exchanges prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting each financial information, the assets and liabilities of the Company's foreign operations are translated into the presentation currency (i.e. HK\$) at the rate of exchange prevailing at the end of each reporting period, and their income and expenses are translated at the average exchange rates for each year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (the translation reserve).

### **Taxation**

Income tax expense represents the tax currently payable.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the statements of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of each reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial information and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised to profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

### **Plant and equipment**

Plant and equipment are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of plant and equipment over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the assets. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the period in which the item is derecognised.

**Impairment losses**

At the end of each reporting period, the Company reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the assets is estimated in order to determine the extent of impairment loss, if any. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

**Retirement benefits costs**

Payments to defined contribution retirement benefits plans are charged as an expense when employees have rendered service entitling them to the contributions.

**Leasing**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

**Financial instruments**

Financial assets and financial liabilities are recognised in the statements of financial position when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

The Company's financial assets are mainly classified into loans and receivable. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

*Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the Relevant Periods. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis.

#### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivable (including trade and other receivables, amounts due from related parties and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

#### *Impairment of financial assets*

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after initial recognition of the financial assets, the estimated future cash flows of the financial assets have been affected.

For all financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer counterparty; or
- breach of contract, such as default or delinquency in interest and principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Company's past experience of collecting payment.

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

#### Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below:

*Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the Relevant Periods. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

*Financial liabilities*

The Company's financial liabilities including other payables and amounts due to related parties are subsequently measured at amortised cost, using the effective interest method.

*Equity instruments*

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derecognition

*Financial assets*

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Company has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in other comprehensive income is recognised in profit or loss.

*Financial liabilities*

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

**4. REVENUE**

	<b>2008</b>	<b>2009</b>	<b>2010</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Outsourcing software development services	10,956	15,065	24,302
Technical support services	41	24	–
	<u>10,997</u>	<u>15,089</u>	<u>24,302</u>

Revenue from outsourcing software development services and technical support services are net of business tax and local government levies of HK\$2,000, HK\$10,000 and HK\$5,000 for the years ended 31 December 2008, 2009 and 2010, respectively.

## 5. SEGMENT INFORMATION

Management has determined operating segments with reference to the reports reviewed by the chief executive officer, the chief operating decision maker of the Company that are used to assess the performance and allocate resources.

The chief operating decision maker of the Company assesses the performance and allocates resources of the Company as a whole. Therefore, management considers there to be only one operating segment under the requirements of HKFRS 8, Operating Segment. In this regard, no segment information is presented for each of the years ended 31 December 2008, 2009 and 2010.

All the Company's operations are located in the PRC (country of domicile).

Revenues from customers of the corresponding years contributing over 10% of the total revenue of the Company are as follows:

	Year ended 31 December		
	2008	2009	2010
	HK\$'000	HK\$'000	HK\$'000
Customer A <sup>1</sup>	6,766	9,369	–
Customer B <sup>1</sup>	4,190	5,461	24,263

<sup>1</sup> Revenue from outsourcing software development services.

## 6. OTHER INCOME AND GAINS

	2008	2009	2010
	HK\$'000	HK\$'000	HK\$'000
Government subsidies	112	1,107	654
Interest income	15	6	37
Net foreign exchange gain	649	34	200
Others	–	12	20
	776	1,159	911

Government subsidies mainly include subsidies from local government for the employment of new university graduates of nil, HK\$372,000 and HK\$359,000 and for export of outsourcing software development services of nil, HK\$567,000 and nil for the years ended 31 December 2008, 2009 and 2010, respectively. There were specific conditions attached to the government subsidies, the Company recognised the government subsidies in the statements of comprehensive income when it fulfills all the conditions specified in the subsidy notice or relevant law and regulations.

## 7. TAXATION

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

The Company is eligible for tax holidays and concession from 2009, as follows:

- (a) Exemption for PRC enterprise income tax for two years starting from the respective first profit-making year, and

- (b) Followed by a 50% reduction in the next three years.

The Company applied the unified enterprise income tax rate of 25% for the year ended 31 December 2009. In May 2010, the Company obtained an approval from the tax bureau in Shandong that it is entitled to the above tax holiday and concession starting from 2009.

The income tax expenses during the Relevant Periods can be reconciled to the profit before taxation per the statements of comprehensive income as follows:

	<b>2008</b> <i>HK\$'000</i>	<b>2009</b> <i>HK\$'000</i>	<b>2010</b> <i>HK\$'000</i>
Profit before tax	2,912	7,280	11,013
Taxation at the applicable PRC enterprise income tax rate of 25%	728	1,820	2,753
Tax effect of expenses not deductible in determining taxable profit	88	21	18
Effect of tax exemption granted to the Company	–	–	(2,771)
Overprovision in respect of prior years	–	–	(2,698)
Income tax expenses	<u>816</u>	<u>1,841</u>	<u>(2,698)</u>

The Company did not have any significant deferred taxation during the Relevant Periods.

