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HONG KONG RESEARCH

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20th April 2004

Main-Board Listing - Research

中訊軟件集團股份有限公司
SinoCom Software Group Limited [Stock Code: 0299]

Sponsor, Bookrunner & Lead Manager	:	Daiwa Securities SMBC Hong Kong Limited
Co-Sponsor	:	Guotai Junan Capital Limited

Sector : Information Technology
Business : Provision of outsourcing software-development services

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Total share offer: _66,480,000_ shares
   (26.13% of the enlarged share capital)

IPO:	_6,648,000_ shares (10%)
Placement:	_59,832,000_ shares (90%)
Greenshoe:	_9,972,000_ shares

Price: HK$1.53 – HK$1.91 per share
Market Cap. : HK$406.8 mln – HK$507.9 mln

Historical 2003 P/E: 9x-11.2x
Adjusted NTA per share: HK$0.80
(before the over-allotment option is exercised)

Staffing: 734

Book opens: 20th April 2004
Book closes: 23rd April 2004

IPO commences: 20th April 2004
IPO closes: 23rd April 2004

Receiving bank: Standard Chartered Bank
Share registrar: Tricor Investor Services Ltd

Listing date: 30th April 2004

Business of SinoCom Software

SinoCom is principally engaged in the provision of outsourcing software-development services in Beijing, offering those services to customers in Japan, and technical support services to Sun Microsystems' customers in the PRC on a non-exclusive basis. For the year ended 31st December 2003, outsourcing software development accounted for 93% of the Group's turnover, with technical support services representing the remaining 7%.

The Group engages in specific software outsourcing projects covering different business sectors - finance, securities, insurance and telecommunications - all of which are originated from Japan. 50% of the revenues are based on an agreed man-month basis, while the remaining 50% are on a project-by-project basis, with project fees being charged on a monthly basis.

The Group's client base includes NEC, NEC Soft, Daiwa Institute of Research, Nomura Research Institute and Sun Microsystems.

The Group has obtained the ISO9001:2000 as well as CMM Level II certifications for its quality in-house software development process.

Major Shareholder after Listing _(Assuming the over-allotment option is not exercised)_

Mr. WANG Xubing (aged 41; president and an executive director of the Group)	28.72%
Mr. WANG Zhiqiang (aged 40; chairman, CEO and an executive director of the Group)	27.60%
Legend New-Tech Investment Ltd	8.63%
NEC Corporation	2.26%
NEC Soft, Ltd (a subsidiary of NEC Corporation)	2.26%
Mr. Jun OTAKA (aged 44; an executive director of the Group)	0.19%
16 employees of the Group	4.21%
	73.87%

Use of Proceeds

Net proceeds from the offer are estimated to be HK$98 million.

(Assuming the over-allotment option is not exercised and an issue price of HK$1.72 per share, being the midpoint of the indicative price range of HK$1.53-HK$1.91)

	% of proceeds
To acquire and make strategic investment in other IT and software-outsourcing companies in the PRC and/or Japan	30%
To expand and centralize the Group's business in Beijing, to train the existing staff as well as improve its software-development process and quality	56%
To launch marketing and promotional campaigns	5%
To expand the Group's service points to 30 cities in the PRC	4%
To serve as the Company's general working capital	5%

Financial Highlights

	Year ended 31st December		
	2003 **HK$ '000**	**2002** **HK$ '000**	**2001** **HK$ '000**
Turnover			
Outsourcing software development services	106,492	79,134	52,703
Technical support services	8,041	4,496	3,010
	114,533	83,630	55,713
Operating profit	38,076	25,100	20,248
Net profit	33,852	22,061	18,483
Dividend	9,971	2,800	-
EPS	HK$0.17	HK$0.13	HK$0.10

Strengths

✓ Japan is the 2nd-largest software market in the world, accounting for a 10.4% share after the US (41.5%). Moreover, Beijing experienced a CAGR of 44% in software exports during 2000-2002 and accounted for 34% of the total software exports from the PRC to Japan in 2002. As the PRC is the most preferred country of Japan's software outsourcing market, the Group, which is the largest outsourcing software-development service provider in Beijing, is in a good position to capture the rapid growth in this industry.

✓ As of 31st December 2003, the Group had cash on hand of HK$92.5 million and had no borrowings.

✓ There are no direct comparisons available in the local market as the local software developers, such as Kingdee International (*Stock code: 8133*; FY2003 P/E: 22.1x), listed in Hong Kong develop their own proprietary software or provide system solutions to their clients. Shares of SinoCom are valued at a historical FY2003 P/E range of 9x-11.2x, which should be reasonable given its business nature of a services provider and not owning any intellectual-property rights of the software it develops.

Weaknesses

× The outsourcing-software industry in the PRC is still in its early development stage and is highly fragmented. Entry barrier for the industry, which relies on attracting and retaining skilled employees, is low. Competition for the skilled personnel would inevitably bid up salaries, which would adversely affect the Group's future profitability.

× The Group derived about 86%, 89% and 92% respectively of its turnover for the 3 years ended 31st December 2003 from its 5 largest customers. Should any of these customers ceases their business relationship with the Group, the Group's income will be significantly affected.

Recommendation: Unexciting