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 2013

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

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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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Corporate Information

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

ZHONGHUI ANDA CPA Limited

LEGAL ADVISORS

Conyers Dill & Pearman

PRINCIPAL BANKER

The Hongkong and Shanghai Banking
Corporation Limited

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Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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Services Limited
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GEM STOCK CODE

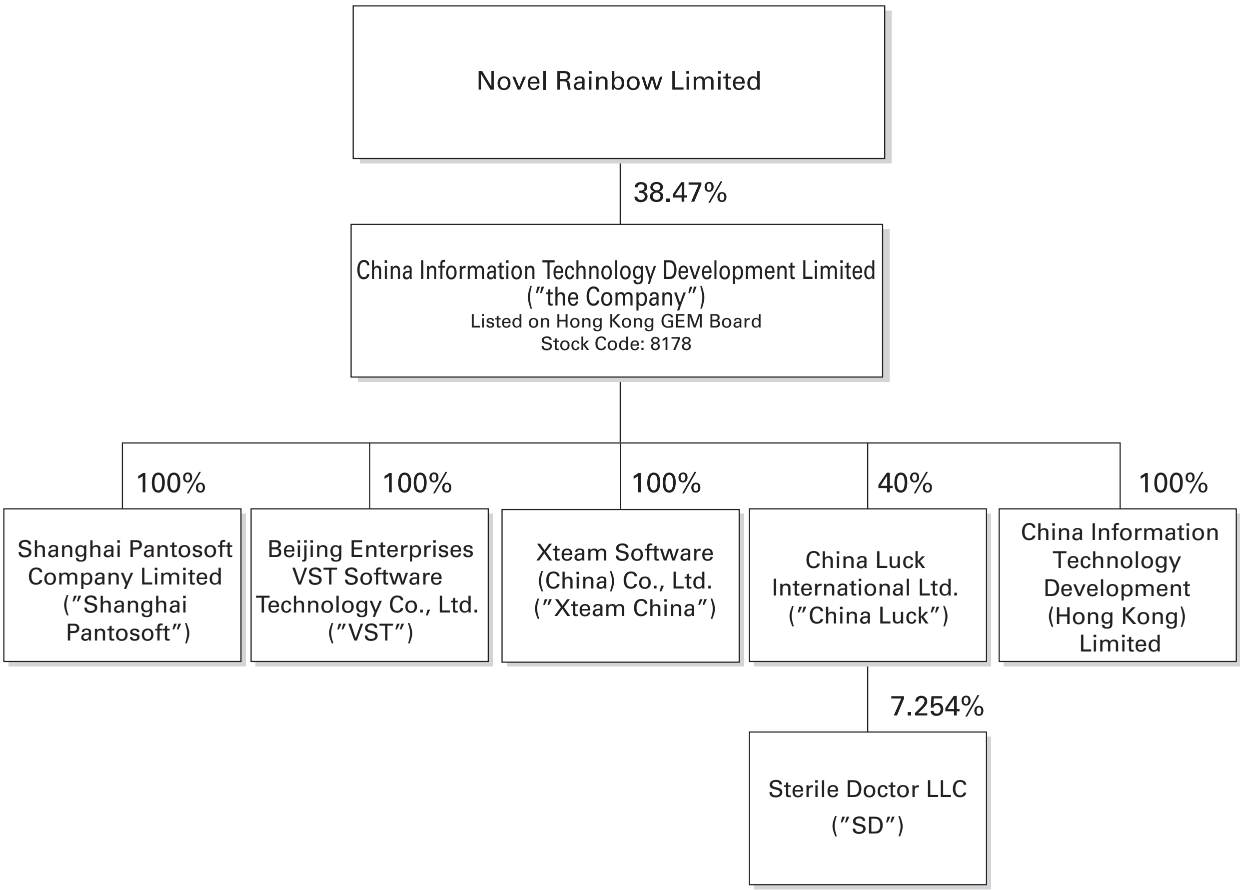
8178

WEB-SITE ADDRESS

www.chinainfotech.com.hk

Simplified Corporate Structure

At 21 March 2014



Note: Place of operations:

Shanghai Pantosoft Company Limited	:	Shanghai
Beijing Enterprises VST Software Technology Co., Ltd.	:	Beijing
Xteam Software (China) Co., Ltd.	:	Beijing
Sterile Doctor LLC.	:	United States
China Information Technology Development (Hong Kong) Limited	:	Hong Kong

CEO's Statement

I am pleased to present to the shareholders (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 2013. The Group's revenue from continuing operations for 2013 amounted to HK$59,923,000, a slight increase of 6.2% from HK$56,414,000 in 2012. The gross profit was HK$26,791,000, a decrease of 9.4% compared with HK$29,583,000 in 2012. Loss for the year increased by HK$1,726,000 to HK$9,709,000 from HK$7,983,000 for the year of 2012. The Group's operation scales were significantly reduced as the revenues of Astoria were not incorporated subsequent to completion of its disposal at the beginning of the year. However, for the purpose of the Group's continuing operations, it was not easy that the Group recorded certain growths in revenue and only slight increase in loss when the e-government and e-educational administration that the Group principally engaged experienced intensified competition due to slowdown in the overall economic growth in the People's Republic of China (the "PRC") and the costs of labor and services were rising. In overall, the Company's current business operations have shown signs of stability.

In 2013, the Company utilized the proceeds from disposal of Astoria to repay all outstanding borrowing due to creditors, so as to mitigate interest expenses incurred from liabilities and improve the Company's financial position. After that, the Company did not have any long-term borrowings. Meanwhile, the Company invested certain temporarily idle funds on certain high-quality bonds with safety, high return and liquidity in order to increase capital gains. In the view of the Board (the "Board"), this arrangement is in the interest of the Company.

In 2013, the Company made impairment provisions of totally HK$9,563,000 for foreseeable losses arising from certain other receivables with longer period, and lowered the goodwill of VST amounting to HK$3,000,0000.

During the year, the Group put great effort to explore negotiation in respect of high quality investment projects. On 6 September 2013, the Group and Bloom Faith Holdings Limited entered into the transfer agreement to acquire 21.45% interests of Shanghai Rui Hung Jiu Fong Investment Partnership Enterprise and indirectly holds up to 1.18% equity interest in Sichuan Yibing Gaozhou Jiuye Limited Company. In addition, the Company has carried out thorough negotiations concerning certain other projects for further decision making for investment. The Board believed that the aforesaid arrangements are beneficial to favorable development of the Company in future and improve Shareholders' interests.

In the fourth quarter of 2013, the Company proposed the increase in authorised share capital and arranged to raise proceeds of approximately HK$200 million by way of an open offer for the recent investment arrangements of the Company. As at 6 March 2014, this arrangement has been successfully completed.

CEO's Statement

In 2014, the Group will carefully analyze and judge the industries and operations with good momentum of growth in future while steadily expanding its existing business, properly use the raised funds and focus on the introduction of high-quality projects, 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 change 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, 21 March 2014

Management Discussion and Analysis

BUSINESS REVIEW

In January 2013, China Information Technology Development Limited (the "Company") disposed its equity interests in Astoria Innovations Limited ("Astoria") and hence Beijing Enterprises Sanxing Information Technology Co., Limited ("Sanxing") at a consideration of RMB50 million (equivalent to HK$62.24 million) and recognized a gain on disposal of approximately HK$10.91 million from the transaction. More details on background of the disposal had been disclosed in the relevant circular of the Company dated 21 December 2012.