#### 8. PROFIT FOR THE YEAR

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

	<b>2008</b> <i>HK\$'000</i>	<b>2009</b> <i>HK\$'000</i>	<b>2010</b> <i>HK\$'000</i>
Profit for the year has been arrived at after charging (crediting):			
Auditors' remuneration	–	4	4
Depreciation of plant and equipment	150	247	260
Net foreign exchange gain	(649)	(34)	(200)
Staff costs:			
Other staff costs			
– Salaries and other benefits	5,257	6,662	9,111
– Retirement benefits schemes contributions	371	447	976
	<u>5,628</u>	<u>7,109</u>	<u>10,087</u>

#### 9. DIRECTORS' EMOLUMENTS

No director of the Company received any emoluments in respect of their services to the Company during the Relevant Periods.

No director received any emoluments from the Company as an inducement to join or upon joining the Company or as compensation for loss of office during the Relevant Periods. No director waived or agreed to waive any emoluments during the Relevant Periods.

**10. EMPLOYEES' EMOLUMENTS**

The emoluments of the five individuals with the highest emoluments during the Relevant Periods were as follows:

	<b>2008</b>	<b>2009</b>	<b>2010</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Salaries and other benefits	386	719	832
Retirement benefits schemes contributions	32	43	44
	<u>418</u>	<u>762</u>	<u>876</u>

Their emoluments were within HK\$1,000,000.

**11. DIVIDENDS**

No dividend was paid or proposed during the Relevant Periods.

**12. EARNINGS PER SHARE**

Earnings per share is not presented herein as the directors of the Company do not consider such information to be meaningful in the context of the Financial Information.

## 13. PLANT AND EQUIPMENT

	Office equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Leasehold improvements <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>COST</b>				
At 1 January 2008	–	–	69	69
Exchange adjustments	11	–	4	15
Additions	911	–	–	911
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2008	922	–	73	995
Exchange adjustments	2	–	–	2
Additions	73	211	–	284
Disposals	(1)	–	–	(1)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2009	996	211	73	1,280
Exchange adjustments	42	7	4	53
Additions	321	–	42	363
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2010	1,359	218	119	1,696
	<hr/>	<hr/>	<hr/>	<hr/>
<b>ACCUMULATED DEPRECIATION</b>				
At 1 January 2008	–	–	–	–
Exchange adjustments	2	–	–	2
Provided for the year	123	–	27	150
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2008	125	–	27	152
Exchange adjustments	–	–	–	–
Provided for the year	202	8	37	247
Eliminated on disposals	(1)	–	–	(1)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2009	326	8	64	398
Exchange adjustments	16	1	3	20
Provided for the year	173	48	39	260
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2010	515	57	106	678
	<hr/>	<hr/>	<hr/>	<hr/>
<b>CARRYING VALUES</b>				
At 31 December 2008	797	–	46	843
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
At 31 December 2009	670	203	9	882
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
At 31 December 2010	844	161	13	1,018
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

The above items of plant and equipment are depreciated on a straight-line basis at the following rates per annum:

Office equipment	20%
Motor vehicles	20%
Leasehold improvements	Over the shorter of the term of the lease, or $33\frac{1}{3}\%$ – 50%

#### 14. OTHER DEPOSITS

Other deposits represent rental deposits paid under operating leases receivable after one year.

#### 15. TRADE AND OTHER RECEIVABLES

	2008 <i>HK\$'000</i>	2009 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
Trade receivables	–	–	36
Other deposits	38	30	80
Other receivables	24	56	48
Prepayments	–	6	14
	<u>        </u>	<u>        </u>	<u>        </u>
Total trade and other receivables	<u>        62</u>	<u>        92</u>	<u>       178</u>

The Company allows an average credit period of 30 to 45 days, extending up to three months for its trade customers. The following is an aged analysis of trade receivables based on invoice dates at the end of each reporting period:

	2008 <i>HK\$'000</i>	2009 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
0-30 days	<u>        –</u>	<u>        –</u>	<u>        36</u>

The Company seeks to maintain strict control over its outstanding receivables and has a credit control policy to minimize credit risk.

#### 16. AMOUNTS WITH RELATED PARTIES

The amounts due from or to related parties represents amounts receivable from or payable to the Company's fellow subsidiaries owned by SinoCom Group. The amounts are unsecured, interest free and repayable on demand.

#### 17. BANK BALANCES AND CASH

Bank balances and cash comprise cash held by the Company and short-term bank deposits and carry interest at effective interest rates ranging from 0.001% to 0.60%, 0.0001% to 1.15% and 0.0001% to 2.20% per annum as at 31 December 2008, 2009 and 2010, respectively.

