中國信息科技發展有限公司

China Information Technology Development Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code : 8178)

ANNUAL REPORT 2012

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

GEM has been positioned as a market designed to accommodate companies to which a high investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

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This report, for which the Directors of the Company collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange 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 cont ained in this report 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 report misleading.

This report will be available on the Company's website http://www.chinainfotech. com.hk and will remain on the "Latest Company Report" page on the GEM website at http://www.hkgem.com for at least 7 days from the date of its posting.

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EXECUTIVE DIRECTORS

Mr. Hu Zhuoer *(Chief Executive Officer)*
Mr. Tse Chi Wai

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. Sun Guofu
Mr. Ng Kwok Fai
Mr. Chen Zhongfa

COMPANY SECRETARY

Mr. Tse Chi Wai

COMPLIANCE OFFICER

Mr. Tse Chi Wai

AUTHORISED REPRESENTATIVES

Mr. Hu Zhuoer
Mr. Tse Chi Wai

NOMINATION COMMITTEE

Mr. Chen Zhongfa *(Chairman)*
Dr. Sun Guofu
Mr. Hu Zhuoer

REMUNERATION COMMITTEE

Mr. Ng Kwok Fai *(Chairman)*
Dr. Sun Guofu
Mr. Chen Zhongfa

AUDIT COMMITTEE

Mr. Ng Kwok Fai *(Chairman)*
Dr. Sun Guofu
Mr. Chen Zhongfa

AUDITORS

ANDA CPA Limited

LEGAL ADVISORS

Conyers Dill & Pearman

PRINCIPAL BANKER

The Hongkong and Shanghai Banking
Corporation Limited

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

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255-257 Gloucester Road
Hong Kong

REGISTERED OFFICE

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Hutchins Drive, P.O. Box 2681
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Cayman Islands

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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Grand Cayman KYI-1110
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HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor
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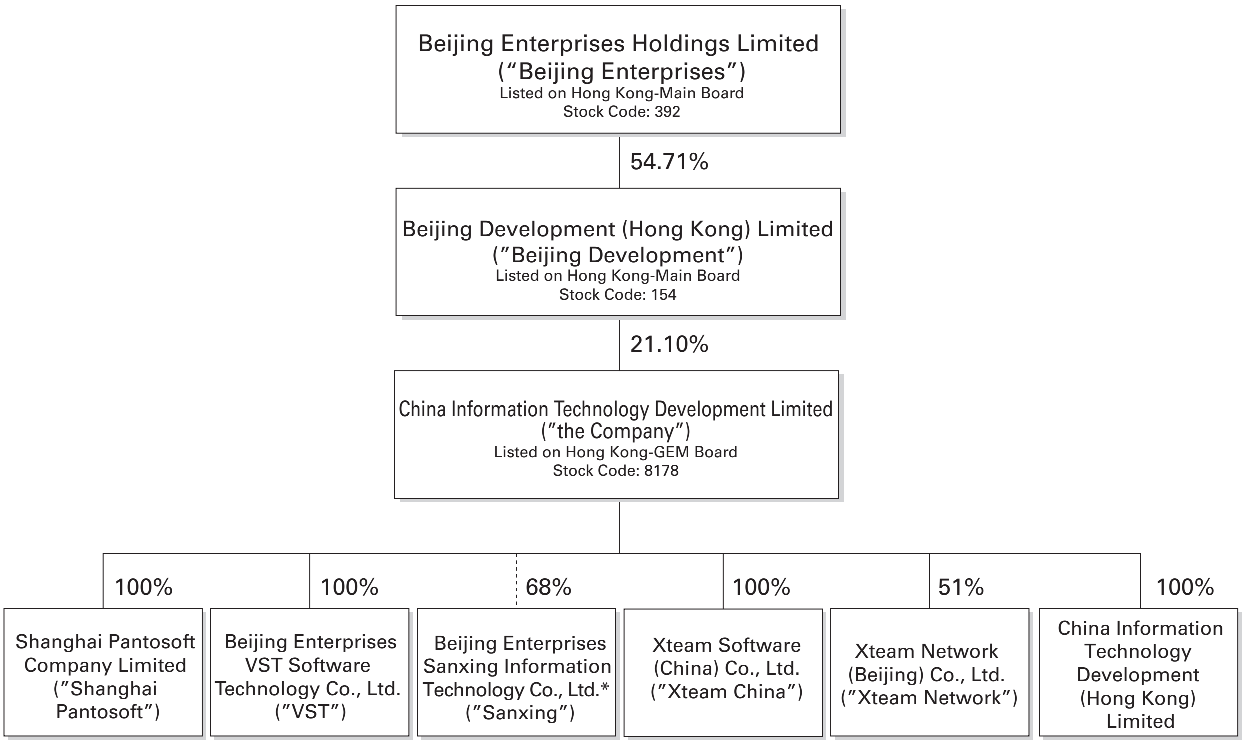
GEM STOCK CODE

8178

WEB-SITE ADDRESS

www.chinainfotech.com.hk

Simplified Corporate Structure



Note: Place of operations:

Shanghai Pantosoft Company Limited	:	Shanghai
Beijing Enterprises VST Software Technology Co., Ltd.	:	Beijing
Beijing Enterprises Sanxing Information Technology Co., Ltd.	:	Beijing
Xteam Software (China) Co., Ltd	:	Beijing
Xteam Network (Beijing) Co., Ltd.	:	Beijing
China Information Technology Development (Hong Kong) Limited	:	Hong Kong

* The Company ceased to be a subsidiary of the Group on 4 February 2013

CEO's Statement

I am pleased to present to the shareholders the annual report of China Information Technology Development Company Limited ("the Company") and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2012. The Group's revenue from continuing operations for 2012 amounted to HK$107,605,000, an increase of 19.1% from HK$90,337,000 in 2011. The gross profit was HK$43,013,000, an increase of 43.3% compared with HK$30,014,000 in 2011. Loss for the year increased by HK$5,161,000 to HK$7,983,000 from HK$2,822,000 for the year of 2011. However, loss from continuing operations was significantly reduced by HK$22,879,000 compared with that of HK$30,862,000 for the year of 2011. It is commendable that the Group delivered such results when the expense budgets of government, a major customer of the Group, were tightening due to the slowing domestic economic growth during the year. In overall, the Company's business operations have shown signs of improvement.

On 19 March 2012, trading in the shares of the Company on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited resumed.

In November 2012, the Group entered into an equity transfer agreement with QIFA Holdings Limited to dispose of 68% equity interests in Astoria Innovations Limited. The disposal was completed on 4 February 2013. The Board considered such arrangement appropriate and necessary to prevent the adverse effects of the potential interruption of principal business of Astoria Innovations Limited on the Company, to allocate more resources for the Company's healthy development in future and to protect the shareholders' interests.

Since the resumption of trading in its shares, the Company's share price showed an overall downward trend, and there were wide fluctuations in its daily trading volume. As at the end of 2012, the Company's share price had started to stabilize, indicating the adverse effects of the Mingsuo incident on the Company's share price had lapsed.

The Company consolidated its shares and arranged two placements of new shares in 2012. The proceeds from placements of new shares were mainly used for early repayment of certain long term loans, which enabled the Group's long-term debts to reduce to approximately HK$32 million from approximately HK$83 million at the beginning of the year and also resulted in the full exemption of the interest charges on the long-term loans in 2012.

CEO's Statement

Mainland China's economy will maintain relatively fast growth in 2013, and the development in areas of e-government, vocational education informatization and technology innovation and investments will bring opportunities for the Group's business expansion and performance enhancement. The Group will proactively seek quality projects while steadily expanding its existing business, so as to expand its scale of operations and profitability, to reinforce its core competitiveness and to maximize returns on investment to shareholders from all walks of life. Furthermore, the Group will continue to strengthen internal control and improve corporate governance standards in order to ensure its healthy development.

During this year and as of the date of this annual report, there was no changes in directorship.

On behalf of the Board, I want to take this opportunity to express appreciation to all the employees and those who have been supportive to the Group.

By Order of the Board
Executive Director / Chief Executive Officer
Hu Zhuoer

Hong Kong, 22 March 2013

Management Discussion and Analysis

BUSINESS REVIEW

In March 2012, the Stock Exchange informed the Company that all the resumption conditions were fulfilled. Trading in the Company's shares was resumed on 19 March 2012.

In June and October 2012, the Company placed 1,000,000,000 (prior to share consolidation) and 149,000,000 new shares at HK$0.027 and HK$0.18 per share to certain independent placees and fetched net proceeds of approximately HK$26 million and HK$26 million respectively. The proceeds were applied to settle certain long term loans in the amount of approximately HK$50 million in aggregate. The remaining balance was applied to strengthen the working capital position of the Company.

As approved at the extraordinary general meeting of the Company held on 2 August 2012, every ten shares of HK$0.01 each in the share capital of the Company had been consolidated into one consolidated share of HK$0.1 each effective from 3 August 2012.

On 15 November 2012, the Company entered into a sale and purchase agreement with QIFA Holdings Limited ("QIFA"), which is an indirectly controlled wholly-owned subsidiary of Beijing Enterprises Group Company Limited, a substantial shareholder of the Company, and therefore is a connected person of the Company. Pursuant to the agreement the Company conditionally agreed to dispose, and QIFA conditionally agreed to acquire the 68% issued share capital of Astoria Innovations Limited ("Astoria") at a cash consideration of RMB 50 million (equivalent to HK$62.24 million). The transaction was completed on 4 February 2013.

For the year ended 31 December 2012, the Group's businesses had been operating normally. Revenue from the core business showed an increase year on year while loss before tax from continuing operations decreased.

FINANCIAL REVIEW

The followings are the financial reviews on continuing operations.

Revenue

The Group's revenue from continuing operations for 2012 amounted to HK$107,605,000, increased by 19.1% from HK$90,337,000 in 2011. The increase in revenue as compared to the same period of the year 2011 was mainly due to the increased sales of the technical support and maintenance services for the year.

Management Discussion and Analysis

Cost of sales and services

The Group had a total cost of sales and services from continuing operations of HK$64,592,000 for 2012, which increased by 7.1% compared with HK$60,323,000 in 2011. The increase was a direct result of the increased in revenue and general increase in cost.

Gross profit

The gross profit of the Group from continuing operations in 2012 amounted to HK$43,013,000 which increased by HK$12,999,000 compared with HK$30,014,000 in 2011. The gross profit margin was 40.0% compared with 33.2% in 2011. Gross margin improved as the Group used its in-house technicians instead of out sourcing for certain projects, which led to a lowering of costs.

Other income and gains, net

During the financial year ended 31 December 2012, the Group generated other income and gains from continuing operations of HK$4,947,000 which comprised: (i) bank interest income amounted to HK$3,451,000; (ii) reversal of impairment provision on trade receivables amounted to HK$1,105,000; (iii) government grants amounted to HK$130,000; and (iv) other miscellaneous items in an aggregate amount of HK$261,000.

Selling and distribution expenses

The Group's selling and distribution expenses from continuing operations in 2012 amounted to HK$15,223,000, which increased by 4.0% compared with HK$14,643,000 in 2011. The increase was mainly due to a general increase in staff costs.

Administrative expenses

Administrative expenses of the Group from continuing operations in 2012 were HK$36,857,000, decreased by 7.6% comparing to HK$39,868,000 in 2011. The net decrease was mainly attributable to the decrease in professional service fee charges in relation to resumption of shares.

Other expenses

Other expenses of the Group from continuing operations were HK$1,538,000 for 2012 compared to HK$3,738,000 for the previous year. The decrease was mainly attributed to the decrease in impairment provision on trade receivables.

Finance costs

Finance costs of the Group in 2012 were HK$1,130,000, decreased by 58.2% comparing to HK$2,704,000 in 2011. All the finance costs were attributed to the imputed interest on promissory notes for the years ended 31 December 2012 and 2011.

Income tax expenses

The Group's tax expenses in 2012 were reduced to HK$1,195,000, as compared with HK$2,620,000 for 2011.

Loss attributable to owners

The Group's loss attributable to owners of the Company was HK$7,986,000 for 2012 comparing to loss of HK$1,284,000 for 2011.

FINANCIAL POSITION

Liquidity and financial resource

As at 31 December 2012, cash and bank balances held by the Group increased from HK$141,160,000 as of 31 December 2011 to HK$156,335,000. As at 31 December 2012, the Group's total borrowings amounted to HK$31,968,000 (2011: HK$81,129,000), representing certain interest-bearing long term loans repayable in three years commencing 2013. The gearing ratio (calculated as total borrowings over total equity) of the Group was 0.21 (2011: 0.75).

For the year ended 31 December 2012, the Group had capital expenditure of HK$2,331,000 (2011: HK$1,516,000).

Exposures to exchange rate fluctuation and hedging activities

As the Group carried out its operations in China, and substantially all of its related business transactions, assets are denominated in Renminbi, and the liabilities of the Group are denominated in Hong Kong dollar and Renminbi, the foreign exchange risk of the Group was considered minimal and no hedging activities had been conducted.

Employees and remuneration policies

As at 31 December 2012, the Group had 482 (2011: 525) full-time employees, including directors. Remuneration is determined with reference to market terms and the performance, qualification and experience of individual employee. Besides salary, the Group provides other staff benefits, which include contributions to the statutory mandatory provident fund scheme for its employees in Hong Kong and social insurance for its employees in the PRC.

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

During the year ended 31 December 2012, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

Biographical Information of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. HU Zhuoer, aged 47, chief executive officer, graduated from Shanghai University of Finance and Economics with a bachelor's degree in science in 1986, obtained a master's degree in Finance from Peking University in 2000 and obtained the qualification of Senior Engineer in 2007. Mr. Hu had served in the Ministry of Finance and was a deputy director and then director of the State Administration of Taxation and a party constitution member and deputy director of the Chengdu Municipal Office of the State Administration of Taxation. During his term of office in the State Administration of Taxation, he mainly engaged in technology and equipment management, IT construction and planning, international exchanges on technology, etc. During his service in the Chengdu Municipal Office of the State Administration of Taxation, he was mainly responsible for tax audit, the Golden Taxation project, tax collection for large enterprises, etc. Mr. Hu has extensive experiences in eGovernment planning and construction, tax reform implementation and governance and government affair restructuring and innovation. Mr. Hu joined the Group on 25 August 2009.

Mr. TSE Chi Wai, aged 46, was appointed an executive director on 15 August 2011. He is also the financial controller and company secretary of the Company. Mr. Tse graduated from the University of Hong Kong in 1989 with a bachelor degree in Social Science Studies. Mr. Tse is a fellow member of the Association of Chartered Certified Accountants and a member of the Hong Kong Institute of Certified Public Accountants. Mr. Tse has over 20 years of experience in auditing, accounting and finance gained from working with various international accounting firms and listed companies. Mr. Tse is also an executive director of Jih Sun Financial Holding Company Limited the shares of which are listed on the Taiwan Stock Exchange and an independent non-executive director of Sunac China Holdings Limited the shares of which are listed on the Stock Exchange. Mr. Tse joined the Group in May 2010.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. NG Kwok Fai, aged 40, has extensive experience in the financial market of Hong Kong and the PRC and is mainly responsible for providing advices to various types of clients including private and institutional investors, Hong Kong listed companies and PRC enterprises in a comprehensive approach. He has originated and handled numerous corporate transactions throughout the Asia-Pacific region, including securities dealing, investment portfolio management and accounting and financial advisory. Mr. Ng's insight in these areas, along with his substantial experience in international business development, assisted the management of the clients in its oversight of their companies' businesses. He also has in-depth knowledge in due diligence review and internal control advisory which provides him with expertise of corporate governance. Mr. Ng is a member of American Institute of Certified Public Accountants, a member of the Hong Kong Institute of Certified Public Accountants, a member of The Hong Kong Institute of Chartered Secretaries and a member of the Institute of Chartered Secretaries and Administrators. He is also an executive director and the chairman of Pacific Plywood Holdings Limited, a company listed on the Stock Exchange. Mr. Ng joined the Group on 13 May 2011.