In May 2013, the Company repaid all the outstanding long term loans amounted to HK$31,968,000 to reduce interest expense for the future.

In June 2013, the Company acquired certain bonds with a total nominal value of USD2,800,000 at a total consideration of USD2,825,390 (equivalent to approximately HKD21,784,000 and HK$21,981,000 respectively). Their respective maturities range from 2015 to 2023. The coupon rates are from 3.625% to 9.75% per annum and bond interests are paid semi-annually. More details on the bonds acquired had been disclosed in the relevant announcement of the Company dated 4 June 2013.

In September 2013, the Company, Bloom Faith Holdings Limited and Shenzhen Qian Ti Investment Limited have entered into an agreement, pursuant to which the Company had conditionally agreed to purchase 21.45% of the partnership interest in the Shanghai Rui Hung Jiu Fong Investment Partnership Enterprise ("Jiu Fong"), for the consideration of RMB25,000,000 (equivalent to approximately HK$31,518,000). As at the date of this report, the transactions has yet to be completed. Move details on the acquisition had been disclosed in the relevant announcement of the Company dated 6 September 2013.

In December 2013, China Luck International Limited, an associated company of the Group, acquired a 7.254% equity interest in Sterile Doctor LLC ("SD") a company incorporated in Denton, Texas, the United State of America at a consideration of USD2 million. SD focuses on the development and sales of environmental friendly sterilization technology products.

In March 2014, the Company issued 1,796,981,000 offer shares of HK$0.11 each by way of an open offer on the basis of two offer shares for every one share held on the record date and raised a gross proceeds of approximately HK$197.7 million. More details on the open offer had been disclosed in the relevant circular of the Company dated 10 January 2014 and the prospectus of the Company dated 12 February 2014.

Other than the above, during the period under review, revenue from provision of information technology related services to authorities of the Beijing Municipal Government remained as staple income of the Group.

OUTLOOK AND PROSPECT

Total revenue of the Company and its subsidiaries (collectively the "Group") shrinked in 2013 subsequent to the disposal of Astoria and hence Sanxing. Nonetheless, the Group will continue to focus on the development of information technology related services in the PRC via the remaining operations of the Group, namely, Beijing Enterprises VST Software Technology Co. Ltd. ("VST") and Shanghai Pantosoft Company Ltd. ("Pantosoft") and to launch into new businesses with promising prospects.

Management Discussion and Analysis

VST is principally engaged in the provision of system integration and related services including system set up, system upgrading, and long-term maintenance to the systems in social insurance and land resources of the relevant authorities of the Beijing Municipal Government. VST secured lesser than expected revenue from Bejing state owned land resources as a result of change in IT service tender methods by the latter. The revenue from its key income drivers, namely, provision of integrated information services to Beijing social insurances, is expected to maintain stable in 2014.

Pantosoft is principally engaged in the development of educational software as well as digital education campus in the PRC. In 2013, Pantosoft launched a new product, e-campus (數字化校園) and is gradually gaining acceptance by the market. The Group is committed to expand the sales network of Pantosoft to enable it to further promote its e-campus product to new schools and generate additional income.

Mainland China's economic growth is expected to showdown in 2014 as compared to 2013. The Group faces more intensified competition in areas of e-government and e-educational administration businesses. The Group will strive to maintain stability of operation in 2014.

Among other plans, which have been more fully discussed in the Company's circular dated 10 January 2014, the Company intends to apply approximately HK$181 million on investments in certain IT projects in 2014, namely:-

(1) City emergency management ("CEM") system in the areas of automated air and water pollution level monitoring;

(2) Automated control and monitoring system for new steel refining technology;

(3) Medical related information technology system ("MRS"); and

(4) Other medium to small size projects of electronic business platforms.

The Group looks forward to increasing its operation scale with the above listed potential investments and to benefiting therefrom.

FINANCIAL REVIEW

The followings are the financial reviews on the continuing operations.

Revenue

The Group's revenue from continuing operations for 2013 amounted to HK$59,923,000, increased by 6.2% from HK$56,414,000 in 2012. The increase in revenue as compared to the same period of the year 2012 was mainly due to the increase in sales revenue of e-campus application by Pantosoft amounted to approximately HK$4.1 million.

Management Discussion and Analysis

Cost of sales and services

The Group had a total cost of sales and services from continuing operations of HK$33,132,000 for 2013, which increased by 23.5% compared with HK$26,831,000 in 2012. The increase was a result of the general increase in cost and especially staff costs.

Gross profit

The gross profit of the Group from continuing operations in 2013 amounted to HK$26,791,000 which decreased by HK$2,792,000 compared with HK$29,583,000 in 2012. The gross profit margin was 44.7% compared with 52.4% in 2012. The decrease of gross profit margin was mainly attributable to increase in staff costs.

Other income and gains, net

During the financial year ended 31 December 2013, the Group generated other income and gains from continuing operations of HK$3,425,000 (2012: HK$1,530,000) which comprised: (i) bank interest income amounted to HK$1,420,000 (2012: HK$1,263,000); (ii) investment income from held-to-maturity investments and financial assets at fair value through profit or loss investments amounted to HK$803,000 (2012: HK$nil); (iii) gain on deemed disposal of a subsidiary amounted to HK$45,000 (2012: nil); (iv) tax refund amounted to HK$759,000 (2012: HK$nil) and (v) other miscellaneous items in an aggregate amount of HK$398,000 (2012: HK$267,000).

Selling and distribution expenses

The Group's selling and distribution expenses from continuing operations in 2013 amounted to HK$7,950,000, which slightly increased by 0.7% compared with HK$7,894,000 in 2012.

Administrative expenses

Administrative expenses of the Group from continuing operations in 2013 were HK$26,610,000, decreased by 2.5% comparing to HK$27,279,000 in 2012. The Company no longer incurred professional expenses for resumption of share trading in 2013, which explained the decrease.

Other expenses

Other expenses of the Group from continuing operations were HK$9,928,000 for 2013 compared to HK$1,502,000 for the previous year which comprised; (i) impairment provision on certain other receivables amounted to HK$9,563,000 (2012: HK$nil); (ii) impairment provision on trade receivables amounted to HK$315,000 (2012: HK$850,000) and (iii) other miscellaneous expenses in an aggregate amount of HK$50,000 (2012: HK$602,000).

Finance costs

Finance costs of the Group from continuing operations for 2013 were HK$800,000, a decrease of HK$330,000 comparing to HK$1,130,000 in 2012. The finance costs of HK$730,000 for 2013 were attributed to interest bearing term loans during the year while finance costs for the corresponding period in 2012 were all attributed to the imputed interest on the interest-free promissory notes. The finance costs of HK$70,000 for 2013 were related to certain loans from senior management personnel of a subsidiary which charged an interest rate of 10% per annum.

Management Discussion and Analysis

Income tax expenses

The Group's tax expenses in 2013 amounted to HK$118,000, as compared with tax expenses of HK$1,160,000 for 2012.