The Company's bank balances and cash denominated in foreign currencies at the end of each reporting period are as follows:

	<b>2008</b> <i>HK\$'000</i>	<b>2009</b> <i>HK\$'000</i>	<b>2010</b> <i>HK\$'000</i>
United States Dollar ("USD")	4	4	4
JPY	544	121	517
	<u>          </u>	<u>          </u>	<u>          </u>
<b>18. OTHER PAYABLES</b>			
	<b>2008</b> <i>HK\$'000</i>	<b>2009</b> <i>HK\$'000</i>	<b>2010</b> <i>HK\$'000</i>
Wages and salaries payable	712	915	1,350
Other payables	6	31	92
Other tax payables	43	17	38
Accruals	57	6	–
	<u>          </u>	<u>          </u>	<u>          </u>
	<u>818</u>	<u>969</u>	<u>1,480</u>
<b>19. REGISTERED CAPITAL</b>			
			<i>HK\$'000</i>
Registered and fully paid			
At 1 January 2008 and 31 December 2008, 2009 and 2010			<u>2,339</u>
			<u>          </u>
The Company was incorporated with a registered capital of USD300,000 (equivalent to approximately HK\$2,339,000).			
<b>20. OPERATING LEASE COMMITMENTS</b>			
<b>As lessee</b>			
	<b>2008</b> <i>HK\$'000</i>	<b>2009</b> <i>HK\$'000</i>	<b>2010</b> <i>HK\$'000</i>
Minimum lease payments paid under operating leases during the year in respect of office premises	192	286	318
	<u>          </u>	<u>          </u>	<u>          </u>

At the end of each reporting period, the Company had commitments for future minimum lease payments in respect of rented premises which fall due as follows:

	<b>2008</b> <i>HK\$'000</i>	<b>2009</b> <i>HK\$'000</i>	<b>2010</b> <i>HK\$'000</i>
Within one year	270	222	–
In the second to fifth year inclusive	170	–	–
	<u>440</u>	<u>222</u>	<u>–</u>

Operating lease payments represent rentals payable by the Company for its office premises. Leases are negotiated and rentals are fixed for lease terms from one to three years.

## 21. RETIREMENT BENEFITS SCHEMES

The employees of the Company are members of the pension scheme operated by the PRC local government. The Company is required to contribute a certain percentage of the relevant portion of the payroll of these employees to the pension scheme to fund the benefits. The only obligation of the Company in respect of the pension scheme is the required contributions under the pension scheme.

The Company's contributions to the retirement benefits schemes, which are charged to the profit or loss, during the Relevant Periods, are as follows:

	<b>2008</b> <i>HK\$'000</i>	<b>2009</b> <i>HK\$'000</i>	<b>2010</b> <i>HK\$'000</i>
Retirement benefits contributions made during the year	<u>371</u>	<u>447</u>	<u>976</u>

## 22. RELATED PARTY TRANSACTIONS

The Company has the following significant transactions with related parties:

<b>Name of related party</b>	<b>Nature of transactions</b>	<b>2008</b> <i>HK\$'000</i>	<b>2009</b> <i>HK\$'000</i>	<b>2010</b> <i>HK\$'000</i>
SinoCom Japan Corporation ( <i>Note a</i> )	Sales	4,190	5,461	24,263
SinoCom Holdings Japan Co., Ltd. ( <i>Note a</i> )	Sales	6,766	9,369	–
DIR System Technology (Beijing) Co., Ltd. ( <i>Note b</i> )	Sales	–	95	–
SinoCom Hengxin Technology Co., Ltd. ( <i>Note a</i> )	Sales	43	24	–
Shensoft Computer Technology (Shanghai) Company Limited ( <i>Note a</i> )	Purchase	<u>1,463</u>	<u>–</u>	<u>–</u>

*Notes:*

- a. fellow subsidiaries of the Company.
- b. associate of a fellow subsidiary of the Company.

Details of balances with related parties at the end of each reporting period are set out in the statements of financial position and in note 16.

The key management personnel includes solely the directors of the Company and no compensation was paid to them during the Relevant Periods.

### 23. FINANCIAL INSTRUMENTS AND CAPITAL RISK MANAGEMENT

#### (a) Categories of financial instruments

	2008 <i>HK\$'000</i>	2009 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
<b>Financial assets</b>			
Loans and receivables (including bank balances and cash)	6,942	14,075	25,179
<b>Financial liabilities</b>			
Liabilities measured at amortised cost	3,153	2,517	1,804

The Company's major financial instruments include trade receivables, other receivables, amounts due from related parties, bank balances and cash, other payables and amounts due to related parties. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

#### (b) Financial risk management objectives and policies

Management monitors and manages the financial risks relating to the operations of the Company through their degree of magnitude of risks. These risks include market risk (including foreign currency risk), credit risk and liquidity risk.