Biographical Information of Directors and Senior Management

Dr. SUN Guofu, aged 43, graduated from Shanxi Mining Institute in 1991 and obtained a bachelor's degree in engineering. He obtained a master's degree in engineering from Beijing Institute of Technology in 1997 and a doctor's degree in engineering from Tsinghua University in 2001. He worked at Shanxi Mining Institute and Communication Equipment Company and was a vice president of Founder Technology Group Corp. He is currently the managing partner of Beijing FHYC Investment & Management Center (LLP), the general manager of FounderSec Technologies Limited, vice chairman of the China Communications Industry Association, a standing member of the China Electronic Chamber of Commerce and a member of the China Computer Users Association. Dr. Sun has extensive experience in management and research & development. Dr. Sun joined the Group on 25 August 2009.

Mr. CHEN Zhongfa, aged 62, has extensive experience in enterprise management. During March 1995 to June 2001, Mr. Chen had been the vice general manager and general manager of Shanghai Tourism Investment and Development Group Company in the PRC. From July 2001 to March 2010, Mr. Chen served as the chief economist, CFO, a director and the vice general manager of China Landed Property Development Group Company in the PRC. Since April 2011, Mr. Chen is the vice chairman of the China Commerce Association for Senior Citizens. He is also currently a senior consultant to the Chinese Overseas Students Development Fund. Mr. Chen obtained a master degree in International Enterprise Management from the Post Graduate School of the Shanghai Finance and Economic University in 1999. Since February 2009, Mr. Chen is a Fellow Member of the Chartered Financial Practitioner of the Asia Pacific Financial Services Association. He is also an independent non-executive director of Carry Wealth Holdings Limited, a company listed on the Stock Exchange. Mr. Chen joined the Group on 15 August 2011.

SENIOR MANAGEMENT

Mr. CHEN Wenwei, aged 42, is the assistant to CEO of the Group and general manager of Xteam Software (China) Company Limited. Mr. Chen graduated from Huazhong University of Science and Technology and obtained a EMBA from the Beijing University. He had been an assistant engineer with the North China Institute of Computing Technology for computing technology, manager of the Beijing Strong Technical Industry Company, assistant general manager of Beijing Strong Technical Industry Company, partner of Taineng Technology Investment Company Limited, etc. He has extensive experiences in market development, business investment and channel management. Mr. Chen joined the Group in March 2012.

Mr. LI Jicheng, aged 48, is the chief executive of VST. He graduated from Tianjin University with a bachelor's degree and obtained a master's degree therefrom in 1988. Mr. Li was a university lecturer and has over 15 years of experience in project management and information technology. Mr. Li joined the Group in August 2004.

Mr. PENG Wensheng, aged 44, is the chairman of Shanghai Pantosoft. Mr. Peng graduated from the Engineering Faculty of Nanjing University of Science & Technology in 1987 with a bachelor degree in Science. He also obtained a master degree in Science in Huazhong University of Technology in 1994. He joined the Group in December 2002.

Report of the Directors

The directors present their report and the audited financial statements of China Information Technology Development Limited (the "Company") and its subsidiaries (collectively, the "Group") for the year ended 31 December 2012.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the principal subsidiaries are set out in note 18 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

RESULTS AND DIVIDENDS

The Group's loss for the year ended 31 December 2012 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 27 to 105.

The directors do not recommend the payment of any dividend in respect of the year.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the audited financial statements, is set out on page 106. This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 15 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of movement in the share capital and share options of the Company during the year are set out in note 31 and note 32 to the financial statements respectively.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 33(b) to the financial statements and in the consolidated statement of changes in equity respectively.

DISTRIBUTABLE RESERVES

The Company had no reserve available for cash distribution/or distribution in specie as at 31 December 2012. Under the Companies Law (Revised) Chapter 22 of the Cayman Islands, the share premium of the Company is available for paying distributions or dividends to shareholders subject to the provisions of its Memorandum and Articles of Association and provided that immediately following the distribution or dividend the Company is able to pay its debts as they fall due in the ordinary course of business, in accordance with the Company's Articles of Association, dividends shall be distributed out of the retained profits or other reserves, including the share premium account, of the Company.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 67% of the total sales for the year and sales to the largest customer included therein amounted to 22%. Purchases from the Group's five largest suppliers accounted for 49% of the total purchases for the year and purchase from the largest supplier included therein amounted to 28%.

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers and suppliers.

DIRECTORS

The directors of the Company during the year and up to the date of this report were:

Executive directors:

Mr. Hu Zhuoer
Mr. Tse Chi Wai

DIRECTORS *(Continued)*

Independent non-executive directors:

Mr. Ng Kwok Fai
Dr. Sun Guofu
Mr. Chen Zhongfa

In accordance with articles 86(3), 87(1) and 87(2) of the Company's articles of association, one-third of the directors will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

The Company has received annual confirmations of independence from Mr. Ng Kwok Fai, Dr. Sun Guofu, and Mr. Chen Zhongfa and as at the date of this report still considers them to be independent.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 10 to 11 of the annual report.

DIRECTORS' SERVICE CONTRACTS

No director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' REMUNERATION

The directors' fees are subject to shareholders' approval at general meetings. Other emoluments are determined by the Company's board of directors with reference to directors' duties, responsibilities and performance and the results of the Group as well as the recommendation of the remuneration committee. Further details of the Company's remuneration committee are set out in the corporate governance report on page 21 of the annual report.

DIRECTORS' INTERESTS IN CONTRACTS

No director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, or any of its subsidiaries or fellow subsidiaries was a party during the year.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 31 December 2012, the interests and short positions of the directors in the share capital and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as other wise required pursuant to Rules 5.46 to 5.68 of the GEM Listing Rules to be notified to the Company and the Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange"), were as follows:

(1) Long positions in ordinary shares of the Company:

Nil

(2) Long positions in share options of the Company:

Nil

Save as disclosed above, as at 31 December 2012, none of the directors or chief executive had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as other wise required pursuant to Rules 5.46 to 5.68 of the GEM Listing Rules to be notified to the Company and the Hong Kong Stock Exchange.

SHARE OPTION SCHEME

The Company operates the share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Further details of the Scheme are disclosed in note 32 to the financial statements.

The following table discloses movements in the Company's share options outstanding during the year:

		Number of Share Options (Adjusted)		
Name or category of participant	*Note*	**At 1 January 2012** *(b)*	**Forfeited during the year** *(b)*	**At 31 December 2012**
Directors		–	–	–
Other employees	*(a)*	4,240,000	(4,240,000)	–
Advisers and consultants	*(a)*	400,000	(400,000)	–
		4,640,000	(4,640,000)	–

Notes:

a. These options were granted on 13 September 2007 at an exercise price of HK$7.9(b)* per share. The options may be exercised at any time commencing on 13 March 2008 and, if not other wise exercised, will lapse on 12 September 2012. The exercise of the option is subject to an annual cap of 25% of the share options granted. Subject to the approval of the Share Option Committee and the Remuneration Committee, executive directors and independent non- executive directors are entitled to exercise all the share options within three months from the date of termination of their employment.

b. The exercise price and number of share options for the year ended 31 December 2012 were adjusted pursuant to the share consolidation which became effective on 3 August 2012.

* The exercise price of these share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the share capital of the Company.

Saved as disclosed above, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouses or minor children, or were any such rights exercised by them; or was the Company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES

At 31 December 2012, the following interests of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions in ordinary shares of the Company:

Name	*Notes*	Capacity and nature of interest	Number of ordinary shares held	Percentage of the Company 's issued share capital
Beijing Development (Hong Kong) Limited	*(a)*	Through controlled corporations	189,551,344	21.10%
Beijing Enterprises Holdings Limited	*(b)*	Through controlled corporations	189,551,344	21.10%
Beijing Enterprises Group Company Limited	*(c)*	Through controlled corporations	189,551,344	21.10%
Carford Holdings Limited		Directly beneficially owned	64,700,000	7.20%
Getwin Investment Limited		Directly beneficially owned	10,156,000	1.13%
Mr. Xia Xiaoman	*(d)*	Through controlled corporations	74,856,000	8.33%

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTEREST IN SHARES AND UNDERLYING SHARES *(Continued)*

Notes:

(a) Beijing Development (Hong Kong) Limited was deemed to be interested in the 189,551,344 shares by virtue of its controlling interests in its wholly owned subsidiaries, Prime Technology Group Limited and E-Tron Limited.

(b) Beijing Enterprises Holdings Limited was deemed to be interested in the 189,551,344 shares by virtue of its controlling interests in Beijing Development (Hong Kong) Limited.

(c) Beijing Enterprises Group Company Limited was deemed to be interested in the 189,551,344 shares by virtue of its controlling interests in Beijing Enterprises Investments Limited and Beijing Enterprises Holdings Limited.

(d) Mr. Xia Xiaoman was deemed to be interested in the 74,856,000 shares by virtue of his controlling interests in Carford Holdings Limited and Getwin Investment Limited.

Save as disclosed above, as at 31 December 2012, no person, other than the directors of the Company, whose interests are set out in the section "Directors' interests and short positions in shares and underlying shares" above, had registered an interest or a short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

CONTINUING CONNECTED TRANSACTION

The Group entered into the following continuing connected transaction (other than the continuing connected transactions that are exempted under Rule 20.33 of the Listing Rules) during the year ended 31 December 2012:

In connection with the subcontracting service contracts entered into between the Company's subsidiaries and a subsidiary of Beijing Development (Hong Kong) Limited, the Group received service income amounting to HK$259,000 during the year. Further details of the transaction are included in note 37 to the financial statements.

The independent non-executive directors of the Company have reviewed the continuing connected transactions set out above and have confirmed that these continuing connected transactions were entered into (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; and (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

ANDA CPA Limited, the Company's auditors, were engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* and with reference to Practice Note 740 *Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules* issued by the Hong Kong Institute of Certified Public Accountants. ANDA CPA Limited have issued their unqualified letter containing their findings and conclusions in respect of the continuing connected transactions disclosed above by the Group in accordance with Rule 20.38 of the GEM Listing Rules. A copy of the auditors' letter has been provided by the Company to the Hong Kong Stock Exchange.

Report of the Directors

EVENT AFTER THE REPORTING PERIOD

Details of significant event after the reporting period of the Group are set out in note 40 to the financial statements.

COMPETING INTERESTS

During the year and up to the date of this report, none of the directors or the management shareholders (as defined in the GEM Listing Rules) of the Company were considered to have interests in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this report.

CORPORATE GOVERNANCE

The Company's corporate governance report is set out on pages 20 to 24.

AUDITORS

During the year, Ernst & Young resigned and ANDA CPA Limited was appointed as auditor of the Company respectively. A resolution will be proposed at the forthcoming annual general meeting of the Company to re-appoint ANDA CPA Limited as auditor of the Company.

ON BEHALF OF THE BOARD

Hu Zhuoer
Director

Hong Kong
22 March 2013

Corporate Governance Report

INTRODUCTION

The Company has complied with all the Corporate Governance Code as set out in Appendix 15 of the GEM Listing Rules (the "Code") for the year ended 31 December 2012.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding the director's securities transactions on terms no less exacting than the required standard of dealings as set out in Rules 5.46 to 5.68 of the GEM Listing Rules. The Directors have confirmed that they have complied with the Listing Rules throughout the year ended 31 December 2012.

BOARD OF DIRECTORS

The board of directors, which currently comprises five directors, is responsible for corporate strategy, annual, interim and quarterly results, succession planning, risk management, major acquisitions, disposals and capital transactions, and other significant operational and financial matters of the Company. Major corporate matters that are specifically delegated by the board of directors to the management include the preparation of annual, interim and quarterly accounts for board approval before public reporting, execution of business strategies and initiatives adopted by the board of directors, implementation of adequate systems of internal controls and risk management procedures, and compliance with relevant statutory requirements and rules and regulations.

Details of backgrounds and qualifications of all directors are set out in the "Biographical Details of Directors and Senior Management" section of this annual report. All directors have given sufficient time and attention to the affairs of the Group. Each executive director has sufficient experience, knowledge and execution ability to hold the position so as to carry out his duties effectively and efficiently.

BOARD MEETING

During the year of 2012, the board held totally four meetings. The attendance of each director at board meetings are as follows:

Name of director	**Attendance/Number of meetings held**
Executive directors:	
Mr. Hu Zhuoer *(Chief executive officer)*	4/4
Mr. Tse Chi Wai	4/4
Independent non-executive directors:	
Mr. Ng Kwok Fai	3/4
Dr. Sun Guofu	4/4
Mr. Chen Zhongfa	3/4

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The Company has complied with Code Provision A.2.1 which stipulates that the roles of chairman and chief executive officer should be separated and should not be performed by the same individual. The chairman is responsible for overseeing the function of the Board and formulating overall strategies and policies of the Company. Upon the resignation of the former chairman, the Company has yet to elect a chairman replacement. Chairman at a board meeting is currently elected on an ad-hoc basis at each board meeting. Mr. Hu Zhuoer is the chief executive officer of the Company and is responsible for the day-to-day operations of the Group.

NON-EXECUTIVE DIRECTORS

The Board fulfilled the requirement of appointing at least three independent non-executive directors and they represented at least one-third of the Board as stipulated by the GEM Listing Rules. It met the requirement of having at least one of the independent non-executive directors with appropriate professional qualifications or accounting or related financial management expertise. The independent non-executive directors have appropriate and sufficient experience and qualification to carry out their duties so as to fully represent the interests of the shareholders.

None of the non-executive directors is appointed for a specific term, which constitutes a deviation from Code Provision A4.1 which stipulates that non-executive directors should be appointed for a specific term, subject to re-election. Nonetheless, in accordance with the articles of association of the Company, all non-executive directors are subject to retirement by rotation. The Company considers that there are sufficient measures to ensure the corporate governance standard of the Company is not less exacting than the Code.

REMUNERATION COMMITTEE

The Company established a remuneration committee with written terms of reference in compliance with Rules 5.34 to 5.36 of the GEM Listing Rule.

During the year under review, members of the remuneration committee are Mr. Ng Kwok Fai (committee chairman), Dr. Sun Guofu and Mr. Chen Zhongfa. All of the remuneration committee members are independent non-executive directors.

Its main role and function included the determination of specific remuneration packages of all executive directors, including benefits in kind, pension rights and compensation payments, any compensation payable for loss or termination of their office or appointment, and making recommendations to the Board on the remuneration of non-executive directors. The remuneration committee should consider factors such as salaries paid by comparable companies, time commitment and responsibilities of the directors, employment conditions elsewhere in the Group and desirability of performance-based remuneration.

The remuneration committee meets regularly to determine the policy for the remuneration of directors and assess the performance of executive directors and certain senior management of the Company.

During the year of 2012, two remuneration committee meetings held. The attendance of each member is set out below:

Name of member	Attendance/Number of meetings held
Mr. Ng Kwok Fai	1/2
Dr. Sun Guofu	2/2
Mr. Chen Zhongfa	1/2

NOMINATION OF DIRECTORS

The Board is empowered under the Company's articles of association to appoint any person as a director either to fill a casual vacancy or, subject to authorisation by the shareholders of the Company in general meeting, as an additional member of the Board. Qualified candidates will be proposed to the Board for consideration and the selection criteria are mainly based on the assessment of their respective professional qualifications and experience. The Board selects and recommends candidates for directorship having regard to the balance of skills and experience appropriate to the Group's business of the Board taken as a whole.