Loss attributable to owners

The Group's loss attributable to owners of the Company from continuing operations was HK$18,843,000 for 2013 (2012: HK$7,897,000).

FINANCIAL POSITION

Liquidity and financial resource

As at 31 December 2013, cash and bank balances held by the Group decreased from HK$156,335,000 as of 31 December 2012 to HK$73,961,000. As at 31 December 2013, the Group's total borrowings amounted to HK$1,269,000 (2012: HK$31,968,000). The gearing ratio (calculated as total borrowings over total equity) of the Group was 0.01 (2012: 0.21).

For the year ended 31 December 2013, the Group had capital expenditure of approximately HK$204,000 (2012: HK$2,331,000).

Capital structure

There has been no material change in the capital structure of the Group for the year ended 31 December 2013.

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 and liabilities are denominated in Renminbi, the foreign exchange risk of the Group was considered minimal and no hedging activities had been conducted.

Employees and remuneration policies

The total number of full-time employees hired by the Group maintained at 240 as of 31 December 2013. (2012: 482 employees, out of which 229 was related to Astoria and Sanxing). Total expenses on employee benefits amounted to HK$35,113,000 for the year ended 31 December 2013 (2012: HK$45,436,000). The decrease in both headcounts and staff costs were mainly attributed to the Group ceased to consolidate the Sanxing operation since February 2013. The management believes the remuneration packages offered by the Group to its employees are competitive.

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

During the year ended 31 December 2013, 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 48, 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 twenty 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 41, 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. Mr. Ng joined the Group on 13 May 2011.

Biographical Information of Directors and Senior Management

Dr. SUN Guofu, aged 44, 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. Also he was the member of the Expert Committee of the National Electronic Document, 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. He is currently the managing partner of Beijing FHYC Investment & Management Center (LLP), the director and general manager of FounderSec Technologies Limited, Dr. Sun has extensive experience in management and research & development. Dr. Sun joined the Group on 25 August 2009.

Mr. CHEN Zhongfa, aged 64, 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 43, 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 49, 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. SHEN Xiaodong, aged 35, is the general manager of Shanghai Pantosoft. Mr. Shen graduated from Wuhan Polytechnic University with a bachelor degree in construction engineering studies in 2002. Mr. Shen has over ten years of experience in sales and administrative management of vocational education software business. Mr. Shen joined the Group in March 2014.

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 2013.

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 17 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 2013 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 111.

The directors do not recommend the payment of a final 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 112. 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 14 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.

Report of the Directors

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 2013. 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 68% of the total sales for the year and sales to the largest customer included therein amounted to 45%. Purchases from the Group's five largest suppliers accounted for 32% of the total purchases for the year and purchase from the largest supplier included therein amounted to 12%.

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 11 to 12 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.

Report of the Directors

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 31 December 2013, 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 2013, 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.

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

At the date of this report, 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**
Novel Rainbow Limited		Directly beneficially owned	1,037,067,449	38.47%
Mr. Wei Gao	*(a)*	Through controlled corporations	1,037,067,449	38.47%
Beijing Development (Hong Kong) Limited	*(b)*	Through controlled corporations	189,551,344	7.03%
Beijing Enterprises Holdings Limited	*(c)*	Through controlled corporations	189,551,344	7.03%
Beijing Enterprises Investments Limited	*(d)*	Through controlled corporations	189,551,344	7.03%
Beijing Enterprises Group Company Limited	*(e)*	Through controlled corporations	189,551,344	7.03%
Prime Technology Group Limited		Directly beneficially owned	167,754,607	6.22%

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

Notes:

(a) Mr. Wei Gao was deemed to be interested in the 1,037,067,449 shares by virtue of his controlling interests in Novel Rainbow Limited.

(b) 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.

(c) 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.

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

(e) 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.

Save as disclosed above, as at the date of this report, 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.

EVENT AFTER THE REPORTING PERIOD

Details of significant event after the reporting period of the Group are set out in note 41 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.

Report of the Directors

AUDITORS

ZHONGHUI ANDA CPA Limited retires and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

Hu Zhuoer
Director

Hong Kong
21 March 2014

Corporate Governance Report

INTRODUCTION

The Company has complied with all the Corporate Governance Code Provisions as set out in Appendix 15 of the GEM Listing Rules (the "Code") for the year ended 31 December 2013.

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 GEM Listing Rules throughout the year ended 31 December 2013.

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.

All directors have participated in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that they are well informed and remain relevant with respect to their contributions to the Board.

BOARD MEETING

During the year of 2013, the board held totally six meetings. The attendance of each director at board meetings is as follows:

Name of director	**Attendance/Number of meetings held**
Executive directors:	
Mr. Hu Zhuoer *(Chief executive officer)*	6/6
Mr. Tse Chi Wai	6/6
Independent non-executive directors:	
Mr. Ng Kwok Fai	5/6
Dr. Sun Guofu	6/6
Mr. Chen Zhongfa	6/6

Corporate Governance Report

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.

During the year of 2013, no remuneration committee meeting was held.

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

The Company established a nomination committee with written terms of reference in compliance with Code Provisions A.5.1 to A.5.6 of Appendix 15 of the GEM Listing Rules.

The nomination committee 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. Chen 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.

The Company recognises and embraces the benefits of having a diverse Board, and notes increasing diversity at Board level as an essential element in maintaining a competitive advantage. All Board appointments are made on merit, in the context of the skills and experience the Board as a whole requires to be effective. In reviewing Board composition, the Nomination Committee will consider a number of factors, including professional knowledge, skills, experience and diversity of perspectives which are appropriate to the Company's business model and specific needs. In identifying suitable candidates for appointment to the Board, the Nomination Committee will consider candidates on merit against objective criteria and with due regard to the benefits of diversity on the Board. Selection of candidates will be based on a range of diversity perspectives including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and length of service. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

During the year of 2013, no meeting among the nomination committee members was held as none of that 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$128,000 all of which was paid to ZHONGHUI ANDA CPA Limited ("ANDA") in connection with the circular and prospectus for the open offer.

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 2013, 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 fifteen hours of relevant professional training during the year. His biography is set out in the"Directors and Senior Management"section of this annual report.

Corporate Governance 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.

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

中汇
ZHONGHUI

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 111, which comprise the consolidated and company statements of financial position as at 31 December 2013, and the consolidated statement of profit or loss, the consolidated statement of profit or loss and other 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 2013, 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.