##### (i) Market risk

The Company's activities expose it primarily to the financial risks of changes in foreign currency exchange rates. There has been no change to the Company's manner in which it manages and measures the risk.

##### Foreign currency risk

The foreign currency risk of the Company includes the foreign exchange loss arising on the retranslation of monetary assets and liabilities denominated in foreign currencies against the functional currencies of the Company.

The carrying amounts of the Company's foreign currency denominated monetary assets and monetary liabilities at the end of each reporting period are as follows:

	Liability			Assets		
	2008 <i>HK\$'000</i>	2009 <i>HK\$'000</i>	2010 <i>HK\$'000</i>	2008 <i>HK\$'000</i>	2009 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
USD	–	–	–	4	4	4
JPY	545	415	362	3,775	9,937	6,997

The sensitivity analysis below has been determined based on the exposure to a 5% increase and decrease in the functional currency of the Company against the relevant foreign currencies. 5% is the sensitivity rate used and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes outstanding amounts of the Company's foreign currency denominated monetary items and adjusts its translation at the period end for a 5% change in foreign currency rates. For a 5% strengthening of functional currency of the Company against the relevant foreign currencies, the profit for the year will be decreased. For a 5% weakening of functional currency of the Company against relevant foreign currencies, there would be an equal and opposite impact on the profit for the year.

	Impact of USD			Impact of JPY		
	2008	2009	2010	2008	2009	2010
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Profit for the year	-	-	-	(122)	(357)	(332)

(ii) *Credit risk*

As at 31 December 2008, 2009 and 2010, the Company's maximum exposure to credit risk which will cause a financial loss to the Company due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the statements of financial position.

In order to minimise the credit risk, the Company reviews the recoverable amount of each individual trade receivable at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors consider that the Company's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings.

The Company's concentration of credit risk on trade and other receivables by geographical locations is mainly in the PRC.

The Company has five customers during the three years ended 31 December 2010. The Company has concentration of credit risk as 62.8%, 49.9% and 99.5% of the total amounts due from related parties was due from the Company's largest customer as at 31 December 2008, 2009 and 2010, respectively.

Other than concentration of credit risk described above, the Company does not have any other significant concentration of credit risk.

(iii) *Liquidity risk*

Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has built an appropriate liquidity risk management framework for the management of the Company's short, medium and long-term funding and liquidity management requirements. The Company manages liquidity risk by maintaining adequate bank balances and cash and continuously monitoring forecast and actual cash flows.

The following tables detail the Company's remaining contractual maturity for its financial liabilities which are included in the maturity analysis for the purpose of managing liquidity risk. The tables reflect the undiscounted cash flows of financial liabilities based on the earliest date on which the Company can be required to pay in accordance with agreed repayment terms. The tables include principal cash flows.

	<b>Within 90 days HK\$'000</b>	<b>Total undiscounted cash flows HK\$'000</b>	<b>Total carrying amount HK\$'000</b>
<b>2008</b>			
Other payables	718	718	718
Amounts due to related parties	2,435	2,435	2,435
	<u>3,153</u>	<u>3,153</u>	<u>3,153</u>
<b>2009</b>			
Other payables	946	946	946
Amounts due to related parties	1,571	1,571	1,571
	<u>2,517</u>	<u>2,517</u>	<u>2,517</u>
<b>2010</b>			
Other payables	1,442	1,442	1,442
Amounts due to related parties	362	362	362
	<u>1,804</u>	<u>1,804</u>	<u>1,804</u>

(c) **Capital risk management**

The Company manages its capital to ensure that it will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance. The Company's overall strategy remains unchanged.

The capital structure of the Company consists of registered capital and reserves during the Relevant Periods.

The directors of the Company review the capital structure on a timely basis. As part of this review, the directors of the Company consider the cost of capital and the risks associated with each class of capital.

**B. EVENT AFTER THE REPORTING PERIOD**

On 28 February 2011, SinoCom Group and one of its subsidiaries entered into an agreement with DIR-BI, regarding the proposed deemed disposal of a 40% beneficial interest in the Company to DIR-BI, details of which are set out in the Circular.

**C. SUBSEQUENT FINANCIAL STATEMENTS**

No audited financial statements of the Company have been prepared in respect of any period subsequent to 31 December 2010.

Yours faithfully,  
**Deloitte Touche Tohmatsu**  
*Certified Public Accountants*  
Hong Kong

## 2. MANAGEMENT ANALYSIS AND DISCUSSION OF THE RESULTS OF SINCOM JINAN

The following discussion and analysis should be read in conjunction with the financial information of SinoCom Jinan as of 31 December 2008, 2009 and 2010 and for the three years ended 31 December 2008, 2009 and 2010, all of which is set out in the accountants' report on SinoCom Jinan in this appendix.