NOMINATION COMMITTEE

On 23 March 2012, the Company set up a nomination committee which is responsible for reviewing the structure, size and composition of the Board and making recommendations on any proposed changes to the Board to complement the Company's corporate strategy, identifying individuals suitably qualified to become Board members and selecting or making recommendations to the Board on the selection of individuals nominated for directorships, assessing the independence of independent non-executive directors and making recommendations to the Board on the appointment, re-appointment and succession of directors. The nomination committee currently has three members, with Mr. Cheu Zhongfa being the chairman and Dr. Sun Guofu and Mr. Hu Zhuoer being the members. A majority of the nomination committee are independent non-executive directors of the Company.

During the year of 2012, no meeting among the nomination committee members was held as none of them was considered necessary.

AUDITORS' REMUNERATION

The audit committee of the Company is responsible for considering the appointment of the external auditor and reviewing any non-audit functions performed by the external auditor, including whether such non-audit functions could lead to any potential material adverse effect on the Company. During the year under review, the auditors' remuneration for audit services was HK$400,000 and for non-audit service assignments was HK$28,000 all of which was paid to ANDA CPA Limited ("ANDA") for issuance of comfort letter on capital sufficiency.

AUDIT COMMITTEE

The Company established an audit committee with written terms of reference in compliance with Rules 5.28 and 5.33 of the GEM Listing Rule.

The audit committee comprises three independent non-executive directors, namely Mr. Ng Kwok Fai (committee chairman), Dr. Sun Guofu and Mr. Chen Zhongfa.

The duties of the audit committee include supervising the financial reporting procedure and reviewing the financial statements of the Group, examining and monitoring the internal control system adopted by the Group and reviewing the relevant work of the Group's external auditor.

During the year under review, four audit committee meetings were held. The attendance of each member is set out below:

Name of member	Attendance/Number of meetings held
Mr. Ng Kwok Fai	3/4
Dr. Sun Guofu	4/4
Mr. Chen Zhongfa	3/4

COMPANY SECRETARY

As at 31 December 2012, the company secretary of the Company, Mr. Tse Chi Wai, who is also an executive Director, fulfilled the requirement under Rules 5.14 and 5.15 of the GEM Listing Rules. As an employee of the Company, the company secretary supports the Board, ensures good information flow within the Board and Board policy and procedures are followed; advises the Board on governance matters, facilitates induction and monitors the training and continuous professional development of Directors. He has attained not less than 15 hours of relevant professional training during the year. His biography is set out in the"Directors and Senior Management"section of this annual report.

SHAREHOLDERS' RIGHTS

In accordance with the Company's Article 58, the shareholders of the Company holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Company Secretary, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition. If within twenty-one days of such deposit the Board fails to proceed to convene such meeting, the requisitionists themselves may do so in the same manner, and all reasonable expenses incurred by the requisitionists as a result of the failure of the Board shall be reimbursed to the requisitionists by the Company.

Corporate Governance Report

Shareholders may put forward their enquiries about the Company to the Board or the Company Secretary at the Company's head office in Hong Kong.

INVESTOR RELATIONS

The Company keeps on promoting investor relations and enhancing communication with the existing shareholders and potential investors. It welcomes suggestions from investors, stakeholders and the public. Shareholders should direct their questions about their shareholdings to the Company's Hong Kong branch share registrar.

Other enquiries or comments raised by any shareholder can be mailed to the Board at the Company's head office in Hong Kong.

DIRECTORS' AND AUDITORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The directors' responsibilities for the financial statements and the responsibilities of the external auditors to the shareholders are set out on page 25 to 26. The directors of the Company have confirmed that the preparation of the Group's financial statements is in compliance with the relative regulations and applicable accounting standards.

INTERNAL CONTROL

The Board conducted reviews of the system of internal control of the Group to ensure an effective and adequate internal control system has been in place. The Board also convened meetings to discuss financial, operational and risk management control aspects of the Group.

Independent Auditor's Report

ANDA
CPA Limited
安達會計師事務所有限公司

To the shareholders of
China Information Technology Development Limited
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of China Information Technology Development Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 27 to 105, which comprise the consolidated and company statements of financial position as at 31 December 2012, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

AUDITOR'S RESPONSIBILITY *(Continued)*

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2012, and of the Group's results and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

ANDA CPA Limited
Certified Public Accountants
Sze Lin Tang
Practising Certificate Number P03614
Hong Kong
22 March 2013

Consolidated Income Statement

For the year ended 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
CONTINUING OPERATIONS			
REVENUE	4 & 5	**107,605**	90,337
Cost of sales and services		**(64,592)**	(60,323)
Gross profit		**43,013**	30,014
Other income and gains, net	5	**4,947**	5,638
Selling and distribution expenses		**(15,223)**	(14,643)
Administrative expenses		**(36,857)**	(39,868)
Loss on deemed disposal of interest in a subsidiary	6	**–**	(2,941)
Other expenses		**(1,538)**	(3,738)
Finance costs	7	**(1,130)**	(2,704)
LOSS BEFORE TAX FROM CONTINUING OPERATIONS	8	**(6,788)**	(28,242)
Income tax expenses	11	**(1,195)**	(2,620)
LOSS FOR THE YEAR FROM CONTINUING OPERATIONS		**(7,983)**	(30,862)
DISCONTINUED OPERATION			
Profit for the year from a discontinued operation	12	**–**	28,040
LOSS FOR THE YEAR		**(7,983)**	(2,822)
Attributable to:	13		
Owners of the Company			
Loss from continuing operations		**(7,986)**	(29,752)
Profit from a discontinued operation		**–**	28,468
		(7,986)	(1,284)
Non-controlling interests			
Profit/(loss) from continuing operations		**3**	(1,110)
Loss from a discontinued operation		**–**	(428)
		3	(1,538)
LOSS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY	14		(Restated)
Basic and diluted			
– For loss for the year		**HK(1.08) cents**	HK(0.20) cents
– For loss from continuing operations		**HK(1.08) cents**	HK(4.58) cents

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2012

	2012	2011
	HK$'000	HK$'000
LOSS FOR THE YEAR	**(7,983)**	(2,822)
OTHER COMPREHENSIVE INCOME/(LOSS)		
Exchange differences on translation of foreign operations	**781**	4,880
Reclassification adjustment for cumulative amount of exchange differences upon disposal of subsidiaries	**–**	(11,772)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF INCOME TAX	**781**	(6,892)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR	**(7,202)**	(9,714)
Attributable to:		
Owners of the Company	**(7,300)**	(8,993)
Non-controlling interests	**98**	(721)
	(7,202)	(9,714)

Consolidated Statement of Financial Position

At 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	15	**8,538**	8,903
Goodwill	16	**34,000**	34,000
Other intangible assets	17	**753**	915
Investment in an associate	19	**–**	–
Total non-current assets		**43,291**	43,818
CURRENT ASSETS			
Inventories	20	**50**	3,040
Amounts due from contract customers	21	**9,098**	6,220
Trade receivables	22	**5,039**	17,785
Prepayments, deposits and other receivables	23	**24,017**	28,108
Restricted cash	25	**–**	7,339
Cash and cash equivalents	25	**156,335**	133,821
Total current assets		**194,539**	196,313
CURRENT LIABILITIES			
Trade payables	26	**4,078**	4,931
Amounts due to contract customers	21	**20,990**	21,349
Other payables and accruals	27	**14,900**	12,284
Income tax payables		**13,093**	12,689
Long term loans - amounts due within one year	28	**10,656**	–
Promissory notes	29	**–**	81,129
Total current liabilities		**63,717**	132,382
NET CURRENT ASSETS		**130,822**	63,931
TOTAL ASSETS LESS CURRENT LIABILITIES		**174,113**	107,749

Consolidated Statement of Financial Position

At 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
NON-CURRENT LIABILITIES			
Long term loans - amounts due after one year	*28*	**21,312**	–
Deferred tax liability	*30*	**–**	–
Total non-current liabilities		**21,312**	–
Net assets		**152,801**	107,749
EQUITY			
Equity attributable to owners of the Company			
Share capital	*31*	**89,849**	64,949
Reserves	*33(a)*	**44,626**	24,572
		134,475	89,521
Non-controlling interests		**18,326**	18,228
Total equity		**152,801**	107,749

Approved by the Board of Directors on 22 March 2013

Hu Zhuoer
Director

Tse Chi Wai
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2012

		Attributable to owners of the Company									
	Notes	Share Capital HK$'000	Share premium account HK$'000	Share option reserve HK$'000 *(note 33(a)(ii))*	capital reserve HK$'000 *(note 33(b)(ii))*	Foreign currency translation reserve HK$'000 *(note 33(b)(iii))*	PRC reserve funds HK$'000 *(note 33(a)(iii))*	Accumulated losses HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
1 January 2011		64,949	1,176,781	44,697	8,329	29,267	25,678	(1,253,386)	96,315	17,503	113,818
Loss for the year		–	–	–	–	–	–	(1,284)	(1,284)	(1,538)	(2,822)
Other comprehensive income/(loss) for the year:											
– Exchange differences on translation of foreign operations		–	–	–	–	4,063	–	–	4,063	817	4,880
– Reclassification adjustment for cumulative amount of exchange differences upon disposal of subsidiaries	*34(a)*	–	–	–	–	(11,772)	–	–	(11,772)	–	(11,772)
Total comprehensive loss for the year		–	–	–	–	(7,709)	–	(1,284)	(8,993)	(721)	(9,714)
Disposal of a subsidiary	*34(a)*	–	–	–	–	–	(14,574)	14,574	–	(20)	(20)
Deconsolidation of a subsidiary	*34(b)*	–	–	–	–	–	–	–	–	1,466	1,466
Equity-settled share option arrangements	*32(d)*	–	–	2,199	–	–	–	–	2,199	–	2,199
Transfer of share option reserve upon forfeiture of share options		–	–	(24,456)	–	–	–	24,456	–	–	–
Transfer to PRC reserve funds		–	–	–	–	–	955	(955)	–	–	–
At 31 December 2011 and 1 January 2012		64,949	1,176,781*	22,440*	8,329*	21,558*	12,059*	(1,216,595)*	89,521	18,228	107,749
(Loss)/profit for the year		–	–	–	–	–	–	(7,986)	(7,986)	3	(7,983)
Other comprehensive income for the year:											
– Exchange differences on translation of foreign operations		–	–	–	–	686	–	–	686	95	781
Total comprehensive income/(loss) for the year		–	–	–	–	686	–	(7,986)	(7,300)	98	(7,202)
Issue of new shares	*31(b) &(c)*	24,900	28,920	–	–	–	–	–	53,820	–	53,820
Transaction costs attributable to issue of new shares		–	(1,566)	–	–	–	–	–	(1,566)	–	(1,566)
Transfer of share option reserve upon forfeiture of share options		–	–	(22,440)	–	–	–	22,440	–	–	–
Transfer to PRC reserve funds		–	–	–	–	–	510	(510)	–	–	–
At 31 December 2012		**89,849**	**1,204,135***	**–***	**8,329***	**22,244***	**12,569***	**(1,202,651)***	**134,475**	**18,326**	**152,801**

* These reserve accounts comprise the consolidated reserves of HK$44,626,000 (2011: HK$24,572,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

For the year ended 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
(Loss)/profit before tax:			
From continuing operations		**(6,788)**	(28,242)
From a discontinued operation		**–**	14,160
Adjustments for:			
Finance costs	*7*	**1,130**	2,704
Bank interest income	*5*	**(3,451)**	(1,843)
Investment income from held-to-maturity investments	*5*	**–**	(1,521)
Gain on disposal of an associate	*5*	**(6)**	–
Gain on disposal of a subsidiary	*34(a)*	**–**	(15,301)
Loss on deemed disposal of a subsidiary	*34(b)*	**–**	2,941
Loss on disposal of items of property, plant and equipment	*8*	**87**	64
Depreciation	*8*	**2,423**	3,589
Amortisation of other intangible assets	*8*	**162**	161
Impairment of inventories	*8*	**–**	68
Impairment of amounts due from contract customers	*8*	**–**	1,304
Impairment of trade receivables	*8*	**850**	1,665
Equity-settled share option expense	*32(d)*	**–**	2,199
Operating loss before working capital change		**(5,593)**	(18,052)
Decrease/(increase) in inventories		**3,009**	(2,469)
(Increase)/decrease in amounts due from contract customers		**(2,842)**	26,186
Decrease/(increase) in trade receivables		**12,006**	(10,931)
Decrease/(increase) in prepayments, deposits and other receivables		**4,222**	(3,713)
(Decrease)/Increase in trade payables		**(882)**	8
(Decrease)/Increase in amounts due to contract customers		**(485)**	1,300
Increase/(decrease) in other payables and accruals		**2,544**	(2,850)
Cash generated from/(used in) operations		**11,979**	(10,521)
Mainland China income tax paid		**(866)**	(2,054)
Net cash generated from/(used in) operating activities		**11,113**	(12,575)

Consolidated Statement of Cash Flows

For the year ended 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment	15	**(2,331)**	(1,516)
Proceeds from disposal of items of property, plant and equipment		**237**	76
Disposal of a subsidiary	34(a)	**–**	(79)
Deconsolidation of a subsidiary	34(b)	**–**	(17)
Proceeds from disposal of an associate	5	**6**	15,000
Increase in time deposits with maturity of more than three months when acquired		**(1,534)**	(7,820)
(Decrease)/increase in restricted cash		**7,339**	(7,339)
Interest received		**3,451**	1,843
Investment income received		**–**	1,521
Net cash generated from investing activities		**7,168**	1,669
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of long term loans		**(50,291)**	–
Proceeds from issue of new shares	31(b) & (c)	**53,820**	–
Transaction costs on issue of new shares	31(b) & (c)	**(1,566)**	–
Decrease in amount due to a shareholder		**–**	(1,196)
Net cash generated from/(used in) financing activities		**1,963**	(1,196)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**20,244**	(12,102)
Cash and cash equivalents at beginning of year		**82,451**	91,276
Effect of foreign exchange rate changes, net		**736**	3,277
CASH AND CASH EQUIVALENTS AT END OF YEAR		**103,431**	82,451
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances other than time deposits	25	**103,431**	89,589
Time deposits	25	**52,904**	51,571
Less: Restricted cash	25	**–**	(7,339)
Cash and cash equivalents as stated in the consolidated statement of financial position		**156,335**	133,821
Less: Time deposits with maturity of more than three months when acquired		**(52,904)**	(51,370)
Cash and cash equivalents as stated in the consolidated statement of cash flows		**103,431**	82,451

Statement of Financial Position

At 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
NON-CURRENT ASSETS			
Other intangible assets	*17*	**753**	915
Investments in subsidiaries	*18*	**93,575**	92,085
Total non-current assets		**94,328**	93,000
CURRENT ASSETS			
Due from subsidiaries	*18*	**–**	1,442
Prepayments, deposits and other receivables	*23*	**258**	153
Cash and cash equivalents	*25*	**1,835**	1,514
Total current assets		**2,093**	3,109
CURRENT LIABILITIES			
Due to subsidiaries	*18*	**5,907**	5,603
Other payables and accruals	*27*	**592**	1,529
Long term loans - amounts due within one year	*28*	**10,656**	–
Promissory notes	*29*	**–**	81,129
Total current liabilities		**17,155**	88,261
NET CURRENT LIABILITIES		**(15,062)**	(85,152)
TOTAL ASSETS LESS CURRENT LIABILITIES		**79,266**	7,848
NON-CURRENT LIABILITIES			
Long term loans - amounts due after one year	*28*	**21,312**	–
Net assets		**57,954**	7,848
EQUITY			
Share capital	*31*	**89,849**	64,949
Reserves	*33(b)*	**(31,895)**	(57,101)
		57,954	7,848

Approved by the Board of Directors on 22 March 2013

Hu Zhuoer
Director

Tse Chi Wai
Director

Notes to Financial Statements

For the year ended 31 December 2012

1. CORPORATE INFORMATION

China Information Technology Development Limited (the "Company") is a limited liability company incorporated in the Cayman Islands and the shares of which are listed on The Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

During the year, the Company and its subsidiaries (collectively the "Group") were principally engaged in the development and sale of computer software and hardware, the provision of system integration and related support services and the provision of Internet, mobile and telecommunication value-added services (discontinued during the year ended 31 December 2011 – note 12) in Mainland China, the People's Republic of China (the "PRC").