ZHONGHUI ANDA CPA Limited
Certified Public Accountants
Sze Lin Tang
Practising Certificate Number P03614
Hong Kong
21 March 2014

Consolidated Statement of Profit or Loss

For the year ended 31 December 2013

	Notes	2013 HK$'000	2012 HK$'000 (Restated)
CONTINUING OPERATIONS			
REVENUE	*4 & 5*	**59,923**	56,414
Cost of sales and services		**(33,132)**	(26,831)
Gross profit		**26,791**	29,583
Other income and gains, net	*5*	**3,425**	1,530
Selling and distribution expenses		**(7,950)**	(7,894)
Administrative expenses		**(26,610)**	(27,279)
Other expenses		**(9,928)**	(1,502)
Fair value loss on financial assets at fair value through profit or loss		**(763)**	–
Impairment of goodwill	*15*	**(3,000)**	–
Finance costs	*6*	**(800)**	(1,130)
LOSS BEFORE TAX FROM CONTINUING OPERATIONS	*7*	**(18,835)**	(6,692)
Income tax expenses	*10*	**(118)**	(1,160)
LOSS FOR THE YEAR FROM CONTINUING OPERATIONS		**(18,953)**	(7,852)
DISCONTINUED OPERATION			
Profit/(loss) for the year from a discontinued operation	*11*	**9,244**	(131)
LOSS FOR THE YEAR		**(9,709)**	(7,983)
Attributable to:	*12*		
Owners of the Company			
Loss from continuing operations		**(18,843)**	(7,897)
Profit/(loss) from a discontinued operation		**9,777**	(89)
		(9,066)	(7,986)
Non-controlling interests			
(Loss)/profit from continuing operations		**(110)**	45
Loss from a discontinued operation		**(533)**	(42)
		(643)	3
LOSS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY	*13*		
Basic and diluted			
– For loss for the year		**HK(1.01) cents**	HK(1.08) cents
– For loss from continuing operations		**HK(2.10) cents**	HK(1.07) cents

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2013

	Notes	2013 HK$'000	2012 HK$'000
LOSS FOR THE YEAR		**(9,709)**	(7,983)
OTHER COMPREHENSIVE INCOME/(LOSS)			
Items that may be reclassified to profit or loss:			
Exchange differences on translation of foreign operations		**2,704**	781
Reclassification adjustment for cumulative amount of exchange differences upon disposal of a subsidiary	*34(a)*	**(7,494)**	–
OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR, NET OF INCOME TAX		**(4,790)**	781
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		**(14,499)**	(7,202)
Attributable to:			
Owners of the Company		**(13,937)**	(7,300)
Non-controlling interests		**(562)**	98
		(14,499)	(7,202)

Consolidated Statement of Financial Position

At 31 December 2013

	Notes	2013 HK$'000	2012 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	*14*	**4,220**	8,538
Goodwill	*15*	**12,000**	34,000
Other intangible assets	*16*	**592**	753
Investment in an associate	*18*	**3,587**	–
Held-to-maturity investment	*19*	**3,293**	–
Total non-current assets		**23,692**	43,291
CURRENT ASSETS			
Inventories	*20*	**280**	50
Amounts due from contract customers	*21*	**5,317**	9,098
Trade receivables	*22*	**3,453**	5,039
Prepayments, deposits and other receivables	*23*	**6,408**	24,017
Due from an associate	*24*	**45**	–
Held-to-maturity investment	*19*	**12,692**	–
Financial assets at fair value through profit or loss	*25*	**17,818**	–
Cash and cash equivalents	*26*	**73,961**	156,335
Total current assets		**119,974**	194,539
CURRENT LIABILITIES			
Trade payables	*27*	**3,780**	4,078
Amounts due to contract customers	*21*	**2,754**	20,990
Other payables and accruals	*28*	**6,907**	14,900
Income tax payables		**9,394**	13,093
Long term and other loans - amounts due within one year	*29*	**1,269**	10,656
Total current liabilities		**24,104**	63,717
NET CURRENT ASSETS		**95,870**	130,822
TOTAL ASSETS LESS CURRENT LIABILITIES		**119,562**	174,113

Consolidated Statement of Financial Position

At 31 December 2013

	Notes	**2013** **HK$'000**	2012 HK$'000
NON-CURRENT LIABILITIES			
Long term loans - amounts due after one year	*29*	**–**	21,312
Total non-current liabilities		**–**	21,312
Net assets		**119,562**	152,801
EQUITY			
Equity attributable to owners of the Company			
Share capital	*31*	**89,849**	89,849
Reserves	*33*	**30,689**	44,626
		120,538	134,475
Non-controlling interests		**(976)**	18,326
Total equity		**119,562**	152,801

Approved by the Board of Directors on 21 March 2014

Hu Zhuoer
Director

Tse Chi Wai
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2013

		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$'000 *(note 33(a)(iv))*	**PRC reserve funds** HK$'000 *(note 33(a)(iii))*	**Accumulated losses** HK$'000	**Total** HK$'000	**Non-controlling interests** HK$'000	**Total equity** HK$'000
1 January 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		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 and 1 January 2013		89,849	1,204,135*	–*	8,329*	22,244*	12,569*	(1,202,651)*	134,475	18,326	152,801
Loss for the year		–	–	–	–	–	–	(9,066)	(9,066)	(643)	(9,709)
Other comprehensive income for the year:											
– Exchange differences on translation of foreign operations		–	–	–	–	2,623	–	–	2,623	81	2,704
– Reclassification adjustment for cumulative amount of exchange differences upon disposal of a subsidiary	*34(a)*	–	–	–	–	(7,494)	–	–	(7,494)	–	(7,494)
Total comprehensive loss for the year		–	–	–	–	(4,871)	–	(9,066)	(13,937)	(562)	(14,499)
Disposal of a subsidiary		–	–	–	–	–	(5,782)	5,782	–	(18,740)	(18,740)
Transfer to PRC reserve funds		–	–	–	–	–	1,039	(1,039)	–	–	–
Transfer of capital reserve		–	–	–	(8,329)	–	–	8,329	–	–	–
At 31 December 2013		**89,849**	**1,204,135***	**–**	**–**	**17,373***	**7,826***	**(1,198,645)***	**120,538**	**(976)**	**119,562**

* These reserve accounts comprise the consolidated reserves of HK$30,689,000 (2012: HK$44,626,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

For the year ended 31 December 2013

	Notes	2013 HK$'000	2012 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
(Loss)/profit before tax:			
From continuing operations		**(18,835)**	(6,692)
From a discontinued operation		**9,244**	(96)
Adjustments for:			
Finance costs	*6*	**800**	1,130
Bank interest income	*5*	**(1,427)**	(3,451)
Investment income from held-to-maturity investments	*5*	**(60)**	–
Investment income from financial assets at fair value through profit or loss	*5*	**(743)**	–
Gain on disposal of an associate	*5*	**–**	(6)
Gain on disposal of a subsidiary	*34(a)*	**(10,910)**	–
Gain on deemed disposal of a subsidiary	*34(b)*	**(45)**	–
Loss on disposal of items of property, plant and equipment	*7*	**–**	87
Fair value loss on financial assets at fair value through profit or loss		**763**	–
Changes in financial assets at fair value through profit or loss		**(18,581)**	–
Depreciation	*7*	**1,262**	2,423
Amortisation of other intangible assets	*7*	**161**	162
Impairment of goodwill	*15*	**3,000**	–
Impairment of other receivables	*7*	**9,563**	–
Impairment of trade receivables	*7*	**315**	850
Operating cash flows before working capital change		**(25,493)**	(5,593)
(Increase)/decrease in inventories		**(274)**	3,009
Increase in amounts due from contract customers		**(1,129)**	(2,842)
Decrease in trade receivables		**1,305**	12,006
(Increase)/decrease in prepayments, deposits and other receivables		**(9,456)**	4,222
Increase in amounts due from an associate		**(45)**	–
Decrease in trade payables		**(284)**	(882)
Decrease in amounts due to contract customers		**(1,176)**	(485)
Increase in other payables and accruals		**7,066**	2,544
Cash (used in)/generated from operations		**(29,486)**	11,979
Interest paid		**(800)**	–
Mainland China income tax paid		**(1,079)**	(866)
Net cash (used in)/generated from operating activities		**(31,365)**	11,113