### **Financial results**

SinoCom Jinan was established in December 2007 and commenced business operations in 2008. For the three years ended 31 December 2008, 2009 and 2010, DIR-BI and its associates entrusted software development and related activities to SinoCom Japan, which in turn entrusted such activities to members of the Group including SinoCom Jinan depending on availability of resources and costs considerations. For the three years ended 31 December 2008, 2009 and 2010, SinoCom Jinan derived almost all its revenue from the provision of services to DIR-BI and its associates (through entrustment by SinoCom Japan), such revenue amounted to approximately HK\$10,956,000, HK\$15,065,000 and HK\$24,302,000 respectively. Revenue rose 38% on year-on-year basis for the year ended 31 December 2009 and rose 61% for the year ended 31 December 2010.

Other income of SinoCom Jinan for the three years ended 31 December 2008, 2009 and 2010 were mainly government subsidies and exchange gains. Amounts varied according to government incentive policies implemented and exchange rates prevailed in each year.

For the three years ended 31 December 2008, 2009 and 2010, gross profits of SinoCom Jinan amounted to approximately HK\$4,531,000, HK\$8,828,000 and HK\$14,880,000 respectively. Growth rates on year-to-year basis were approximately 95% and 69% respectively. Headcount utilization and production efficiency improved significantly in 2009 which enabled the growth in revenue at a lower cost of services compared to that in 2008. There was also sub-contracting fees to other third parties incurred in 2008 whereas there was none in 2009. Gross profit growth in 2010 was mainly attributable to the growth in line with revenue at a better margin.

Income tax was charged at 25% for the three years ended 31 December 2008, 2009 and 2010. Income tax provided was written back in 2010 when SinoCom Jinan qualified for tax incentive exemption for two years starting from 2009.

### **Liquidity and financial resources**

Since inception, SinoCom Jinan has funded its operations through equity funding and operating cash flows and had no bank borrowings as at 31 December 2008, 2009 and 2010. During the three years ended 31 December 2008, 2009 and 2010, SinoCom Jinan maintained a strong cash generating capability sufficient to finance its operations solely with internally generated cash flows. Net current assets as at 31 December 2008, 2009 and 2010 amounted to HK\$3,698,000, HK\$9,109,000 and HK\$23,431,000, respectively.

As at 31 December 2008, 2009 and 2010, SinoCom Jinan had no material contingent liabilities.

As at 31 December 2008, 2009 and 2010, SinoCom Jinan had no material capital commitments.

**Foreign exchange and currency risks**

Revenue of SinoCom Jinan was generated from software development services outsourced (indirectly) from Japan in JPY while expenses were settled in Renminbi (“RMB”). Any depreciation of JPY against RMB will reduce the income measured in RMB and have an adverse impact on the profitability of SinoCom Jinan. There was no effective hedging tool suitable for reducing this exchange rate exposure in consideration of the monthly recurring nature of JPY revenue from the management’s point of view. SinoCom Jinan’s strategy was to convert JPY into RMB immediately upon receipt.

**Staff and remuneration policy**

The number of employees of SinoCom Jinan as at 31 December 2008, 2009 and 2010 was 112, 109 and 157, respectively.

Total staff cost of SinoCom Jinan for the three years ended 31 December 2008, 2009 and 2010 amounted to approximately HK\$5,628,000, HK\$7,109,000 and HK\$10,087,000, respectively.

SinoCom Jinan followed the Group’s remuneration policy and maintains social insurance schemes for retirement, unemployment, personal injury and hospitalization in the PRC for all its employees.

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**APPENDIX III      UNAUDITED PRO FORMA FINANCIAL INFORMATION  
OF THE REMAINING GROUP**

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**A.    BASIS OF PREPARATION OF THE UNAUDITED PRO FORMA FINANCIAL  
INFORMATION OF THE REMAINING GROUP**

The accompanying unaudited pro forma consolidated statement of financial position of SinoCom Software Group Limited and its subsidiaries but excluding the JV Group (collectively referred to the “Remaining Group”) (“Pro Forma Financial Information”), have been prepared to illustrate the effect of the disposal.

The unaudited pro forma consolidated statement of financial position of the Remaining Group has been prepared in accordance with Rule 4.29 of the Listing Rules for the purpose of illustrating the effect of the disposal as if they had taken place on 31 December 2010.

The unaudited pro forma consolidated statement of financial position of the Remaining Group is based on the audited consolidated statement of financial position as at 31 December 2010 of the Group as set out in Section 1 in Appendix I to this Circular and after making pro forma adjustments relating to the disposal that are (i) directly attributable to the transactions; and (ii) factually supportable.

The unaudited pro forma consolidated statement of financial position of the Remaining Group is based on a number of assumptions, estimates and uncertainties. Accordingly, the accompanying unaudited pro forma consolidated statement of financial position of the Remaining Group does not purport to describe the actual financial position of the Remaining Group that would have attained had the disposal been completed on 31 December 2010. The unaudited pro forma consolidated statement of financial position does not purport to predict the future position of the Remaining Group.