The Company is an investment holding company. The principal activities of its principal subsidiaries are set out in note 18 to the financial statements.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention. These financial statements are presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2012. The financial statements of the subsidiaries are prepared for the same reporting period as the Company. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group has control.

Non-controlling interests represent the equity in subsidiaries not attributable, directly or indirectly, to the Company. Non-controlling interests are presented in the consolidated statement of financial position and consolidated statement of changes in equity within equity. Non-controlling interests are presented in the consolidated income statement and consolidated statement of comprehensive income as an allocation of profit or loss and total comprehensive income for the year between the non-controlling shareholders and owners of the Company.

2.1 BASIS OF PREPARATION *(Continued)*

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling shareholders even if this results in the non-controlling interests having a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. The carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Company.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits/accumulated losses, as appropriate.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

In the current year, the Group has adopted all the new and revised HKFRSs issued by the HKICPA that are relevant to its operations and effective for its accounting year beginning on 1 January 2012. The adoption of these new and revised HKFRSs did not result in significant changes to the Group's accounting policies and amounts reported for the current year and prior years.

New and revised HKFRS and interpretations mandatory for the first time for the financial year beginning on 1 January 2012 are:

- HKFRS 1 (Amendments) "First-time Adoption of Hong Kong Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters" is effective for annual periods beginning on or after 1 July 2011.

- HKFRS 7 (Amendments) "Disclosures – Transfers of Financial Assets" is effective for annual periods beginning on or after 1 July 2011, which increases the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures when a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period.

- HKAS 12 (Amendments) "Deferred Tax: Recovery of Underlying Assets" is effective for annual periods beginning on or after 1 January 2012. It provides an exception to the general principles in HKAS 12 that the measurement of deferred tax assets and deferred tax liabilities should reflect the tax consequences that would follow from the manner in which the entity expects to recover the carrying amount of an asset.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES *(Continued)*

New and revised HKFRSs and interpretations that have been issued but are not yet effective for the financial year beginning on 1 January 2012 and have not been early adopted are:

•	HKAS 1 (Amendment)	"Presentation of Items of Other Comprehensive Income" [1]
•	HKAS 19 (2011)	"Employee Benefits" [2]
•	HKAS 27 (2011)	"Separate Financial Statements" [2]
•	HKAS 28 (2011)	"Investments in Associates and Joint Ventures" [2]
•	HKAS 32 (Amendments)	"Offsetting Financial Assets and Financial Liabilities" [3]
•	HKFRS 1 (Amendments)	"Government Loans" [2]
•	HKFRS 7 (Amendments)	"Disclosures – Offsetting Financial Assets and Financial Liabilities" [2]
•	HKFRS 9	"Financial Instruments" [4]
•	HKFRS 10	"Consolidated Financial Statements" [2]
•	HKFRS 11	"Joint Arrangements" [2]
•	HKFRS 12	"Disclosure of Interest in Other Entities" [2]
•	HKFRS 13	"Fair Value Measurement" [2]
•	HK(IFRIC)-Int 20	"Stripping Costs in the Production Phase of a Surface Mine" [2]
•	Amendments to HKFRS 9 and HKFRS 7	"Disclosures – Mandatory Effective Date of HKFRS 9 and Transition Disclosures" [4]

[1] Effective for annual periods beginning on or after 1 July 2012
[2] Effective for annual periods beginning on or after 1 January 2013
[3] Effective for annual periods beginning on or after 1 January 2014
[4] Effective for annual periods beginning on or after 1 January 2015

In the meantime, there are amendments relating to Transition Guidance on HKFRSs10, 11 and 12 effective for annual periods beginning on or after 1 January 2013; amendments relating to Investment Entities on HKFRSs 10, 12 and HKAS 27 (2011) for annual periods beginning on or after 1 January 2014; and Annual Improvement to HKFRSs 2009-2011 Cycle on HKFRS1 and HKASs1, 16, 32 and 34 for annual periods beginning on or after 1 January 2013.

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

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in subsidiaries that are not classified as held for sale in accordance with HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations are stated at cost less any accumulated impairment losses.

Associate

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

Significant influence is the power to participate in the financial and operating policies of an entity but is not control or joint control over those policies. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group has significant influence.

The Group's investments in an associate are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any accumulated impairment losses. The Group's share of the post-acquisition results and reserves of the associate is included in the consolidated income statement and consolidated reserves, respectively. Unrealised gains and losses resulting from transactions between the Group and its associate are eliminated to the extent of the Group's investments in the associate, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of associate is included as part of the Group's investments in an associate and is not individually tested for impairment.

Adjustments are made to bring into line any dissimilar accounting policies that may exist.

The gain or loss on the disposal of an associate that results in a loss of significant influence represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that associate and (ii) the Group's share of the net assets of that associate plus any remaining goodwill relating to that associate and any related accumulated foreign currency translation reserve.

When the investments in an associate are classified as held for sale, it is accounted for in accordance with HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations. Investments in an associate are classified as held for sale if the investments will be recovered principally through a sales transaction rather than through continuing investments. For this to be the case, the investments must be available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of such investments and its sale must be highly probable. Investments in an associate classified as held for sale are measured at the lower of their carrying amounts and fair values less costs to sell.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person:

- (i) has controls or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

- (i) the entity and the Group are members of the same group;
- (ii) one entity is an associate of the other entity (or of a parent, subsidiary of fellow subsidiary of the other entity);
- (iii) both entities are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
- (vi) the entity is controlled or jointly controlled by a person identified in (a); and
- (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether it measures the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through the income statement.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with HKAS 39 either in the income statement or as a change to other comprehensive income. If the contingent consideration is classified as equity, it will not be remeasured. Subsequent settlement is accounted for within equity. In instances where the contingent consideration does not fall within the scope of HKAS 39, it is measured in accordance with the appropriate HKFRS.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets of the subsidiary acquired, the difference is, after reassessment, recognised in the income statement as a gain on bargain purchase.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combinations and goodwill *(Continued)*

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash- generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold improvements	Over the lease terms or 5 years, whichever is shorter
Furniture, fixtures and equipment	18% – 30%
Motor vehicles	10% – 20%

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment and depreciation *(Continued)*

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the period the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Operating leases

Leases that do not substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as operating leases. Where the Group is the lessee, rentals payable under operating leases, net of any incentives received from the lessor, are charged to the income statement on the straight-line basis over the lease terms.

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. The useful lives of intangible assets are all assessed to be finite.

Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

An intangible asset is derecognised on disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the period the intangible asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant intangible asset.

Golf club membership

Golf club membership is stated at cost less any accumulated impairment losses and is amortised on the straight-line basis over their estimated useful life of 10 years.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Intangible assets (other than goodwill) *(Continued)*

Research and development costs

All research costs are charged to the income statement as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than goodwill, inventories, amounts due from contract customers and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises.

An assessment is made at the end of each reporting period as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prioryears. A reversal of such an impairment loss is credited to the income statement in the period in which it arises.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets

Initial recognition and measurement

Financial assets within the scope of HKAS 39 are classified as loans and receivables and held- to-maturity investments, as appropriate. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

Loan and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in "Other income and gains, net" in the income statement. The loss arising from impairment is recognised in "Other expenses" in the income statement.

Held-to-maturity investments
Non-derivative financial assets with fixed or determinable payment and fixed maturity are classified as held to maturity when the Group has the positive intention and ability to hold them to maturity. Held-to-maturity investments are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in "Other income and gains, net" in the income statement. The loss arising from impairment is recognised in "Other expenses" in the income statement.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced either directly or through the use of an allowance account and the amount of the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to "Other income" in the income statement.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired; or

- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the assets. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of HKAS 39 are all classified as trade and other payables, loans and borrowings. The Group determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognised initially at fair value less directly attributable transaction costs.

Subsequent measurement

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which they are stated at cost. Gains and losses are recognised in the income statement when the liabilities are derecognised as well through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in "Finance costs" in the income statement.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial liabilities *(Continued)*

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

Trade and other payables

Trade and other payables are stated initially at their fair value and subsequently measured at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments where there is no active market, the fair value is determined using appropriate valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; and a discounted cash flow analysis.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Equity instruments

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first- in, first-out basis and, in the case of work in progress, comprises direct materials, subcontracting charges and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Contracts for services

Contract revenue on the rendering of services comprises the agreed contract amount. Costs of rendering services comprise labour and other costs of personnel directly engaged in providing the services and attributable overheads.

Revenue from the rendering of services is recognised based on the percentage of completion of the transaction, provided that the revenue, the costs incurred and the estimated costs to completion can be measured reliably. The percentage of completion is established by reference to the costs incurred to date as compared to the total costs to be incurred under the transaction, or completion of a physical proportion of the contract work, as appropriate. Where the outcome of a contract cannot be measured reliably, revenue is recognised only to the extent that the expenses incurred are eligible to be recovered.

Provision is made for foreseeable losses as soon as they are anticipated by management.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers. Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the propose of the statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Provisions and contingent liabilities

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in "Finance costs" in the income statement.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow is remote.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax *(Continued)*

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries and an associate, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carry forward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries and an associate, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

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

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Government subsidies

Government subsidies are recognised at their fair value where there is reasonable assurance that the subsidies will be received and all outstanding conditions will be complied with.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) from the rendering of services, on the percentage of completion basis, as further explained in the accounting policy for "Contracts for services" above;

(c) from value-added services, when the services have been rendered; and

(d) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset.

Share-based payment transactions

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Share-based payment transactions *(Continued)*

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification, that increases the total fair value of the share-based payment transaction, or is other wise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph. All cancellations of equity-settled transaction awards are treated equally.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. In addition, at the time when the share options are exercised, the amount previously recognised in the share option reserve will be transferred to the share premium account.

Options which are cancelled prior to their exercise date or lapsed are deleted from the register of outstanding options. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in the share option reserve will be transferred to retained profits/accumulated losses as a movement in reserves.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Other employee benefits

Pension schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") in Hong Kong under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal governments. Contributions are made by the subsidiaries based on a percentage of the participating employees' salaries and are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

Borrowing costs

Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. All differences arising on settlement or translation of monetary items are taken to the income statement.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. The gain or loss arising on retranslation of a non-monetary item is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on item whose fair value gain or loss is recognised in other comprehensive income or income statement are also recognised in other comprehensive income or income statement respectively).

The functional currency of the subsidiaries and an associate established in Mainland China is Renminbi ("RMB"). As at the end of the reporting period, the assets and liabilities of these entities are translated into presentation currency of the Company at the exchange rates ruling at the end of the reporting period and their statements of comprehensive income are translated into Hong Kong dollars at the weighted average exchange rate for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the foreign currency translation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the income statement.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

For the purpose of the consolidated statement of cash flows, the cash flows of the subsidiaries established in Mainland China are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of these subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rate for the year.

Events after the reporting period

Events after the reporting period that provide additional information about the Group's position at the end of the reporting period or those that indicate the going concern assumption is not appropriate are adjusting events and are reflected in the financial statements. Events after the reporting period that are not adjusting events are disclosed in the notes to the financial statements when material.

3. SIGNIFICANT ACCOUNTING ESTIMATES

The preparation of the Group's financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

The major estimates and assumptions that have the most significant risk causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are set out below:

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill carried as an asset in the consolidated statement of financial position as at 31 December 2012 was HK$34,000,000 (2011: HK$34,000,000), details of which are set out in note 16 to the financial statements.

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The calculation of the fair value less costs to sell is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing for the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Provision for impairment of trade receivables and other receivables

The policy for provision for impairment of trade receivables and other receivables of the Group is based on the evaluation of collectability and the ageing analysis of accounts and on management's estimation. A considerable amount of estimation is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each debtor. If the financial conditions of debtors are to deteriorate resulting in an impairment of their ability to make payments, additional allowances may be required. The carrying amounts of trade receivables and other receivables carried as assets in the consolidated statement of financial position as at 31 December 2012 were HK$5,039,000 (2011: HK$17,785,000) and HK$12,413,000 (2011: HK$17,610,000), respectively, details of which are set out in notes 22 and 23 to the financial statements.

3. SIGNIFICANT ACCOUNTING ESTIMATES *(Continued)*

Percentage of completion of service contracts

The Group recognises revenue according to the percentage of completion of the individual contract of services. The Group's management estimates the percentage of completion of service contracts based on the actual cost incurred over the total budgeted cost, or completion of a physical portion of the contract work, as appropriate, where corresponding contract revenue is also estimated by management. Because of the nature of the activity undertaken in service contracts, the date at which the activity is entered into and the date when the activity is completed usually fall into different accounting periods. The Group reviews and revises the estimates of both contract revenue and contract costs in the budget prepared for each service contract as the contract progresses.

Current tax and deferred tax

The Group is subject to income taxes in Hong Kong and Mainland China. The Group carefully evaluates tax implications of transactions in accordance with prevailing tax regulations and makes tax provision accordingly. However, judgement is required in determining the Group's provision for income taxes as there are many transactions and calculations of which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact on the income tax and deferred tax provision in the periods in which such determination is made. The carrying amount of current income tax payables carried as a liability in the consolidated statement of financial position as at 31 December 2012 was HK$13,093,000 (2011: HK$12,689,000).

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has three reportable operating segments as follows:

(a) the software development and system integration segment engages in (i) the sale of computer hardware; (ii) the provision of software development services; (iii) the provision of system integration services; and (iv) the provision of technical support and maintenance services;

(b) the Internet, mobile and telecommunication segment engages in the provision of Internet, mobile and telecommunication value-added services (discontinued during the year ended 31 December 2011 – note 12); and

(c) the in-house developed products segment engages in the lease of in-house developed computer hardware.

4. OPERATING SEGMENT INFORMATION *(Continued)*

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/(loss), which is a measure of adjusted profit/(loss) before tax. The adjusted profit/(loss) before tax is measured consistently with the Group's profit/(loss) before tax, except that interest income, finance costs, dividend income, as well as head office and corporate expenses are excluded from such measurement.

The accounting policies of the operating segments are the same as those described in note 2 to the financial statements.