Consolidated Statement of Cash Flows

For the year ended 31 December 2013

	Notes	2013 HK$'000	2012 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment	*14*	**(204)**	(2,331)
Proceeds from disposal of property, plant and equipment		**1**	237
Proceeds from disposal of an associate	*18(a)*	**–**	6
Purchases of Held-to-maturity investment		**(15,985)**	–
Disposal of a subsidiary	*34(a)*	**(5,324)**	–
Capital injection in an associate	*18(b)*	**(3,587)**	–
Decrease/(Increase) in time deposits with maturity of more than three months when acquired		**8,281**	(1,534)
Decrease in restricted cash		**–**	7,339
Interest received		**1,427**	3,451
Investment income from held to maturity investment	*5*	**60**	–
Investment income from financial assets at fair value through profit or loss	*5*	**743**	–
Net cash (used in)/generated from investing activities		**(14,588)**	7,168
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of long term loans	*29*	**(31,968)**	(50,291)
Proceeds from issue of new shares		**–**	53,820
Transaction costs on issue of new shares		**–**	(1,566)
Inception of short-term loans	*29*	**1,269**	–
Net cash (used in)/generated from financing activities		**(30,699)**	1,963
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(76,652)**	20,244
Cash and cash equivalents at beginning of year		**103,431**	82,451
Effect of foreign exchange rate changes, net		**2,559**	736
CASH AND CASH EQUIVALENTS AT END OF YEAR		**29,338**	103,431
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances other than time deposits	*26*	**29,338**	103,431
Time deposits	*26*	**44,623**	52,904
Cash and cash equivalents as stated in the consolidated statement of financial position		**73,961**	156,335
Less: Time deposits with maturity of more than three months when acquired		**(44,623)**	(52,904)
Cash and cash equivalents as stated in the consolidated statement of cash flows		**29,338**	103,431

Statement of Financial Position

At 31 December 2013

	Notes	2013 HK$'000	2012 HK$'000
NON-CURRENT ASSETS			
Other intangible assets	16	**592**	753
Investments in subsidiaries	17	**62,644**	93,575
Investment in an associate	18	**3,587**	–
Held-to-maturity investment	19	**3,293**	–
Total non-current assets		**70,116**	94,328
CURRENT ASSETS			
Prepayments, deposits and other receivables	23	**2,090**	258
Due from an associate	24	**10**	–
Financial assets at fair value through profit or loss	25	**17,818**	–
Cash and cash equivalents	26	**2,721**	1,835
Total current assets		**22,639**	2,093
CURRENT LIABILITIES			
Due to subsidiaries	17	**5,586**	5,907
Other payables and accruals	28	**553**	592
Long term loans - amounts due within one year	29	**–**	10,656
Total current liabilities		**6,139**	17,155
NET CURRENT ASSETS/(LIABILITIES)		**16,500**	(15,062)
TOTAL ASSETS LESS CURRENT LIABILITIES		**86,616**	79,266
NON-CURRENT LIABILITIES			
Long term loans - amounts due after one year	29	**–**	21,312
Net assets		**86,616**	57,954
EQUITY			
Share capital	31	**89,849**	89,849
Reserves	33(b)	**(3,233)**	(31,895)
		86,616	57,954

Approved by the Board of Directors on 21 March 2014

Hu Zhuoer
Director

Tse Chi Wai
Director

Notes to Financial Statements

For the year ended 31 December 2013

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 and the provision of system integration and related support services 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 17 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 Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules") and of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss which are carried at their fair values. 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 made up to 31 December. Subsidiaries are entities over which the Group has control. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group has power over an entity when the Group has existing rights that give it the current ability to direct the relevant activities, i.e. activities that significantly affect the entity's returns.

When assessing control, the Group considers its potential voting rights as well as potential voting rights held by other parties, to determine whether it has control. A potential voting right is considered only if the holder has the practical ability to exercise that right.

Subsidiaries are consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date the control ceases.

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

2.1 BASIS OF PREPARATION *(Continued)*

Basis of consolidation *(Continued)*

Intragroup transactions, balances and unrealised profits are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

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 statement of profit or loss and consolidated statement of profit or loss and other 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.

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.

Changes in the Company's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions (i.e. transactions with owners in their capacity as owners). 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.

In the Company's statement of financial position the investments in subsidiaries are stated at cost less allowance for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

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 2013. 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 except as stated below.

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

Amendments to HKAS 1 titled Presentation of Items of Other Comprehensive Income introduce new terminology for statement of comprehensive income and income statement. Under the amendments to HKAS 1, a statement of comprehensive income is renamed as a statement of profit or loss and other comprehensive income and an income statement is renamed as a statement of profit or loss. The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements.

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

a. Amendments to HKAS 1"Presentation of Financial Statements" *(Continued)*

The amendments to HKAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis.

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

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

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

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

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

c. HKFRS 13 "Fair Value Measurement"

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

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

New and revised HKFRS and interpretations that have been issued but are not yet effective for the financial year beginning on 1 January 2013 and have not been early adopted are:

- Amendment to HKFRS 10, HKFRS 12 and HKAS 27 (2011) "Investment Entities" [1]
- Amendment to HKAS 32 "Offsetting Financial Assets and Financial Liabilities" [1]
- Amendment to HKAS 36 "Recoverable Amount Disclosures for Non-Financial Assets" [1]
- Amendment to HKAS 39 "Novation of Derivatives and Continuation of Hedge Accounting [1]
- HK(IFRIC) – Int 21 "Levies" [1]
- HKFRS 9 "Financial Instruments" [5]
- Amendments to HKAS 19 "Defined Benefit Plans: Employee Contributions" [3]
- HKFRS 14 "Regulatory Deferral Accounts" [4]
- HKFRS 9 "Hedge Accounting" and Amendments to HKFRS 9, HKFRS 7 and HKAS 39 [5]

[1] Effective for annual periods beginning on or after 1 January 2014
[2] Effective for annual periods beginning on or after 1 January 2015
[3] Effective for annual periods beginning on or after 1 July 2014
[4] Effective for annual periods beginning on or after 1 January 2016
[5] To be determined

In the meantime, there are Annual Improvement to HKFRSs 2010-2012 Cycle on HKFRS 2, 3, 8 and 13 and HKAS 16, 24 and 38 for annual periods beginning on or after 1 July 2014 and Annual Improvement to HKFRSs 2011-2013 Cycle on HKFRS 1, 3 and 13 and HKAS 40 for annual periods beginning on or after 1 July 2014.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Associates

Associates are entities over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions 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, including potential voting rights held by other entities, are considered when assessing whether the Group has significant influence. In assessing whether a potential voting right contributes to significant influence, the holder's intention and financial ability to exercise or convert that right is not considered.