The unaudited pro forma consolidated statement of financial position of the Remaining Group has been prepared by the Directors for illustrative purposes only and because of its hypothetical nature, it might not give a true picture of the financial position of the Remaining Group had the disposal been completed on 31 December 2010 or at any future date.

**APPENDIX III      UNAUDITED PRO FORMA FINANCIAL INFORMATION  
OF THE REMAINING GROUP**

**Unaudited pro forma consolidated statement of financial position**

	<b>The Group as at 31 December 2010</b>	<b>Pro forma adjustments</b>			<b>Pro forma Remaining Group</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		<i>(Note 1)</i>	<i>(Note 2)</i>	<i>(Note 3)</i>	
<b>Non-current assets</b>					
Plant and equipment	12,564	(1,018)			11,546
Goodwill	6,775				6,775
Other deposits	4,605				4,605
Available-for-sale investments	–				–
Deferred tax assets	3,438				3,438
Interest in a jointly controlled entity	–			143,249	143,249
	<u>27,382</u>				<u>169,613</u>
<b>Current assets</b>					
Trade and other receivables	111,231	(178)			111,053
Amount due from a related party	–	(6,480)	6,842		362
Held for trading investments	100				100
Bank balances and cash	613,978	(18,615)			595,363
	<u>725,309</u>				<u>706,878</u>
<b>Current liabilities</b>					
Trade and other payables	102,537	(1,480)			101,057
Amount due to a related party	–	(362)	6,842		6,480
Tax liabilities	6,887				6,887
	<u>109,424</u>				<u>114,424</u>
<b>Net current assets</b>	<u>615,885</u>				<u>592,454</u>
<b>Total assets less current liabilities</b>	643,267				762,067
<b>Non-current liabilities</b>					
Deferred tax liabilities	17,399				17,399
<b>Net assets</b>	<u><u>625,868</u></u>				<u><u>744,668</u></u>

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**APPENDIX III      UNAUDITED PRO FORMA FINANCIAL INFORMATION  
OF THE REMAINING GROUP**

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**Notes to Pro Forma Financial Information of the Remaining Group**

1. The adjustment reflects the de-consolidation of the assets and liabilities of the JV Group, assuming the disposal had taken place on 31 December 2010. The assets and liabilities of the JV Group as at 31 December 2010 are extracted from Section 1 of the accountants' report as set out in Appendix II to this circular.
2. The adjustment reflects the amounts due from and due to the Remaining Group by the JV Group, assuming the disposal had taken place on 31 December 2010.
3. The Group loses control over the JV Group as the 40% non-controlling interest holder will have significant veto rights in certain of the key financial and operating matters of the JV Group. This adjustment is to reflect the application of the equity method of accounting for the JV Group's 60% equity interest held by the Group, assuming the disposal had taken place on 31 December 2010. The financial impact of the Options in the Shareholders' Agreement is insignificant and was not included in the Pro Forma Financial Information of the Remaining Group.
4. Except for the disposal, no adjustment has been made to reflect any trading result or other transactions of the Group or the JV Group entered into subsequent to 31 December 2010.

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**APPENDIX III      UNAUDITED PRO FORMA FINANCIAL INFORMATION  
OF THE REMAINING GROUP**

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**B. ACCOUNTANTS' REPORT ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION**



德勤•關黃陳方會計師行  
香港金鐘道88號  
太古廣場一座35樓

Deloitte Touche Tohmatsu  
35/F One Pacific Place  
88 Queensway  
Hong Kong

**ACCOUNTANTS' REPORT ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION TO THE DIRECTORS OF SINOCOM SOFTWARE GROUP LIMITED**

We report on the unaudited pro forma financial information of SinoCom Software Group Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”), which has been prepared by the directors of the Company for illustrative purposes only, to provide information about how the deemed disposal of a 40% equity interest in a subsidiary might have affected the financial information presented, for inclusion in Section A of Appendix III to the circular dated 8 April 2011 (the “Circular”). The basis of preparation of the unaudited pro forma financial information is set out on pages 39 to 41 of the Circular.

**Respective responsibilities of directors of the Company and reporting accountants**

It is the responsibility solely of the directors of the Company to prepare the unaudited pro forma statement of financial information in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and with reference to Accounting Guideline 7 “Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

It is our responsibility to form an opinion, as required by paragraph 29(7) of Chapter 4 of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

**Basis of opinion**

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 “Accountants’ Reports on Pro Forma Financial Information in Investment Circulars” issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the unaudited pro forma financial information with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

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**APPENDIX III      UNAUDITED PRO FORMA FINANCIAL INFORMATION  
OF THE REMAINING GROUP**

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We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustment is appropriate for the purpose of the unaudited pro forma financial information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

The unaudited pro forma statement of financial information is for illustrative purpose only, based on the judgments and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in future and may not be indicative of the financial position of the Group as at 31 December 2010 or any future date.