Segment assets exclude investments in an associate, amounts due from related companies and other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude long term loans, promissory notes, income tax payables, deferred tax liabilities and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

4. OPERATING SEGMENT INFORMATION *(Continued)*

Reportable Operating Segment Information

Group

	Continuing operations						Discontinued operation			
	Software development and system integration		In-house developed products		Total		Internet, mobile and telecommunication		Group	
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment revenue:										
Sales to external customers	**107,180**	89,838	**425**	499	**107,605**	90,337	**–**	4,521	**107,605**	94,858
Intersegment sales	**–**	2,405	**–**	–	**–**	2,405	**–**	–	**–**	2,405
Other income and gains, net	**130**	1,864	**–**	388	**130**	2,252	**–**	977	**130**	3,229
	107,310	94,107	**425**	887	**107,735**	94,994	**–**	5,498	**107,735**	100,492
Reconciliation:										
Elimination of intersegment sales					**–**	(2,405)	**–**	–	**–**	(2,405)
Bank interest income					**3,451**	1,838	**–**	5	**3,451**	1,843
Investment income from held-to-maturity investments					**–**	1,521	**–**	–	**–**	1,521
Unallocated gains					**1,366**	27	**–**	98	**1,366**	125
Revenue, other income and gains, net					**112,552**	95,975	**–**	5,601	**112,552**	101,576
Segment profit/(loss)	**477**	(10,579)	**92**	633	**569**	(9,946)	**–**	(1,244)	**569**	(11,190)
Reconciliation:										
Elimination of intersegment results					**–**	(2,405)				
Bank interest income					**3,451**	1,838				
Investment income from held-to-maturity investments					**–**	1,521				
Unallocated gains					**1,366**	27				
Loss on deemed disposal of interest in a subsidiary					**–**	(2,941)				
Corporate and other unallocated expenses					**(11,044)**	(13,632)				
Finance costs					**(1,130)**	(2,704)				
Loss before tax from continuing operations					**(6,788)**	(28,242)				

4. OPERATING SEGMENT INFORMATION *(Continued)*

Reportable Operating Segment Information *(Continued)*

Group

	Continuing operations						Discontinued operation			
	Software development and system integration		In-house developed products		Total		Internet, mobile and telecommunication		Group	
	2012 HK$'000	2011 HK$'000	2012 HK$'000	2011 HK$'000	2012 HK$'000	2011 HK$'000	2012 HK$'000	2011 HK$'000	2012 HK$'000	2011 HK$'000
Segment assets	**211,992**	203,049	**875**	766	**212,867**	203,815	**–**	–	**212,867**	203,815
Reconciliation:										
Corporate and other unallocated assets					**24,963**	36,316	**–**	–	**24,963**	36,316
Total assets					**237,830**	240,131	**–**	–	**237,830**	240,131
Segment liabilities	**(37,965)**	(35,677)	**(579)**	(570)	**(38,544)**	(36,247)	**–**	–	**(38,544)**	(36,247)
Reconciliation:										
Corporate and other unallocated liabilities					**(46,485)**	(96,135)	**–**	–	**(46,485)**	(96,135)
Total liabilities					**(85,029)**	(132,382)	**–**	–	**(85,029)**	(132,382)
Other segment information:										
Depreciation on:										
Segment assets	**1,624**	2,565	**1**	42	**1,625**	2,607	**–**	510	**1,625**	3,117
Corporate and other unallocated assets					**798**	472	**–**	–	**798**	472
					2,423	3,079	**–**	510	**2,423**	3,589
Amortisation of other intangible assets on:										
Segment assets	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Corporate and other unallocated assets					**162**	161	**–**	–	**162**	161
					162	161	**–**	–	**162**	161
Bank interest income	**3,451**	1,838	**–**	–	**3,451**	1,838	**–**	5	**3,451**	1,843
Impairment of inventories	**–**	–	**–**	68	**–**	68	**–**	–	**–**	68
Impairment of amounts due from contract customers	**–**	1,304	**–**	–	**–**	1,304	**–**	–	**–**	1,304
Impairment of trade receivables	**797**	1,665	**53**	–	**850**	1,665	**–**	–	**850**	1,665
Income tax expense	**1,195**	2,620	**–**	–	**1,195**	2,620	**–**	–	**1,195**	2,620
Capital expenditure* on:										
Segment assets	**2,329**	1,273	**–**	–	**2,329**	1,273	**–**	117	**2,329**	1,390
Corporate and other unallocated assets					**2**	126	**–**	–	**2**	126
					2,331	1,399	**–**	117	**2,331**	1,516

* Capital expenditure consists of additions to equipment.

4. OPERATING SEGMENT INFORMATION *(Continued)*

Geographical information

Geographical information is not presented since over 90% of the Group's revenue from external customers is generated in Mainland China and over 90% of the non-current assets of the Group are located in Mainland China. Accordingly, in the opinion of the directors, the presentation of geographical information would provide no additional useful information to the users of these financial statements.

Information about major customers

During the year ended 31 December 2012, the Group had transactions with four (2011: four) external customers of the software development and system integration segment who each contributed over 10% of the Group's total revenue for the year. A summary of revenue earned from each of these major external customers is set out below:

	2012	2011
	HK$'000	HK$'000
Customer 1	**23,853**	17,154
Customer 2	**22,596**	11,841
Customer 3	**12,324**	11,304
Customer 4	**10,596**	10,168
	69,369	50,467

5. REVENUE, OTHER INCOME AND GAINS, NET

Revenue, which is also the Group's turnover, represents (1) an appropriate proportion of contract revenue from the provision of software development and system integration services, net of value-added tax, business tax and government surcharges; (2) the aggregate of the invoiced value of goods sold, net of value-added tax and government surcharges, and after allowances for returns and trade discounts; (3) an appropriate proportion of contract revenue from the provision of the technical support and maintenance services, net of business tax and government surcharges; and (4) the rental income received and receivable from the lease of in-house developed products during the year.

5. REVENUE, OTHER INCOME AND GAINS, NET *(Continued)*

An analysis of revenue, other income and gains, net from continuing operations is as follows:

	2012 HK$'000	2011 HK$'000
Revenue		
Provision of software development and system integration services	**13,950**	21,233
Sale of computer hardware	**9,903**	8,452
Provision of technical support and maintenance services	**83,327**	60,153
Provision of internet, mobile and telecommunication value-added services	**–**	4,521
Lease of in-house developed products	**425**	499
	107,605	94,858
Representing:		
Continuing operations	**107,605**	90,337
Discontinued operation *(note 12)*	**–**	4,521
	107,605	94,858
Other income		
Bank interest income	**3,451**	1,843
Investment income from held-to-maturity investments	**–**	1,521
Government grants*	**130**	1,363
Construction income	**–**	219
Reversal of impairment provision on trade receivables	**1,105**	–
Reversal of impairment provision on other receivables	**125**	–
Gain on disposal of an associate *(note 19)*	**6**	–
Others	**130**	1,772
Other income and gains, net	**4,947**	6,718
Representing:		
Continuing operations	**4,947**	5,638
Discontinued operation *(note 12)*	**–**	1,080
	4,947	6,718

* The government grants represented a government subsidy and value-added tax refunds, which impose no restriction on usage.

6. LOSS ON DEEMED DISPOSAL OF INTEREST IN A SUBSIDIARY

The loss on deemed disposal of interest in a subsidiary recognised during the year ended 31 December 2011 arose from the dilution of the Group's equity interest in 北控易碼通（北京）科技有限公司 ("Easy Code"), a former indirectly-held subsidiary of the Company acquired by the Group during the year ended 31 December 2008, from 55% to 47.81% upon a capital injection of RMB1,000,000 (equivalent to approximately HK$1,189,000) by an independent third party into Easy Code as additional registered capital of Easy Code on 10 May 2011. The Group lost its control over Easy Code as a result of the dilution of interest during the year ended 31 December 2011, and Easy Code ceased to be a subsidiary of the Group and became an associate of the Group accordingly. Further details of the deconsolidation of Easy Code are disclosed in note 34(b) to the financial statements.

7. FINANCE COSTS

An analysis of finance costs from continuing operations is as follows:

	Group	
	2012	2011
	HK$'000	HK$'000
Imputed interest on promissory notes	**1,130**	2,704

No finance costs were incurred by the discontinued operation for the years ended 31 December 2012 and 2011.

8. LOSS BEFORE TAX FROM CONTINUING OPERATIONS

The Group's loss before tax from continuing operations is arrived at after charging:

	2012 HK$'000	2011 HK$'000
Cost of inventories sold	**9,228**	9,478
Cost of services provided	**55,364**	50,845
Depreciation***	**2,423**	3,589
Amortisation of other intangible assets*	**162**	161
Minimum lease payments under operating leases in respect of land and buildings	**5,947**	6,774
Auditors' remuneration	**400**	920
Employee benefit expense (including directors' remuneration – note 9):		
Salaries, allowances and benefits in kind	**48,496**	47,593
Equity-settled share option expense	**–**	2,199
Pension scheme contributions	**5,470**	3,275
	53,966	53,067
Loss on disposal of items of property, plant and equipment**	**87**	64
Impairment of inventories**	**–**	68
Impairment of amounts due from contract customers**	**–**	1,304
Impairment of trade receivables**	**850**	1,665
Foreign exchange differences, net	**5**	128

* The amortisation of other intangible assets is included in "Administrative expenses" of the consolidated income statement.

** These items are included in "Other expenses" of the consolidated income statement.

*** No depreciation for the year ended 31 December 2012 (2011: HK$510,000) was related to the discontinued operation.

9. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "GEM Listing Rules") and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Group	
	2012	2011
	HK$'000	HK$'000
Fees	**500**	544
Other emoluments:		
Salaries, allowances and benefits in kind	**1,585**	1,378
Equity-settled share option expense	**–**	1,453
Pension scheme contributions	**37**	33
	1,622	2,864
	2,122	3,408

No directors were granted share options in respect of their services to the Group under share option scheme for the year ended 31 December 2012.

In prior years, certain directors were granted share options, in respect of their services to the Group, under the share option scheme of the Company. The fair values of such options, which have been recognised in the income statement over the vesting period, were determined as at the respective dates of grant and the amounts included in the financial statements for year ended 31 December 2011 are included in the above directors' remuneration disclosures.

9. DIRECTORS' REMUNERATION *(Continued)*

An analysis of directors' remuneration, on a named basis, for the year is as follows:

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Equity-settled share option expense HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
2012					
Executive directors:					
Mr. Hu Zhuoer	100	770	–	23	893
Mr. Tse Chi Wai	100	815	–	14	929
	200	1,585	–	37	1,822
Independent non-executive directors:					
Mr. Ng Kwok Fai	100	–	–	–	100
Dr. Sun Guofu	100	–	–	–	100
Mr. Chen Zhongfa	100	–	–	–	100
	300	–	–	–	300
Total	500	1,585	–	37	2,122

9. DIRECTORS' REMUNERATION *(Continued)*

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Equity-settled share option expense HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
2011					
Executive directors:					
Mr. Hu Zhuoer	100	719	–	21	840
Mr. Tse Chi Wai	38	330	–	5	373
Dr. Yu Xiaoyang***	62	329	1,453	7	1,851
	200	1,378	1,453	33	3,064
Independent non-executive directors:					
Mr. Ng Kwok Fai	64	–	–	–	64
Dr. Sun Guofu	100	–	–	–	100
Mr. Chen Zhongfa	38	–	–	–	38
Ms. Ma Yuhua***	62	–	–	–	62
Dr. Zhou Chunsheng**	44	–	–	–	44
Ms. Liang Yeping*	36	–	–	–	36
	344	–	–	–	344
Total	544	1,378	1,453	33	3,408

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

* Resigned on 13 May 2011.

** Resigned on 9 June 2011.

*** Resigned on 15 August 2011.

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two (2011: three) directors, details of whose remuneration are set out in note 9 above. Details of the remuneration of the remaining three (2011: two) non-director, highest paid employees for the year are as follows:

	Group	
	2012	2011
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	**1,845**	1,672
Pension scheme contributions	**47**	12
	1,892	1,684

The remuneration of the three non-director, highest paid employees for the year ended 31 December 2012 (2011: two) fell within the range of nil to HK$1,000,000.

During the year, no remuneration was paid by the Group to any of the directors or the highest paid individuals as an inducement to join or upon joining the Group on as compensation for loss of office.

11. INCOME TAX EXPENSES

No provision for Hong Kong Profits Tax has been made for the year ended 31 December 2012 as the Group did not generate any assessable profits arising in Hong Kong during the year (2011: Nil).

The PRC corporate income tax provision in respect of operations in Mainland China is calculated at applicable tax rates on the estimated assessable profits for the year based on existing legislation, interpretations and practices in respect thereof. In accordance with the relevant tax rules and regulations of the PRC, certain of the Company's subsidiaries enjoy income tax reduction, by reason that these subsidiaries are certified as High-New Technology Enterprises in Mainland China.

	2012	2011
	HK$'000	HK$'000
Current:		
Hong Kong	**–**	–
Mainland China	**1,138**	11,228
Underprovision/(overprovision) in prior years	**57**	(6,780)
Deferred tax *(note 30)*	**–**	(1,828)
Total income tax expenses for the year from continuing operations	**1,195**	2,620

A reconciliation of the income tax expenses from continuing operations applicable to loss before tax from continuing operations at the statutory rates for the locations in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

11. INCOME TAX EXPENSES *(Continued)*

Group – 2012

	Hong Kong HK$'000	%	Mainland China HK$'000	%	Total HK$'000	%
(Loss)/profit before tax from continuing operations	(8,170)		1,382		(6,788)	
Tax at the statutory tax rate	(1,340)	16.4	346	25.0	(994)	14.6
Lower tax rate for specific provinces or enacted by local authority	–	–	(765)	(55.4)	(765)	11.3
Adjustments in respect of current tax of previous periods	–	–	57	4.1	57	(0.8)
Income not subject to tax	–	–	(684)	(49.5)	(684)	10.0
Expenses not deductible for tax	1,340	(16.4)	676	48.9	2,016	(29.7)
Tax losses not recognised	–	–	1,589	115.0	1,589	(23.4)
Tax losses utilised from previous periods	–	–	(24)	(1.7)	(24)	0.4
Tax expense at the Group's effective rate	–	–	1,195	86.4	1,195	(17.6)

Group – 2011

	Hong Kong HK$'000	%	Mainland China HK$'000	%	Total HK$'000	%
Profit/(loss) before tax from continuing operations	(13,329)		(14,913)		(28,242)	
Tax at the statutory tax rate	(2,199)	16.5	(3,728)	25.0	(5,927)	21.0
Lower tax rate for specific provinces or enacted by local authority	–	–	128	(0.9)	128	(0.5)
Adjustments in respect of current tax of previous periods	–	–	(6,780)	45.5	(6,780)	24.0
Income not subject to tax	–	–	(299)	2.0	(299)	1.1
Expenses not deductible for tax	2,199	(16.5)	12,250	(82.1)	14,449	(51.1)
Tax losses not recognised	–	–	1,232	(8.3)	1,232	(4.4)
Tax losses utilised from previous periods	–	–	(183)	1.2	(183)	0.6
Tax expense at the Group's effective rate	–	–	2,620	(17.6)	2,620	(9.3)

12. DISCONTINUED OPERATION

On 30 June 2011, Proud Stars Limited ("Proud Stars", a wholly-owned subsidiary of the Company) entered into a sale and purchase agreement and a supplementary agreement thereto with a third party, pursuant to which, the third party purchased the entire equity interest in Full Trump International Limited ("Full Trump") for cash consideration of RMB100,000 (equivalent to approximately HK$121,000), and adjusted by certain contingent considerations and the consolidated net operating profit of Full Trump and its subsidiaries for the period from 1 January 2011 to the completion date of transaction. The transaction was completed on 25 October 2011 and the consideration for the transaction was determined to be RMB5,831,000 (equivalent to approximately HK$7,131,000).

The Group's Internet, mobile and telecommunication operation, being a major separate reportable operating segment of the Group, was solely undertaken by Full Trump and its subsidiaries. Accordingly, the Internet, mobile and telecommunication operation of the Group was discontinued upon the completion of the disposal transaction.