Investment in an associate is accounted for in the consolidated financial statements by the equity method and is initially recognised at cost. Identifiable assets and liabilities of the associate in an acquisition are measured at their fair values at the acquisition date. The excess of the cost of acquisition over the Group's share of the net fair value of the associate's identifiable assets and liabilities is recorded as goodwill. The goodwill is included in the carrying amount of the investment and is tested for impairment together with the investment at the end of each reporting period when there is objective evidence that the investment is impaired. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition is recognised in consolidated profit or loss.

The Group's share of an associate's post-acquisition profits or losses is recognised in consolidated profit or loss, and its share of the post-acquisition movements in reserves is recognised in the consolidated reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

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 profit or loss.

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 profit or loss 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 profit or loss 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 profit or loss 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 profit or loss 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 profit or loss 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 profit or loss 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 profit or loss 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 of disposal, 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 profit or loss 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 prior years. A reversal of such an impairment loss is credited to profit or loss 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, financial asset at fair value through profit and loss 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 profit or loss. 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 profit or loss. The loss arising from impairment is recognised in "Other expenses" in profit or loss.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are either investments classified as held for trading or designated as at fair value through profit or loss upon initial recognition. These investments are subsequently measured at fair value. Gains or losses arising from changes in fair value of these investments are recognised in profit or loss.

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 profit or loss. 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 profit or loss.

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 profit or loss 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 profit or loss.

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 profit or loss.

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 profit or loss.

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 profit or loss 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 profit or loss 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 profit or loss 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 profit or loss.

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 profit or loss are also recognised in other comprehensive income or profit or loss 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 profit or loss.

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 AND CRITICAL JUDGEMENTS

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 2013 was HK$12,000,000 (2012: HK$34,000,000), details of which are set out in note 15 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 of disposal 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 2013 were HK$3,453,000 (2012: HK$5,039,000) and HK$375,000 (2012: HK$12,413,000), respectively, details of which are set out in notes 22 and 23 to the financial statements.

3. SIGNIFICANT ACCOUNTING ESTIMATES AND CRITICAL JUDGEMENTS *(Continued)*

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 2013 was HK$9,394,000 (2012: HK$13,093,000).

Property, plant and equipment and depreciation

The Group determines the estimated useful lives, residual values and related depreciation charges for the Group's property, plant and equipment. This estimate is based on the historical experience of the actual useful lives and residual values of property, plant and equipment of similar nature and functions. The Group will revise the depreciation charge where useful lives and residual values are different to those previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

Critical judgements in applying accounting policies

In the process of applying the accounting policies, the directors have made the following judgement that has a significant effect on the amounts recognised in the consolidated financial statements.

3. SIGNIFICANT ACCOUNTING ESTIMATES AND CRITICAL JUDGEMENTS *(Continued)*

Critical judgements in applying accounting policies *(Continued)*

Capital Injection in an associate

Pursuant to an agreement signed between the Company, China Luck International Limited ("China Luck"), an associate of the Company, and a shareholder of China Luck, the Company and the shareholder of China Luck agreed to lend US$800,000 (equivalent to approximately HK$6,240,000) and US$1,200,000 (equivalent to approximately HK$9,360,000) to China Luck respectively for acquiring a subsidiary and an available-for-sale financial asset (the "Acquisitions"). Unless the Acquisitions are cancelled, China Luck is not required to repay to the Company and the shareholder of China Luck. The Group determines that it is capital injections in China Luck and accounts it for as deemed capital contributions. The Group has injected US$ 460,000 (equivalent to approximately HK$3,587,000) in China Luck and recognized HK$3,587,000 as capital contribution during the year ended 31 December 2013.

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has two 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; and

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

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, 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.

Notes to Financial Statements

For the year ended 31 December 2013

4. OPERATING SEGMENT INFORMATION *(Continued)*

Reportable Operating Segment Information

Group

	Continuing operations						Discontinued operation			
	Software development and system integration		In-house developed products		Total		Software development and system integration		Group	
	2013 HK$'000	2012 HK$'000	2013 HK$'000	2012 HK$'000	2013 HK$'000	2012 HK$'000	2013 HK$'000	2012 HK$'000	2013 HK$'000	2012 HK$'000
Segment revenue:										
Sales to external customers	**59,923**	55,989	**–**	425	**59,923**	56,414	**1,013**	51,191	**60,936**	107,605
Other income and gains, net	**759**	–	**–**	–	**759**	–	**–**	130	**759**	130
	60,682	55,989	**–**	425	**60,682**	56,414	**1,013**	51,321	**61,695**	107,735
Reconciliation:										
Bank interest income					**1,420**	1,263	**7**	2,188	**1,427**	3,451
Investment income from held-to-maturity investments					**60**	–	**–**	–	**60**	–
Investment income from financial assets at fair value through profit or loss					**743**	–	**–**	–	**743**	–
Gain on deemed disposal of interest in a subsidiary					**45**	–	**–**	–	**45**	–
Unallocated gains					**398**	267	**–**	1,099	**398**	1,366
Revenue, other income and gains, net					**63,348**	57,944	**1,020**	54,608	**64,368**	112,552
Segment profit/(loss)	**2,909**	3,849	**(216)**	92	**2,693**	3,941	**(1,673)**	(3,372)	**1,020**	569
Reconciliation:										
Bank interest income					**1,420**	1,263	**7**	2,188	**1,427**	3,451
Investment income from held-to-maturity investments					**60**	–	**–**	–	**60**	–
Investment income from financial assets at fair value through profit or loss					**743**	–	**–**	–	**743**	–
Unallocated gains					**398**	267	**–**	1,099	**398**	1,366
Gain on deemed disposal of interest in a subsidiary					**45**	–	**–**	–	**45**	–
Gain on disposal of a subsidiary					**–**	–	**10,910**	–	**10,910**	–
Corporate and other unallocated expenses					**(19,631)**	(11,033)	**–**	(11)	**(19,631)**	(11,044)
Fair value loss on financial assets at fair value through profit or loss					**(763)**	–	**–**	–	**(763)**	–
Finance costs					**(800)**	(1,130)	**–**	–	**(800)**	(1,130)
Impairment of goodwill					**(3,000)**	–	**–**	–	**(3,000)**	–
(Loss)/profit before tax					**(18,835)**	(6,692)	**9,244**	(96)	**(9,591)**	(6,788)