**Opinion**

In our opinion:

- a) the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated;
- b) such basis is consistent with the accounting policies of the Group; and
- c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

**Deloitte Touche Tohmatsu**  
*Certified Public Accountants*  
Hong Kong

8 April 2011

## 1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

## 2. DISCLOSURE OF DIRECTORS' INTERESTS

### (a) Interests in the Company and associated corporations of the Company

As at the Latest Practicable Date, the interests or short positions of the Directors and chief executive of the Company in the Shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code") were as follows:

#### (i) Interests in the Company

Name of Director	Capacity/ Nature of interest	No. of Shares (Note 3)	Note	Approximate percentage of shareholding
Mr. Wang Xubing	Interest of a controlled corporation	563,000,000 (L)	1	50.54%
Mr. Wang Zhiqiang	Interest of a controlled corporation	563,000,000 (L)	2	50.54%
Dr. Shi Chongming	Beneficial owner	4,043,200 (L)		0.36%
Mr. Siu Kwok Leung	Beneficial owner	4,280,000 (L)		0.38%

*Notes:*

1. These Shares are beneficially owned by China Way International Limited (“China Way”). By virtue of his 51% shareholding interest in China Way, Mr Wang Xubing is deemed or taken to be interested in the 563,000,000 Shares owned by China Way for the purpose of the SFO.
2. These Shares are beneficially owned by China Way. By virtue of his 49% shareholding interest in China Way, Mr Wang Zhiqiang is deemed or taken to be interested in the 563,000,000 Shares owned by China Way for the purpose of the SFO.
3. The letter “L” denotes a long position in shares.

*(ii) Interests in associated corporations of the Company*

Name of associated corporation	Name of director	Capacity/ Nature of interest	No. of ordinary shares of US\$1.00 each (Note 2)	Percentage of shareholding
China Way	Mr. Wang Xubing (Note 1)	Beneficial owner	51 (L)	51%
China Way	Mr. Wang Zhiqiang (Note 1)	Beneficial owner	49 (L)	49%

*Notes:*

1. Mr. Wang Zhiqiang and Mr. Wang Xubing, each being a Director, are directors of China Way.
2. The letter “L” denotes a long position in shares.

Save as disclosed herein, as at the Latest Practicable Date, none of the Directors or chief executive of the Company had any interests or short positions in the Shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or pursuant to the Model Code to be notified to the Company and the Stock Exchange.

**(b) Other interests**

As at the Latest Practicable Date, none of the Directors or their respective associates was interested in any business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement entered into by any member of the Group or JV Group subsisting at the Latest Practicable Date which was significant in relation to the business of the Group or JV Group.

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which had been acquired or disposed of by or leased to any member of the Group or JV Group, or were proposed to be acquired or disposed of by or leased to any member of the Group or JV Group, since 31 December 2010, being the date to which the latest published audited consolidated accounts of the Group were made up.

### **3. DIRECTORS' SERVICE CONTRACTS**

As at the Latest Practicable Date, none of the Directors had a service contract with the Company or any of its subsidiaries which was not determinable by the Group within one year without payment of compensation, other than statutory compensation.

### **4. LITIGATION**

As at the Latest Practicable Date, no member of the Group or JV Group was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened against any member of the Group.

### **5. QUALIFICATION AND CONSENT OF EXPERT**

The following is the qualification of the expert who has given opinions or advice which is contained in this circular:

<b>Name</b>	<b>Qualification</b>
Deloitte Touche Tohmatsu	Certified Public Accountants

Deloitte Touche Tohmatsu has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letters, reports and reference to its name in the form and context in which it appears.

As at the Latest Practicable Date, Deloitte Touche Tohmatsu did not have any interest in any securities in any member of the Group or did not have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any securities in any member of the Group.

As at the Latest Practicable Date, Deloitte Touche Tohmatsu did not have any direct or indirect interest in any assets which have been, since 31 December 2010 (the date to which the latest published audited accounts of the Company were made up), acquired or disposed of by or leased to, or which are proposed to be acquired or disposed of by or leased to, any member of the Group.

**6. MATERIAL CONTRACTS**

The following contracts, not being contracts in the ordinary course of business of the Group, were entered into by the Company or its subsidiaries or any member of the JV Group during the period commencing two years preceding the date of this circular and are or may be material:

- (a) the sale and purchase agreement dated 27 November 2009 and entered into by SinoCom Holdings Japan Co., Limited, an indirect wholly-owned subsidiary of the Company, and Dr. Shi Chongming, a Director, in connection with the sale of 8% of the then issued share capital of SinoCom Japan by SinoCom Holdings Japan Co., Limited to Dr. Shi Chongming at a consideration of JPY28,115,968 (equivalent to approximately HK\$2,446,089 at that time);
- (b) the Subscription Agreement; and
- (c) the Shareholders' Agreement.