(a) The results of the discontinued operation dealt with in the consolidated financial statements for the year ended 31 December 2011 are summarised as follows:

	2012 **HK$'000**	2011 HK$'000
Revenue	–	4,521
Cost of goods sold	–	(1,845)
Gross profit	–	2,676
Other income	–	1,080
Selling and distribution expenses		(1,582)
Administrative expenses	–	(3,315)
Loss before tax	–	(1,141)
Income tax credit	–	13,880
Profit for the year	–	12,739
Gain on disposal of the discontinued operation, net of income tax	–	15,301
Profit for the year from a discontinued operation	–	28,040

12. DISCONTINUED OPERATION *(Continued)*

(b) The net cash flows of the discontinued operation dealt with in the consolidated financial statements for the year ended 31 December 2011 are as follows:

	2012	2011
	HK$'000	HK$'000
Operating activities	–	1,358
Investing activities	–	(184)
Net cash inflow attributable to the discontinued operation	–	1,174

(c) Earnings per share from the discontinued operation

	2012	2011
	HK$'000	HK$'000
		(Restated)
Basic and diluted	–	HK4.38 cents

The calculations of the basic and diluted earnings per share from the discontinued operation are based on the following data:

	2012	2011
	HK$'000	HK$'000
Profit for the year from the discontinued operation attributable to owners of the Company	–	HK$28,468
Weighted average number of ordinary shares in issue during the year, used in the basic and diluted earnings per share calculation *(note 14)*	**736,151,839**	649,490,636

13. LOSS FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE COMPANY

The consolidated loss attributable to owners of the Company for the year ended 31 December 2012 includes a loss of HK$7,008,000 (2011: HK$10,367,000) which has been dealt with in the financial statements of the Company.

A reconciliation of the above amount to the Company's loss for the year is as follows:

	Notes	2012 HK$'000	2011 HK$'000
Amount of consolidated loss for the year attributable to owners of the Company dealt with in the financial statements of the Company		**7,008**	10,367
(Write-back of impairment)/impairment of amounts due from subsidiaries recognised during the year in the income statement, net	*18(c)*	**(4,860)**	10,798
Write-back of amounts due to subsidiaries recognised during the year in the income statement		**–**	(7,691)
Company's loss for the year	*33(b)*	**2,148**	13,474

14. LOSS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

The calculation of the basic loss per share amounts is based on the loss for the year and loss for the year from continuing operations attributable to owners of the Company of approximately HK$7,986,000 (2011: HK$1,284,000) and HK$7,986,000 (2011: HK$29,752,000), respectively, and the weighted average number of 736,151,839 (2011: 649,490,636) ordinary shares (adjusted for the effects of the share consolidation) in issue during the year.

The weighted average number of ordinary shares for the purposes of calculating basis loss per share for the year ended 31 December 2011 have been restated for the effects of the share consolidation in August 2012.

In respect of the diluted loss per share amounts, no adjustment has been made to the basic loss per share amounts presented for the years ended 31 December 2012 and 2011 as the impact of the share options outstanding during these years had no diluting effect on the basic loss per share amounts presented.

15. PROPERTY, PLANT AND EQUIPMENT

Group

	Leasehold improvements HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
Year ended 31 December 2012				
At 1 January 2012:				
Cost	1,646	13,383	7,948	22,977
Accumulated depreciation	(1,177)	(9,332)	(3,565)	(14,074)
Net carrying amount	469	4,051	4,383	8,903
Net carrying amount:				
At 1 January 2012	469	4,051	4,383	8,903
Additions	–	908	1,423	2,331
Depreciation provided during the year	(345)	(1,181)	(897)	(2,423)
Disposals	–	(64)	(260)	(324)
Exchange realignment	2	23	26	51
At 31 December 2012	126	3,737	4,675	8,538
At 31 December 2012:				
Cost	1,655	13,391	8,823	23,869
Accumulated depreciation	(1,529)	(9,654)	(4,148)	(15,331)
Net carrying amount	126	3,737	4,675	8,538

15. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

Group *(Continued)*

	Notes	Leasehold improvements HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
Year ended 31 December 2011					
At 1 January 2011:					
Cost		2,828	19,047	9,980	31,855
Accumulated depreciation		(1,593)	(12,006)	(4,632)	(18,231)
Net carrying amount		1,235	7,041	5,348	13,624
Net carrying amount:					
At 1 January 2011		1,235	7,041	5,348	13,624
Additions		117	974	425	1,516
Depreciation provided during the year		(456)	(2,181)	(952)	(3,589)
Disposals		(32)	(40)	(68)	(140)
Disposal of a subsidiary	*34(a)*	(436)	(1,127)	(502)	(2,065)
Deconsolidation of a subsidiary	*34(b)*	–	(851)	(118)	(969)
Exchange realignment		41	235	250	526
At 31 December 2011		469	4,051	4,383	8,903
At 31 December 2011:					
Cost		1,646	13,383	7,948	22,977
Accumulated depreciation		(1,177)	(9,332)	(3,565)	(14,074)
Net carrying amount		469	4,051	4,383	8,903

16. GOODWILL

Group

	Cost HK$'000	Accumulated impairment HK$'000	Net carrying amount HK$'000
At 1 January 2011, 31 December 2011, and 1 January 2012	**289,770**	**(255,770)**	**34,000**
Impairment	–	–	–
At 31 December 2012	**289,770**	**(255,770)**	**34,000**

Impairment testing of goodwill

The net carrying amount of goodwill as at 31 December 2012 acquired through acquisitions has been allocated to the following cash-generating units of the Group for impairment testing, which is summarised as follows:

Group

	Net carrying amount	
	2012 HK$'000	2011 HK$'000
Astoria Innovations Limited and its subsidiaries (the "Astoria Group")	**19,000**	19,000
Wisdom Elite Holdings Limited and its subsidiaries (the "Wisdom Elite Group")	**15,000**	15,000
	34,000	34,000

16. GOODWILL *(Continued)*

Impairment testing of goodwill *(Continued)*

The recoverable amount of the cash-generating unit of the Wisdom Elite Group are determined based on a value-in-use calculation. To calculate this, cash flow projection is based on financial budget covering a five-year period approved by management. The discount rate used for the value-in-use calculation is 16% (2011: 16%). Management determined the budgeted gross margin based on past performances and the average growth rate used is comparable with the forecast of the information technology market in Mainland China.

Based on the result of the impairment testing of goodwill, in the opinion of the directors, no additional impairment provision is considered necessary for the goodwill on the Wisdom Elite Group as at 31 December 2012.

Key assumptions used in the value-in-use calculation

The following describes each key assumption adopted by management in the preparation of the cash flow projection for the purpose of impairment testing of goodwill:

(i) Budgeted turnover – Budgeted turnover is based on the expected growth rate of the information technology market in which the assessed entity operates and the expected market share of the assessed entity.

(ii) Budgeted gross margin – The basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the year immediately before the budget year, and adjusted for the expected market development.

(iii) Discount rate – The discount rates used are before tax and reflect specific risks relating to the relevant units.

(iv) Raw materials/labour price inflation – The basis used to determine the value assigned to raw materials/labour price inflation is the forecast price indices during the budget year in the Mainland China.

(v) Operating expenses – The bases used to determine the value assigned are staff head counts and price inflation. The value assigned to the key assumption reflects past experience and management's commitment to maintain its operating expenses to an acceptable level.

As disclosed in note 40 to the financial statements, the Company proposed to dispose of its shareholdings in the Astoria Group at the consideration of HK$62.24 million pursuant to a sale and purchase agreement on 15 November 2012. This disposal was completed on 4 February 2013. As at 31 December 2012, the Directors considered that the consideration of HK$62.24 million exceeded the sum of the share of net assets to be disposed of and the goodwill of HK$19 million. Therefore, no additional impairment provision is considered necessary for the goodwill of the Astoria Group as at 31 December 2012.

17. OTHER INTANGIBLE ASSETS

Group

	Golf club membership HK$'000
Year ended 31 December 2012	
At 1 January 2012:	
Cost	**1,614**
Accumulated amortisation	**(699)**
Net carrying amount	**915**
Net carrying amount:	
At 1 January 2012	**915**
Amortisation provided during the year	**(162)**
At 31 December 2012	**753**
At 31 December 2012:	
Cost	**1,614**
Accumulated amortisation	**(861)**
Net carrying amount	**753**
Year ended 31 December 2011	
At 1 January 2011:	
Cost	1,614
Accumulated amortisation	(538)
Net carrying amount	1,076
Net carrying amount:	
At 1 January 2011	1,076
Amortisation provided during the year	(161)
At 31 December 2011	915
At 31 December 2011:	
Cost	1,614
Accumulated amortisation	(699)
Net carrying amount	915

17. OTHER INTANGIBLE ASSETS *(Continued)*

Company

	Golf club membership	
	2012	2011
	HK$'000	HK$'000
At 1 January:		
Cost	**1,614**	1,614
Accumulated amortisation	**(699)**	(538)
Net carrying amount	**915**	1,076
Net carrying amount:		
At 1 January	**915**	1,076
Amortisation provided during the year	**(162)**	(161)
At 31 December	**753**	915
At 31 December:		
Cost	**1,614**	1,614
Accumulated amortisation	**(861)**	(699)
Net carrying amount	**753**	915

18. INTERESTS IN SUBSIDIARIES

		Company	
		2012	2011
	Notes	**HK$'000**	HK$'000
Investments in subsidiaries, included in non-current assets			
Unlisted shares, at cost		**1,349,767**	1,349,767
Due from subsidiaries	*(a)*	**75,185**	78,555
Impairment of unlisted shares	*(b)*	**(1,260,686)**	(1,260,686)
Impairment of amounts due from subsidiaries	*(c)*	**(70,691)**	(75,551)
		93,575	92,085
Due from subsidiaries, included in current assets	*(a)*	**–**	1,442
Due to subsidiaries, included in current liabilities	*(a)*	**(5,907)**	(5,603)
Interests in subsidiaries		**87,668**	87,924

Notes:

(a) The amounts due from/to subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

The amounts due from subsidiaries included in non-current assets above are, in the opinion of the directors, considered as quasi-equity loans to the subsidiaries.

(b) At 31 December 2012, an accumulated impairment was recognised for certain unlisted shares with an aggregate carrying amount of HK$1,321,867,000 (before deducting the impairment loss) (2011: HK$1,321,867,000, before deducting the impairment loss) as at the end of the reporting period because these subsidiaries have been loss-making for some time.

(c) The movements in the provision for impairment of the amounts due from subsidiaries during the year are as follows:

	Company	
	2012	2011
	HK$'000	HK$'000
At 1 January	**75,551**	107,342
(Write-back of impairment)/impairment during the year recognised in the income statement, net	**(4,860)**	10,798
Amount written off as uncollectible	**–**	(42,589)
At 31 December	**(70,691)**	75,551

18. INTERESTS IN SUBSIDIARIES *(Continued)*

Notes: (Continued)

(d) Particulars of the principal subsidiaries are as follows:

Company name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up capital/ registered capital	Percentage of attributable equity interest held by Company	Group	Principal activities
Beijing Enterprises Sanxing Information Technology Co., Ltd.#	PRC/ Mainland China	RMB10,000,000	–	68	Development and sale of computer software, and provision of system integration and related services
Beijing Enterprises VST Software Technology Co., Ltd.#	PRC/ Mainland China	RMB20,000,000	–	100	Development and sale of computer software, and provision of system integration and related services
China Information Technology Development (Hong Kong) Limited	Hong Kong	HK$100	–	100	Office management
Shanghai Pantosoft Company Limited#	PRC/ Mainland China	HK$10,000,000	–	100	Development and sale of computer software, and provision of system integration and related services
Xteam Network (Beijing) Co., Ltd.#	PRC/ Mainland China	US$1,220,000	–	51	Lease of in-house developed computer hardware
China Luck International Limited ("China Luck")	British Virgin Islands	US$100	100	100	Investment holding

Registered as wholly foreign-owned enterprises under the PRC law

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

19. INVESTMENT IN AN ASSOCIATE

	Group	
	2012	2011
	HK$'000	HK$'000
Share of net assets *(note (a))*	**–**	–

Notes:

(a) The associate of the Group for the years ended 31 December 2012 and 2011 is Easy Code, a company incorporated in the PRC and in which the Group holds nil (2011: 47.81%) equity interest as at 31 December 2012. The Group's investment in Easy Code was reclassified from an investment in a subsidiary to an investment in an associate following the dilution of the Group's equity interest in Easy Code from 55% to 47.81% during the year ended 31 December 2011, as further detailed in note 6 to the financial statements.

The Group did not recognise its share of losses of Easy Code for the years ended 31 December 2012 and 2011, because the share of the losses of Easy Code cumulatively has already exceeded the Group's investment in it in prior years. The amount of the Group's unrecognised share of losses of this associate cumulatively up to 31 December 2011 was HK$650,000.

No updated financial information of Easy Code is available to the Group.

(b) On 6 March 2012, Xteam Software (China) Company Limited ("Xteam China", a wholly-owned subsidiary of the Company) entered into a sale and purchase agreement with a third party, pursuant to which, the third party purchased 47.81% equity interest in Easy Code for cash consideration of RMB5,000 (equivalent to approximately HK$6,000). Easy Code ceased to be an associate to the Group subsequent to completion of the disposal of interest in August 2012.

(c) Particulars of the associate as at 31 December 2011, which is registered as a limited liability company under PRC law and held indirectly by the Company, are as follows:

			Percentage of			
Company name	Place of registration and operations	Nominal value of registered capital	Ownership interest attributable to the Group	Voting right	Profit sharing	Principal activity
北控易碼通（北京）科技有限公司	PRC/Mainland China	RMB7,650,000	47.81%	47.81%	47.81%	Provision of Internet and mobile communication services

20. INVENTORIES

	Group	
	2012	2011
	HK$'000	HK$'000
Raw materials	**42**	23
Finished goods and merchandise	**8**	3,017
	50	3,040

21. AMOUNTS DUE FROM/TO CONTRACT CUSTOMERS

		Group	
		2012	2011
	Notes	**HK$'000**	HK$'000
Gross amounts due from contract customers	*(a)*	**9,903**	7,021
Less: Impairment	*(b)*	**(805)**	(801)
		9,098	6,220
Amounts due to contract customers	*(c)*	**(20,990)**	(21,349)
		(11,892)	(15,129)
Contract costs incurred plus recognised profits less recognised losses to date		**140,718**	90,071
Less: Progress billings		**(151,805)**	(104,399)
Less: Impairment	*(b)*	**(805)**	(801)
		(11,892)	(15,129)

21. AMOUNTS DUE FROM/TO CONTRACT CUSTOMERS *(Continued)*

Notes:

(a) Included in the Group's amounts due from contract customers as at 31 December 2012 is an amount due from a subsidiary of a major shareholder of HK$37,000 (2011: HK$38,000) in aggregate, which is repayable on similar credit terms to those offered to the major customers of the Group.

(b) The movements in the provision for impairment of amounts due from contract customers during the year are as follows:

	Group	
	2012	2011
	HK$'000	HK$'000
At 1 January	**801**	770
Impairment during the year recognised in the income statement	**–**	1,304
Disposal of a subsidiary	**–**	(1,304)
Exchange realignment	**4**	31
At 31 December	**805**	801

The above provision for impairment of amounts due from contract customers is the provision for individually impaired amounts due from contract customers. The Group does not hold any collateral or other credit enhancement over these balances.