4. OPERATING SEGMENT INFORMATION *(Continued)*

Reportable Operating Segment Information *(Continued)*

Group *(Continued)*

	Continuing operations						Discontinued operation			
	Software development and system integration		In-house developed products		Total		Software development and system integration		Group	
	2013 HK$'000	2012 HK$'000	2013 HK$'000	2012 HK$'000	2013 HK$'000	2012 HK$'000	2013 HK$'000	2012 HK$'000	2013 HK$'000	2012 HK$'000
Segment assets	**100,565**	117,074	**675**	875	**101,240**	117,949	**–**	94,918	**101,240**	212,867
Reconciliation:										
Corporate and other unallocated assets					**42,426**	24,963	**–**	–	**42,426**	24,963
Total assets					**143,666**	142,912	**–**	94,918	**143,666**	237,830
Segment liabilities	**(12,701)**	(13,072)	**(591)**	(579)	**(13,292)**	(13,651)	**–**	(24,893)	**(13,292)**	(38,544)
Reconciliation:										
Corporate and other unallocated liabilities					**(10,812)**	(46,485)	**–**	–	**(10,812)**	(46,485)
Total liabilities					**(24,104)**	(60,136)	**–**	(24,893)	**(24,104)**	(85,029)
Other segment information:										
Depreciation on:										
Segment assets	**468**	461	**–**	1	**468**	462	**84**	1,163	**552**	1,625
Corporate and other unallocated assets					**710**	798	**–**	–	**710**	798
					1,178	1,260	**84**	1,163	**1,262**	2,423
Amortisation of other intangible assets on:										
Corporate and other unallocated assets					**161**	162	**–**	–	**161**	162
Bank interest income#	**1,395**	1,263	**2**	–	**1,397**	1,263	**7**	2,188	**1,404**	3,451
Impairment of trade receivables	**159**	797	**156**	53	**315**	850	**–**	–	**315**	850
Income tax expenses	**118**	1,160	**–**	–	**118**	1,160	**–**	35	**118**	1,195
Capital expenditure* on:										
Segment assets	**199**	1,182	**–**	–	**199**	1,182	**–**	1,147	**199**	2,329
Corporate and other unallocated assets					**5**	2	**–**	–	**5**	2
					204	1,184	**–**	1,147	**204**	2,331

* Capital expenditure consists of additions to equipment.

The amounts of bank interest income and impairment of other receivable exclude non-operating segment.

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 2013, the Group from continuing operations had transactions with two (2012: two) 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:

	2013	2012
	HK$'000	HK$'000
Customer 1	**27,282**	23,853
Customer 2	**7,183**	10,596
	34,465	34,449

5. REVENUE, OTHER INCOME AND GAINS, NET

Revenue, which also includes 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 and discontinued operation is as follows:

	2013 HK$'000	2012 HK$'000
Revenue		
Provision of software development and system integration services	**17,711**	13,950
Sale of computer hardware	**3,277**	9,903
Provision of technical support and maintenance services	**39,948**	83,327
Lease of in-house developed products	**–**	425
	60,936	107,605
Representing:		
Continuing operations	**59,923**	56,414
Discontinued operation *(note 11)*	**1,013**	51,191
	60,936	107,605
Other income		
Bank interest income	**1,427**	3,451
Investment income from held-to-maturity investments	**60**	–
Investment income from financial assets at fair value through profit or loss	**743**	–
Government grants	**–**	130
Reversal of impairment provision on trade receivables	**–**	1,105
Reversal of impairment provision on other receivables	**–**	125
Gain on disposal of an associate *(note 18(a))*	**–**	6
Gain on deemed disposal of a subsidiary *(note 34(b))*	**45**	–
Tax refund	**759**	–
Others	**398**	130
Other income and gains, net	**3,432**	4,947
Representing:		
Continuing operations	**3,425**	1,530
Discontinued operation *(note 11)*	**7**	3,417
	3,432	4,947

6. FINANCE COSTS

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

	Group	
	2013	2012
	HK$'000	HK$'000
Interest on other loans	**70**	–
Interest on long term loan	**730**	–
Imputed interest on promissory notes	**–**	1,130
	800	1,130

No finance costs were incurred by the discontinued operation for the years ended 31 December 2013 and 2012.

7. LOSS BEFORE TAX FROM CONTINUING OPERATIONS

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

	2013	2012
	HK$'000	HK$'000
Cost of inventories sold	**6,243**	4,674
Cost of services provided	**26,889**	22,157
Depreciation***	**1,262**	2,423
Amortisation of other intangible assets*	**161**	162
Minimum lease payments under operating leases in respect of land and buildings	**4,539**	3,971
Auditors' remuneration	**400**	400
Employee benefit expense (including directors' remuneration – note 9):		
Salaries, allowances and benefits in kind	**34,584**	28,255
Pension schemes contribution	**4,137**	3,213
	38,721	31,468
Loss on disposal of items of property, plant and equipment**	**–**	50
Impairment of other receivables**	**9,563**	–
Impairment of trade receivables**	**315**	850
Impairment of goodwill	**3,000**	–
Foreign exchange differences, net	**(13)**	1

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

** These items are included in "Other expenses" of the consolidated statement of profit or loss.

*** Depreciation of HK$84,000 for the year ended 31 December 2013 (2012: HK$1,163,000) was related to the discontinued operation.

8. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the GEM Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Group	
	2013	2012
	HK$'000	HK$'000
Fees	**500**	500
Other emoluments:		
Salaries, allowances and benefits in kind	**1,665**	1,585
Pension schemes contribution	**42**	37
	1,707	1,622
	2,207	2,122

No directors were granted share options in respect of their services to the Group under share option scheme for the years ended 31 December 2013 and 2012.

8. DIRECTORS' REMUNERATION *(Continued)*

An analysis of directors' remuneration, on a named basis, for the two years ended 31 December 2013 and 2012 is as follows:

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Pension schemes contribution HK$'000	Total remuneration HK$'000
2013				
Executive directors:				
Mr. Hu Zhuoer	100	820	27	947
Mr. Tse Chi Wai	100	845	15	960
	200	1,665	42	1,907
Independent non-executive directors:				
Mr. Ng Kwok Fai	100	–	–	100
Dr. Sun Guofu	100	–	–	100
Mr. Chen Zhongfa	100	–	–	100
	300	–	–	300
Total	500	1,665	42	2,207

8. DIRECTORS' REMUNERATION *(Continued)*

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Pension schemes contribution 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

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

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two (2012: two) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining three (2012: three) non-director, highest paid employees for the year are as follows:

	Group	
	2013	2012
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	**2,084**	1,845
Pension schemes contribution	**–**	47
	2,084	1,892

The remuneration of the three non-director, highest paid employees for the year ended 31 December 2013 (2012: three) 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.

10. INCOME TAX EXPENSES

No provision for Hong Kong Profits Tax has been made for the year ended 31 December 2013 as the Group did not generate any assessable profits arising in Hong Kong during the year (2012: 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.

	2013 **HK$'000**	2012 HK$'000
Current:		
Hong Kong	**–**	–
Mainland China	**564**	1,138
(Overprovision)/underprovision in prior years	**(446)**	57
Total income tax expenses for the year	**118**	1,195
Representing:		
Continuing operations	**118**	1,160
Discontinued operation	**–**	35
	118	1,195

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:

10. INCOME TAX EXPENSES *(Continued)*

Group – 2013

	Hong Kong HK$'000	%	Mainland China HK$'000	%	Total HK$'000	%
Loss before tax from continuing operations	**(16,114)**		**(2,721)**		**(18,835)**	
Tax at the statutory tax rate	**(1,989)**	**12.3**	**(681)**	**25.0**	**(2,670)**	**14.2**
Lower tax rate for specific provinces or enacted by local authority	**–**	**–**	**(452)**	**16.6**	**(452)**	**2.4**
Adjustments in respect of current tax of previous periods	**–**	**–**	**(446)**	**16.4**	**(446)**	**2.4**
Income not subject to tax	**(7)**	**–**	**(113)**	**4.2**	**(120)**	**0.6**
Expenses not deductible for tax	**2,010**	**(12.4)**	**–**	**–**	**2,010**	**(10.7)**
Tax losses not recognised	**–**	**–**	**1,810**	**(66.5)**	**1,810**	**(9.6)**
Tax losses utilised from previous periods	**(14)**	**0.1**	**–**	**–**	**(14)**	**0.1**
Tax expenses at the Group's effective rate	**–**	**–**	**118**	**(4.3)**	**118**	**(0.6)**