**7. MISCELLANEOUS**

- (a) The qualified accountant and secretary of the Company is Mr. Siu Kwok Leung, an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants.
- (b) The registered office of the Company is located at Century Yard, Cricket Square, Hutchins Drive, P.O. Box 2681 GT, George Town, Grand Cayman, British West Indies. The head office and principal place of business of the Company in Hong Kong is located at Units 1601, 16/F, Shui On Centre, 6-8 Harbour Road, Wanchai, Hong Kong.
- (c) The branch share registrar of the Company in Hong Kong is Tricor Investor Services Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.
- (d) The English text of this circular shall prevail over the Chinese text, in case of any inconsistency.

**8. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents are available for inspection during normal business hours on any weekday (public holidays excepted) at the head office of the Company at Units 1601, 16/F, Shui On Centre, 6-8 Harbour Road, Wanchai, Hong Kong from the date of this circular up to and including 26 April 2011:

- (i) the memorandum and articles of association of the Company;
- (ii) the accountants' report on Sinocom Jinan, the text of which is set out in Appendix II to this circular;

- (iii) the accountants' report on the unaudited pro forma financial information of the Remaining Group, the text of which is set out in Appendix III to this circular;
- (iv) the letter of consent from Deloitte Touche Tohmatsu referred to in the paragraph headed "Qualification and consent of expert" in this appendix;
- (v) the material contracts referred to in the paragraph headed "Material contracts" in this appendix; and
- (vi) the annual reports of the Company for the two years ended 31 December 2008 and 2009.

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## NOTICE OF EXTRAORDINARY GENERAL MEETING

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**SinoCom**  
**SINOCOM SOFTWARE GROUP LIMITED**  
**中訊軟件集團股份有限公司**  
*(Incorporated in the Cayman Islands with limited liability)*  
**(Stock code: 299)**

**NOTICE IS HEREBY GIVEN** that an extraordinary general meeting of SinoCom Software Group Limited (the “**Company**”) will be held at Falcon Room I, Gloucester Luk Kwok Hong Kong, 72 Gloucester Road, Wanchai, Hong Kong on Wednesday, 27 April 2011 at 10:30 a.m. for the purpose of considering and, if thought fit, passing (with or without amendments) the following resolution. Unless otherwise indicated, capitalised terms defined in the circular of the Company dated 8 April 2011 shall have the same meaning when used in this notice and the following resolution.

### **ORDINARY RESOLUTION**

“**THAT:**

- (a) the Subscription Agreement, the Shareholders’ Agreement and the Transaction (including the Subscription, the grant and exercise of the Options) be and are hereby generally and unconditionally approved, confirmed and ratified; and
- (b) the Directors be and are hereby authorised to do all such acts and things (including but not limited to the execution of any documents, instruments and agreements) as they consider necessary or expedient for the purpose of giving effect to the Subscription Agreement, the Shareholders’ Agreement and the Transaction.”

By Order of the Board  
**SinoCom Software Group Limited**  
**Wang Zhiqiang**  
*Chairman*

Hong Kong, 8 April 2011

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## NOTICE OF EXTRAORDINARY GENERAL MEETING

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*Registered Office:*

Century Yard  
Cricket Square  
Hutchins Drive  
P.O. Box 2681 GT  
George Town  
Grand Cayman  
British West Indies

*Principal place of business in Hong Kong:*

Unit 1601  
16/F Shui On Centre  
6-8 Harbour Road  
Wanchai  
Hong Kong

*Notes:*

- (1) A shareholder entitled to attend and vote at the meeting is entitled to appoint a person or if he is the holder of two or more shares, more than one person as his proxy or proxies to attend and vote instead of him. A proxy need not be a shareholder of the Company.
- (2) Where there are joint registered holders of any share of the Company, any one of such persons may vote at the meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto; but if more than one of such joint holders be present at the meeting personally or by proxy, that one of the said persons whose name stands first on the register of members of the Company in respect of such share shall alone be entitled to vote in respect thereof.
- (3) To be valid, a form of proxy, together with the power of attorney or other authority (if any) under which it is signed or a certified copy of such power of attorney or authority, must be deposited at Tricor Investor Services Limited, the branch share registrar of the Company in Hong Kong, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, not less than 48 hours before the time appointed for holding the meeting or any adjourned meeting, and in default thereof the form of proxy shall not be treated as valid.
- (4) The completion and return of the form of proxy will not preclude a shareholder of the Company from attending and voting in person at the meeting or any adjourned meeting, and in such event the instrument appointing a proxy shall be deemed to be revoked.