(c) Included in the Group's amounts due to contract customers as at 31 December 2012 is an amount due to a subsidiary of a major shareholder of HK$nil (2011: HK$142,000), which is repayable on similar credit terms to those offered by it to its major customers.

22. TRADE RECEIVABLES

		Group	
		2012	2011
	Notes	**HK$'000**	HK$'000
Trade receivables due from:			
Third parties		**9,464**	22,218
A subsidiary of a major shareholder	*(b)*	**–**	220
		9,464	22,438
Impairment	*(c)*	**(4,425)**	(4,653)
		5,039	17,785

22. TRADE RECEIVABLES *(Continued)*

Notes:

(a) The Group has granted credit terms to its customers, ranging from 30 to 90 days. In certain cases, the Group would request payment in advance from the customers. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest bearing.

An aged analysis of the trade receivables as at the end of the reporting period, based on the invoice date and net of impairment, is as follows:

	Group	
	2012	2011
	HK$'000	HK$'000
Within 1 month	**1,515**	4,907
1 to 2 months	**1,236**	151
2 to 3 months	**–**	59
Over 3 months	**2,288**	12,668
	5,039	17,785

(b) The balance with a subsidiary of a major shareholder is repayable on similar credit terms to those offered to the major customers of the Group.

(c) The movements in the provision for impairment of trade receivables during the year are as follows:

	Group	
	2012	2011
	HK$'000	HK$'000
At 1 January	**4,653**	12,562
Impairment during the year recognised in the income statement	**850**	1,665
Disposal of a subsidiary	**–**	(10,127)
Write-back of impairment	**(1,105)**	–
Exchange realignment	**27**	553
At 31 December	**4,425**	4,653

The above provision for impairment of trade receivables is the provision for individually impaired trade receivables. The individually impaired trade receivables relate to customers that were in financial difficulties and only a portion of the receivables is expected to be recovered. The Group does not hold any collateral or other credit enhancements over these balances.

22. TRADE RECEIVABLES *(Continued)*

Notes: (Continued)

(c) *(Continued)*

An aged analysis of the trade receivables as at the end of the reporting period that are neither individually nor collectively considered to be impaired is as follows:

	Group	
	2012	2011
	HK$'000	HK$'000
Neither past due nor impaired	**1,515**	1,828
Less than 1 month past due	**1,315**	3,079
1 to 3 months past due	**7**	210
Over 3 months past due	**2,202**	12,668
	5,039	17,785

Receivables that were neither past due nor impaired mainly relate to several major customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

(d) The carrying amount of all the Group's trade receivables are denominated in RMB.

23. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

		Group		Company	
		2012	2011	**2012**	2011
	Note	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Prepayments		**9,875**	1,627	**150**	150
Deposits and other receivables		**13,020**	15,675	**108**	3
Advances to suppliers		**–**	39,599	**–**	–
Due from related companies*	*24*	**1,729**	3,292	**–**	–
		24,624	60,193	**258**	153
Impairment *(note)*		**(607)**	(32,085)	**–**	–
		24,017	28,108	**258**	153

Note: The movements in the provision for impairment of prepayments, deposits and other receivables during the year are as follows:

	Group		Company	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
At 1 January	**32,085**	30,770	**–**	–
Amount written off as uncollectible	**(31,358)**	–	**–**	–
Write-back of impairment	**(125)**	–	**–**	–
Exchange realignment	**5**	1,315	**–**	–
At 31 December	**607**	32,085	**–**	–

The above provision for impairment of prepayments, deposits and other receivables is the provision for individually impaired prepayments, deposits and other receivables. The Group and the Company do not hold any collateral or other credit enhancements over these balances.

* The related companies are the subsidiaries of a major shareholder of the Company.

24. BALANCES WITH RELATED COMPANIES

The balances with related companies are unsecured, interest-free and have no fixed terms of repayment.

25. RESTRICTED CASH AND CASH AND CASH EQUIVALENTS

	Group		Company	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and bank balances other than time deposits	**103,431**	89,589	**1,835**	1,514
Time deposits	**52,904**	51,571	**–**	–
Total cash and bank balances	**156,335**	141,160	**1,835**	1,514
Less: Restricted cash *(note (a))*	**–**	(7,339)	**–**	–
Cash and cash equivalents	**156,335**	133,821	**1,835**	1,514

Notes:

(a) The restricted cash represented the bank deposit held by a bank in Mainland China for the investment in a held-to-maturity investment financial asset by the Group during the year ended 31 December 2011, and which had been matured in January 2012.

(b) At 31 December 2012, the cash and bank balances of the Group denominated in RMB amounted to HK$149,965,000 (2011: HK$126,847,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

(c) Bank balances other than time deposits earn interest at floating rates based on daily bank deposit rates. Time deposits are made for varying periods of between seven days and one year depending on the immediate cash requirements of the Group, and earn interest at the respective time deposit rates. The bank balances and deposits are deposited with creditworthy banks with no recent history of default.

26. TRADE PAYABLES

The trade payables are non-interest-bearing and normally settled within 30 to 90 days.

An aged analysis of the Group's trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	Group	
	2012	2011
	HK$'000	HK$'000
Within 1 month	**1,479**	2,488
1 to 2 months	**–**	30
2 to 3 months	**–**	10
Over 3 months	**2,599**	2,403
	4,078	4,931

The carrying amounts of all the Group's trade payables are denominated in RMB.

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For the year ended 31 December 2012

27. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Accruals	**4,787**	6,058	**545**	1,474
Receipts in advance	**211**	22	**–**	–
Other payables	**9,902**	6,204	**47**	55
	14,900	12,284	**592**	1,529

Other payables are non-interest-bearing and are normally settled within 90 days.

28. LONG TERM LOANS

	Group		Company	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Long term loans	**31,968**	–	**31,968**	–

The long term loans are repayable as follows:

	Group		Company	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within one year	**10,656**	–	**10,656**	–
In the second year	**10,656**	–	**10,656**	–
In the third to fifth year inclusive	**10,656**	–	**10,656**	–
	31,968	–	**31,968**	–
Less: Amount due for settlement within 12 months	**(10,656)**	–	**(10,656)**	–
Amount due for settlement after one year	**21,312**	–	**21,312**	–

The long term loans are denominated in HK$ and unsecured.

28. LONG TERM LOANS *(Continued)*

On 21 February 2012 and 23 February 2012, the Company entered into agreements with Bondholders (as defined in note 29), pursuant to which, the Bondholders agreed to convert their respective promissory notes with an aggregate principle amount of HK$82,260,000 with the maturity date of 28 May 2012 into four unsecured 3.5-year interest-bearing loans. During the year ended 31 December 2012, the Company repaid an aggregate principle amount of HK$50,292,000 to the Bondholders by using the proceeds from placing of shares of the Company. (further detailed in note 31 to the financial statements). Upon the repayment, the Bondholders agreed to waive the interest of such long term loans for the period from 1 June to 31 December 2012. The balance of the long term loans amounted of HK$31,968,000 is to be repaid in 3 years (12 equal quarterly instalments) and is subject to interest at the rate of Hong Kong Prime Rate plus 1.8% to 3% throughout the repayment period. As such, the effective interest rate on the long term loans of HK$31,968,000 for the year 2013 will be 6.18%.

29. PROMISSORY NOTES

On 28 May 2010, the Company entered into an undertaking agreement with each of the bondholders (the "Bondholders") who held the convertible bonds of the Company (the "Convertible Bonds"), pursuant to which, the Company cancelled the then outstanding First Convertible Bonds and Second Convertible Bonds with aggregate principal amounts of HK$18,324,000 and HK$63,936,000, respectively; and issued four promissory notes with an aggregate principal amount of HK$82,260,000 to the Bondholders on the same date. The promissory notes are unsecured, interest-free and would have been matured on 28 May 2011. Since the Bondholders are shareholders of the Company, for accounting purposes, the benefit of the interest-free promissory notes of HK$8,329,000, representing the difference between the aggregate principal amount and the initial fair value of the promissory notes of HK$73,931,000, as estimated by the directors of the Company with reference to the present value of all future cash payments of the promissory notes prior to their maturity date of 28 May 2011 discounted using the then prevailing market rate of interest for similar loans of 11%, was accounted for as deemed capital contributions from certain shareholders of the Company and recognised in the capital reserve at the inception of the promissory notes.

On 22 November 2010, pursuant to an extension confirmation entered into between the Company and each of the Bondholders, the maturity date of the promissory notes was extended to 28 May 2012 with all other terms remain unchanged. Accordingly, the promissory notes are recognised as current liabilities and non-current liabilities as at 31 December 2011 and 2010, respectively. In the opinion of the directors, this alteration did not constitute a substantial modification of the terms of the promissory notes and hence was not accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

The Company entered into an agreement with each of the Bondholders, pursuant to which, the Bondholders agreed to convert their respective promissory notes with the maturity date of 28 May 2012 into four unsecured 3.5-year interest-bearing loans. Further details of the interest-bearing loans are set out in note 28 to the financial statements.

30. DEFERRED TAX LIABILITY

The movements in the deferred tax liability of the Group, which is wholly attributable to withholding tax on unremitted earnings of a subsidiary established in Mainland China, during the year are as follows:

	Group	
	2012	2011
	HK$'000	HK$'000
At 1 January	**–**	1,828
Deferred tax credited to the income statement during the year *(note 11)*	**–**	(1,828)
At 31 December	**–**	–

The Group has tax losses arising in Hong Kong of approximately HK$10,770,00 (2011: HK$10,770,000) that are available indefinitely, and in Mainland China of HK$5,303,000 (2011: HK$8,843,000) that are available for a maximum of five years, for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is considered not probable that taxable profits will be available against which tax losses can be utilised.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5% or 10%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

Deferred tax has not been recognised for withholding taxes that would be payable on the unremitted earnings that were subject to withholding taxes of certain of the Group's subsidiaries established in Mainland China. In the opinion of the directors, it was not probable that these subsidiaries would distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately HK$27,814,000 (2011: HK$27,814,000) as at 31 December 2012.

31. SHARE CAPITAL

	Nominal value per share *HK$*	Number of shares	Amount *HK$'000*
Authorised:			
At 1 January 2011, 31 December 2011 and 1 January 2012	0.01	10,000,000,000	100,000
Consolidation of shares *(note a)*		(9,000,000,000)	–
At 31 December 2012	0.10	1,000,000,000	100,000
Issued and fully paid:			
At 1 January 2011, 31 December 2011 and 1 January 2012	0.01	6,494,906,368	64,949
Issue of new shares *(note b)*	0.01	1,000,000,000	10,000
Consolidation of shares *(note a)*		(6,745,415,732)	–
Issue of new shares *(note c)*	0.10	149,000,000	14,900
At 31 December 2012	0.10	898,490,636	89,849

Notes:

(a) As announced by the Company on 6 July 2012, the Company proposed to effect a share consolidation and every ten issued shares of the Company of HK$0.01 each were consolidated into one consolidated share of HK$0.10 each. Details of the share consolidation are set out, among others, in the circular of the Company dated 18 July 2012. An ordinary resolution approving the share consolidation was passed at the extraordinary general meeting of the Company held on 2 August 2012 and the share consolidation became effective on 3 August 2012.

(b) On 8 June 2012, the Company entered into a placing agreement with a placing agent whereby the Company agreed to place, through the placing agent, a total of 1,000,000,000 placing shares to not less than 6 independent placees at a price of HK$0.027 per placing share. The aggregate nominal value of the placing shares under the placing agreement was approximately HK$27 million. The net proceeds from the placement of approximately HK$26 million was used to settle certain long term loans in the amount of approximately HK$18 million and the remaining balance was used to strengthen the working capital position of the Group. The placing agreement was completed on 20 June 2012.

(c) On 25 September 2012, the Company entered into a placing agreement with a placing agent whereby the Company agreed to place, through the placing agent, a total of 149,000,000 placing shares to not less than 6 independent placees at a price of HK$0.18 per placing share. The aggregate nominal value of the placing shares under the placing agreement was approximately HK$26.8 million. The net proceeds from the placement of approximately HK$26 million was used to settle certain long term loans in the amount of approximately HK$32 million. The placing agreement was completed on 11 October 2012.

32. SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include the Company's executive and non-executive directors, full-time employees of the Group, advisers and consultants of the Group. The Scheme became effective on 21 November 2001 and expired on 30 September 2012.

The maximum number of shares which may be issued upon exercise of all options granted and yet to be granted under the Scheme is currently limited to 30% of the shares of the Company in issue at any time. The total number of shares issued and to be issued upon exercise of the options granted and to be granted to each eligible participant in the Scheme in any 12-month period up to the date of the grant is limited to 1% of the aggregate number of issued shares of the Company at any time.

The offer of a grant of share options may be accepted within 21 days from the date of offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors at their discretion, and commences on the date upon which the options are deemed to be granted and accepted.

The exercise price of share options is determinable by the directors, but may not be less than the higher of (i) the Stock Exchange closing price of the Company's shares on the date of offer of the share options; and (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of offer.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

The following share options were outstanding under the Scheme during the year:

	2012		2011	
	Weighted average exercise price (Adjusted) (HK$ per share)	**Number of options (Adjusted) '000**	Weighted average exercise price (HK$ per share)	Number of options '000
At 1 January	**7.9**	**4,640**	0.79	102,300
Forfeited during the year	**7.9**	**(4,640)**	0.79	(55,900)
At 31 December	**7.9**	**–**	0.79	46,400

32. SHARE OPTION SCHEME *(Continued)*

Notes:

(a) No share options were exercised during the year (2011: Nil).

(b) The exercise prices and exercise periods of the share options outstanding as at the end of the reporting period are as follows:

2012

Number of options '000	**Exercise price* (Adjusted) (HK$ per share)**	**Exercise period**
–	**7.9**	**13-3-2008 to 12-9-2012**

2011

Number of options '000	Exercise price* (HK$ per share)	Exercise period
46,400	0.79	13-3-2008 to 12-9-2012

* The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

(c) The exercise price and number of share options for the year ended 31 December 2012 were adjusted pursuant to the share consolidation which became effective on 3 August 2012.

(d) The Group recognised equity-settled share option expense of HK$ nil (2011: HK$2,199,000) during the year ended 31 December 2012 in respect of share options granted in prior years.

(e) At 31 December 2012 and at the date of approval of these financial statements, the Company had no share options outstanding under the Scheme.

33. RESERVES

(a) Group

(i) The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity and statement of comprehensive income.

(ii) The share option reserve comprises the fair value of share options vested which are yet to be exercised, as further explained in the accounting policy for "Share-based payment transactions" in note 2.4 to the financial statements. The amount will either be transferred to the share premium account when the related share options are exercised, or transferred to retained profits/accumulated losses should the related share options expire or be forfeited.

(iii) The PRC reserve funds are reserves set aside in accordance with the PRC Companies Law or the Law of the PRC on Joint Ventures Using Chinese and Foreign Investment as applicable to the Group's subsidiaries. None of the Group's PRC reserve funds as at 31 December 2012 were distributable in the form of cash dividends.

(b) Company

	Notes	Share premium account HK$'000	Share option reserve HK$'000	Capital reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2011		1,165,914	44,697	8,329	(1,264,766)	(45,826)
Loss for the year and total comprehensive loss for the year		–	–	–	(13,474)	(13,474)
Equity-settled share option arrangements	*32(d)*	–	2,199	–	–	2,199
Transfer of share option reserve upon the forfeiture of share options		–	(24,456)	–	24,456	–
At 31 December 2011 and 1 January 2012		1,165,914	22,440	8,329	(1,253,784)	(57,101)
Loss for the year and total comprehensive loss for the year		–	–	–	(2,148)	(2,148)
Issue of new shares	*31(b)&(c)*	28,920	–	–	–	28,920
Transaction costs attributable to issue of new shares	*31(b)&(c)*	(1,566)	–	–	–	(1,566)
Transfer of share option reserve upon the forfeiture of share options		–	(22,440)	–	22,440	–
At 31 December 2012		1,193,268	–	8,329	(1,233,492)	(31,895)

33. RESERVES *(Continued)*

(b) Company *(Continued)*

Nature and purpose of reserves

(i) Share premium account

Under the Companies Law of the Cayman Islands, the funds in the share premium account of the Company are distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

(ii) Capital reserve

The capital reserve represent the benefit of the interest-free promissory notes of HK$8,329,000, representing the difference between the aggregate principal amount and the initial fair value of the promissory notes of HK$73,931,000, as estimated by the directors of the Company with reference to the present value of all future cash payments of the promissory notes prior to their maturity date of 28 May 2011 discounted using the then prevailing market rate of interest for similar loans of 11%, was accounted for as deemed capital contributions from certain shareholders of the Company and recognised in the capital reserve at the inception of the promissory notes.

(iii) Foreign currency translation reserve

The foreign currency translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations as well as the effective portion of any foreign exchange differences arising from hedges of the net investment in these foreign operations.

34. DISPOSAL AND DECONSOLIDATION OF SUBSIDIARIES

(a) Disposal of a subsidiary

Pursuant to a sale and purchase agreement and a supplementory agreement thereto both dated 30 June 2011, the Group disposed of its entire entity interest in Full Trump for a total cash consideration of RMB5,831,000 (equivalent to approximately HK$7,131,000). The disposal transaction was completed on 25 October 2011. Further details of the disposal transaction are set out in note 12 to the financial statements.

	Notes	**2012** **HK$'000**	2011 HK$'000
Net assets disposed of:			
Property, plant and equipment	*15*	–	2,065
Inventories		–	730
Amounts due from contract customers		–	910
Trade receivables		–	2,345
Prepayments, deposits and other receivables		–	3,371
Cash and bank balances		–	7,210
Trade payables		–	(946)
Other payables and accruals		–	(12,063)
Non-controlling interests		–	(20)
		–	3,602
Exchange fluctuation reserve realised		–	(11,772)
Gain on disposal of interest in a subsidiary	*12(a)*	–	15,301
		–	7,131
Satisfied by cash		–	7,131

An analysis of the cash flows in respect of the disposal of a subsidiary is as follows:

	2012 **HK$'000**	2011 HK$'000
Cash and bank balances disposal of	–	(7,210)
Cash consideration	–	7,131
Net outflow of cash and cash equivalents in respect of the disposal of a subsidiary	–	(79)

34. DISPOSAL AND DECONSOLIDATION OF SUBSIDIARIES *(Continued)*

(b) Deconsolidation of a subsidiary

As detailed in note 6 to the financial statements, the Group's equity interest in Easy Code was diluted from 55% to 47.81% for the year ended 31 December 2011, following the capital injection by an independent third party into Easy Code as additional registered capital of Easy Code in May 2011 and the Group lost control over Easy Code as a result. Accordingly, Easy Code ceased to be a subsidiary of the Group and becomes an associate of the Group since then, at which time the Group deconsolidated Easy Code.

	Notes	**2012** **HK$'000**	2011 HK$'000
Net assets deconsolidated:			
Property, plant and equipment	*15*	**–**	969
Trade receivables		**–**	181
Prepayments, deposits and other receivables		**–**	1,055
Cash and bank balances		**–**	17
Trade payables		**–**	(283)
Other payables and accruals		**–**	(464)
Non-controlling interests		**–**	1,466
		–	2,941
Loss on deemed disposal of a subsidiary	*6*	**–**	(2,941)
		–	–
Reclassification from investment in a subsidiary to investment in an associate		**–**	–

An analysis of the cash flows in respect of the deconsolidation of a subsidiary is as follows:

	Group **2011** **HK$'000**	 2010 HK$'000
Cash and bank balances deconsolidated and net outflow of cash and cash equivalents in respect of the deconsolidated of a subsidiary	**–**	(17)

35. NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Major non-cash transactions

Apart from the transactions detailed in notes 28 and 29 to the financial statements, the Group had no major non-cash transactions of financing activities during the years ended 31 December 2012 and 2011.

36. OPERATING LEASE COMMITMENTS

The Group leases an office equipment and certain of its office properties under operating lease arrangements, with the leases negotiated for terms ranging from one to two years (2011: one to three years).

At the end of reporting period, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2012	2011
	HK$'000	HK$'000
Within one year	**4,041**	2,225
In the second to fifth years, inclusive	**703**	76
	4,744	2,301

At the end of reporting period, the Company did not have any significant operating lease commitments (2011: Nil).

37. RELATED PARTY DISCLOSURES

(a) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the year:

		2012	2011
	Notes	**HK$'000**	HK$'000
A subsidiary of a major shareholder of the Company:			
Service fee income	*(i)*	**259**	921

Notes:

(i) The service fees were determined with reference to the fees charged to third parties by the Group. The transactions also constitute continuing connected transactions as defined in Chapter 20 of the GEM Listing Rules.

37. RELATED PARTY DISCLOSURES *(Continued)*

(b) Other transactions with related parties

On 28 May 2010, all the outstanding convertible bonds with a then total outstanding principal amount of approximately HK$82,260,000 were cancelled and replaced by the promissory notes with the same principal amount. The promissory notes were issued to certain shareholders of the Company, as further detailed in note 29 to the financial statements. Subsequently, on 21 and 23 February 2012, the promissory notes with an aggregate principal amount of HK$82,260,000 was converted into four unsecured 3.5-year interest-bearing loans, as further detailed in note 28 to the financial statements.

(c) Outstanding balances with related parties

Other than the balances detailed in notes 19, 21, 22, 23, 24, 28 and 29 to the financial statements, the Group had no other outstanding balances with related parties as at the end of the reporting period.

(d) Compensation of key management personnel of the Group

	2012	2011
	HK$'000	HK$'000
Short term employee benefits	**4,620**	4,917
Equity-settled share option expense	**–**	1,640
Pension scheme contributions	**95**	145
Total compensation paid to key management personnel	**4,715**	6,702

Further details of directors' emoluments and remuneration of the five highest paid employees are included in notes 9 and 10 to the financial statements, respectively.

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments mainly comprise restricted cash and cash and cash equivalents and promissory notes. These financial instruments are used for the Group's working capital. The Group has various other financial assets and liabilities such as trade receivables, deposits and other receivables, trade payables, other payables and amounts due from/to contract customers, which arise directly from its operations.

The Company does not have written risk management policies and guidelines. However, management meets periodically to analyse and formulate measures to manage the Company's exposure to financial risks, including liquidity risk.

It is, and has been, throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

(Continued)

The carrying amounts of the Group's financial instruments approximated to their fair values as at the end of each reporting period. Fair value estimates are made on a specific point in time and based on relevant market information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgement, and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The main risks arising from the Group's financial instruments are business risk, interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

(a) Business risk

The Group conducts most of its operations in Mainland China, and accordingly, it is subject to special considerations and significant risks. These include risks associated with, inter alia, changes in the political, economic and legal environment in Mainland China.

(b) Interest rate risk

The following tables set out the carrying amounts, by maturity, of the Group's financial instruments at the end of the reporting period that are exposed to interest rate risk:

	Within 1 year or on demand	**More than 1 year but less than 2 years**	**Total**	**Effective interest rate**
	HK$'000	HK$'000	HK$'000	%
At 31 December 2012				
Floating rate:				
Bank balances	103,242	–	103,242	0.35%
Long term loans	31,968	–	31,968	6.80%
Fixed rate:				
Time deposits	52,904	–	52,904	2.60%
At 31 December 2011				
Floating rate:				
Restricted cash	7,339	–	7,339	0.50%
Bank balances	82,094	–	82,094	0.50%
Fixed rate:				
Time deposits	51,571	–	51,571	2.61%
Promissory notes	81,129	–	81,129	3.40%

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

(b) Interest rate risk *(Continued)*

At 31 December 2012, it is estimated that a decrease/increase of 100 basis points in the interest rates on the closing balances of bank balances and long term loans which are subject to floating rates, with all other variables held constant, would increase/decrease the Group's loss before tax for the year ended 31 December 2012 by HK$42,000/HK$715,000 (2011: HK$441,000/HK$894,000).

The sensitivity analysis above has been determined assuming that the change in the interest rate had occurred at the end of the respective reporting periods and had been applied to the exposure to interest rate risk for non-derivative financial instruments in existence at these dates. The 100 basis point decrease or increase represents management's assessment of a reasonably possible change in interest rates over the period until the end of the next reporting period.

(c) Foreign currency risk

The Group's businesses are located in Mainland China and all the sales and purchases transactions are conducted in RMB. Fluctuations of the exchange rates of RMB against foreign currencies are not expected to have significant impact on the results of the Group.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the RMB exchange rate, with all other variables held constant, of the Group's comprehensive loss.

	Increase/ (decrease) in RMB rate	**(Increase)/ decrease in loss before tax**
	%	HK$'000
2012		
If Hong Kong dollar weakens against RMB	**5**	**(94)**
If Hong Kong dollar strengthens against RMB	**(5)**	**94**
2011		
If Hong Kong dollar weakens against RMB	5	(1,587)
If Hong Kong dollar strengthens against RMB	(5)	1,587

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

(d) Credit risk

The Group trades only with recognised and creditworthy third parties. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The credit risk of the Group's other financial assets, which comprise restricted cash, cash and cash equivalents and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

The carrying amount of trade receivables, other receivables and cash included in the consolidated financial statements represent the Group's maximum exposure to credit risk in relation to its financial assets. The Group has no other financial assets which carry significant exposure to credit risk.

The Group places its cash deposits with major international banks in Hong Kong and state- owned banks in Mainland China. This investment policy limits the Group's exposure to the concentration of credit risk.

(e) Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., trade receivables) and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of the promissory notes and funding from the shareholders.

The liquidity risk of the Group is primarily dependent on its ability to maintain adequate cash inflow from operations.

The financial liabilities of the Group and the Company included in current liabilities as at the end of the reporting period had no fixed terms of repayment.

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

(e) Liquidity risk *(Continued)*

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

Group

31 December 2012

	On demand or within 1 year HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 year but less than 3 years HK$'000	More than 3 years HK$'000	Total HK$'000
Trade payables	**4,078**	**–**	**–**	**–**	**4,078**
Other payables	**9,902**	**–**	**–**	**–**	**9,902**
Long term loans	**12,455**	**11,940**	**11,189**	**–**	**35,584**
	26,435	**11,940**	**11,189**	**–**	**49,564**

31 December 2011

	On demand or within 1 year HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 year but less than 3 years HK$'000	More than 3 years HK$'000	Total HK$'000
Trade payables	2,546	259	693	1,433	4,931
Other payables	6,204	–	–	–	6,204
Promissory notes	82,260	–	–	–	82,260
	91,010	259	693	1,433	93,395

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

(e) Liquidity risk *(Continued)*

Company

31 December 2012

	On demand or within 1 year HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 3 years HK$'000	Total HK$'000
Other payables	**48**	**–**	**–**	**48**
Due to subsidiaries	**5,907**	**–**	**–**	**5,907**
Promissory notes	**12,455**	**11,940**	**11,189**	**35,584**
	18,410	**11,940**	**11,189**	**41,539**

31 December 2011

	On demand or within 1 year HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 3 years HK$'000	Total HK$'000
Other payables	55	–	–	55
Due to subsidiaries	5,603	–	–	5,603
Promissory notes	82,260	–	–	82,260
	87,918	–	–	87,918

(f) Capital management

The primary objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern. The Group does not have specific policies for managing capital and it is not subject to any externally imposed capital requirements. The Group will continue to maintain healthy capital ratios in order to support its business and maximise shareholders' value. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2012 and 2011.

39. FINANCIAL INSTRUMENTS BY CATEGORY

All financial assets and liabilities of the Group and the Company as at 31 December 2012 and 2011 were loans and receivables and financial liabilities stated at amortised cost, respectively.

40. EVENT AFTER THE REPORTING PERIOD

On 15 November 2012, the Company entered into a sale and purchase agreement (the "Disposal") with QIFA, pursuant to which the Company conditionally agreed to dispose, and QIFA conditionally agreed to acquire the 68% issued share capital of Astoria at a consideration of RMB50 million (equivalent to HK$62.24 million). QIFA is a connected person of the Company under the GEM Listing Rules. As such, the Disposal was subject to the independent shareholders' approval requirement under the GEM Listing Rules. On 11 January 2013, the Disposal, as an ordinary resolution, was approved by the independent shareholders in an extraordinary general meeting.

Astoria is an investment holding company which holds 100% registered capital of Beijing Enterprises Sanxing Information Technology Co., Ltd. ("Sanxing") which engages in the provision of system supports to the systems in social security and social insurance administration, human resource and labor force management, and transient population administration to the relevant authorities of the Beijing Municipal Government.

The summarized consolidated financial results for the years ended 31 December 2012 and 2011 and the summarized consolidated financial position as at 31 December 2012 and 2011 of Astoria and Sanxing are as follows:

	2012	2011
	HK$ '000	HK$ '000
Total assets	**96,367**	96,065
Total liabilities	**(36,413)**	(36,307)
Net assets	**59,954**	59,758
Revenue	**51,191**	47,597
Gross profit	**13,430**	11,514
Loss before tax	**96**	2,504
Loss for the year	**131**	4,446

The Disposal was completed on 4 February 2013. Upon completion of the Disposal, Astoria and Sanxing ceased to be subsidiaries of the Company and their results, assets and liabilities and cash flows ceased to be consolidated to the Group since then.

Details of the transactions are set out in the circular issued by the Company on 21 December 2012.

41. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 22 March 2013.

Five Year Financial Summary

31 December 2012

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the published annual report and audited financial statements is set out below:

	Year ended 31 December				
	2012	2011	2010	2009	2008
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
RESULTS					
CONTINUING OPERATIONS					
REVENUE	**107,605**	90,337	118,374	106,972	92,123
Loss before tax from continuing operations	**(6,788)**	(28,242)	(12,136)	(30,206)	(1,117,423)
Income tax expenses	**(1,195)**	(2,620)	(5,004)	(4,093)	(26,981)
LOSS FOR THE YEAR FROM CONTINUING OPERATIONS	**(7,983)**	(30,862)	(17,140)	(34,299)	(1,144,404)
DISCONTINUED OPERATION					
Profit/(loss) for the year from a discontinued operation	**–**	28,040	(9,391)	(21,947)	(72,462)
Loss for the year	**(7,983)**	(2,822)	(26,531)	(56,246)	(1,216,866)
Attributable to:					
Owners of the Company	**(7,986)**	(1,284)	(29,189)	(57,396)	(1,212,313)
Non-controlling interests	**3**	(1,538)	2,658	1,150	(4,553)
	(7,983)	(2,822)	(26,531)	(56,246)	(1,216,866)

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	Year ended 31 December				
	2012	2011	2010	2009	2008
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
				(Restated)	
TOTAL ASSETS	**237,830**	240,131	270,503	270,045	301,675
TOTAL LIABILITIES	**(85,029)**	(132,382)	(156,685)	(150,656)	(142,743)
NET ASSETS	**152,801**	107,749	113,818	119,389	158,932
Equity attributable to:					
Owners of the Company	**134,475**	89,521	96,315	105,163	145,897
Non-controlling interests	**18,326**	18,228	17,503	14,226	13,035
	152,801	107,749	113,818	119,389	158,932