Group – 2012

	Hong Kong HK$'000	%	Mainland China HK$'000	%	Total HK$'000	%
(Loss)/profit before tax from continuing operations	(8,160)		1,468		(6,692)	
Tax at the statutory tax rate	(1,340)	16.4	367	25.0	(973)	14.5
Lower tax rate for specific provinces or enacted by local authority	–	–	(773)	(52.7)	(773)	11.6
Income not subject to tax	–	–	(675)	(46.0)	(675)	10.1
Expenses not deductible for tax	1,340	(16.4)	676	46.0	2,016	(30.1)
Tax losses not recognised	–	–	1,589	108.2	1,589	(23.7)
Tax losses utilised from previous periods	–	–	(24)	(1.6)	(24)	0.4
Tax expenses at the Group's effective rate	–	–	1,160	78.9	1,160	(17.2)

11. DISCONTINUED OPERATION

On 15 November 2012, the Company entered into a sale and purchase agreement (the "Disposal") with QIFA Holdings Limited ("QIFA"), pursuant to which the Company conditionally agreed to dispose, and QIFA conditionally agreed to acquire the 68% issued share capital of Astoria Innovations Limited ("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. 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 Sanxing Information Technology Co. ("Sanxing"). Sanxing mainly 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 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.

(a) The results of the discontinued operation dealt with in the consolidated financial statements for the years ended 31 December 2013 and 2012 are summarised as follows:

	Notes	**2013** **HK$'000**	2012 HK$'000
Revenue		**1,013**	51,191
Cost of goods sold		**(1,139)**	(37,761)
Gross (loss)/profit		**(126)**	13,430
Other income		**7**	3,417
Selling and distribution expenses		**(697)**	(7,329)
Administrative expenses		**(850)**	(9,614)
Loss before tax		**(1,666)**	(96)
Income tax expenses		**–**	(35)
Loss for the year		**(1,666)**	(131)
Gain on disposal of a subsidiary, net of income tax	*34(a)*	**10,910**	–
Profit/(loss) for the year from the discontinued operation		**9,244**	(131)

11. DISCONTINUED OPERATION *(Continued)*

(b) The net cash flows of the discontinued operation dealt with in the consolidated financial statements for the years ended 31 December 2013 and 2012 are as follows:

	2013	2012
	HK$'000	HK$'000
Operating activities	**9,495**	15,358
Investing activities	**(84)**	(1)
Net cash inflow attributable to the discontinued operation	**9,411**	15,357

(c) Earnings/(loss) per share from the discontinued operation:

	2013	2012
	HK cents	HK cents
Basic and diluted	**1.09**	(0.01)

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

	2013	2012
	HK$'000	HK$'000
Profit/(loss) for the year from the discontinued operation attributable to owners of the Company	**9,777**	(89)
Weighted average number of ordinary shares in issue during the year, used in the basic and diluted earnings per share calculation *(note 13)*	**898,490,636**	736,151,839

12. 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 2013 includes a profit of HK$2,660,000 (2012: loss of HK$7,008,000) which has been dealt with in the financial statements of the Company.

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

	Notes	**2013** **HK$'000**	2012 HK$'000
Amount of consolidated profit/(loss) for the year attributable to owners of the Company dealt with in the financial statements of the Company		**2,660**	(7,008)
Write-back of impairment due from subsidiaries recognised during the year in profit or loss, net	*17(c)*	**2,112**	4,860
Gain on disposal of interest in subsidiaries		**23,429**	–
Exchange gain on amounts due from subsidiaries recognised during the year in profit or loss		**461**	–
Company's profit/(loss) for the year	*33(b)*	**28,662**	(2,148)

13. 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$9,066,000 (2012: HK$7,986,000) and HK$18,843,000 (2012: HK$7,897,000), respectively, and the weighted average number of 898,490,636 (2012: 736,151,839) ordinary shares in issue during the year.

No diluted loss per share is presented for the year ended 31 December 2013 as there were no dilutive potential ordinary shares outstanding for the year.

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

14. 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 2013				
At 1 January 2013:				
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
Net carrying amount:				
At 1 January 2013	126	3,737	4,675	8,538
Additions	–	204	–	204
Depreciation provided during the year	(128)	(482)	(652)	(1,262)
Disposals	–	(1)	–	(1)
Disposal of subsidiaries	–	(1,869)	(1,546)	(3,415)
Exchange realignment	2	59	95	156
At 31 December 2013	–	1,648	2,572	4,220
At 31 December 2013:				
Cost	485	8,297	5,557	14,339
Accumulated depreciation	(485)	(6,649)	(2,985)	(10,119)
Net carrying amount	–	1,648	2,572	4,220

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

Group *(Continued)*

	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. GOODWILL

Group

	Note	Cost HK$'000	Accumulated impairment HK$'000	Net carrying amount HK$'000
At 1 January 2012, 31 December 2012, and 1 January 2013		**289,770**	**(255,770)**	**34,000**
Disposal of subsidiaries	*34(a)*	**(23,541)**	**4,541**	**(19,000)**
Impairment during the year recognised in profit or loss		**–**	**(3,000)**	**(3,000)**
At 31 December 2013		**266,229**	**(254,229)**	**12,000**

Impairment testing of goodwill

The net carrying amount of goodwill as at 31 December 2013 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 2013 HK$'000	2012 HK$'000
Astoria Innovations Limited and its subsidiaries (the "Astoria Group")	**–**	19,000
Wisdom Elite Holdings Limited and its subsidiaries (the "Wisdom Elite Group")	**12,000**	15,000
	12,000	34,000

15. 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% (2012: 16%). Management determined the budgeted gross margin based on past performances and the average sales growth rate of 3% (2012: 3%) is comparable with the forecast of the information technology market in Mainland China.

At 31 December 2013, before impairment testing, goodwill of HK$15,000,000 was allocated to Wisdom Elite Group. Due to changes in market condition, the Group has revised its cash flow forecasts for these cash generating units. The goodwill allocated to Wisdom Elite Group has therefore been reduced to its recoverable amount of HK$12,000,000 through recognition of an impairment loss against goodwill of HK$3,000,000 during the year.

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 34(a) to the financial statements, the Company disposed of its entire issued share capital 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.

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For the year ended 31 December 2013

16. OTHER INTANGIBLE ASSETS

Group and Company

	Golf club membership HK$'000
Year ended 31 December 2013	
At 1 January 2013:	
Cost	**1,614**
Accumulated amortisation	**(861)**
Net carrying amount	**753**
Net carrying amount:	
At 1 January 2013	**753**
Amortisation provided during the year	**(161)**
At 31 December 2013	**592**
At 31 December 2013:	
Cost	**1,614**
Accumulated amortisation	**(1,022)**
Net carrying amount	**592**
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

17. INTERESTS IN SUBSIDIARIES

		Company	
		2013	2012
	Notes	**HK$'000**	HK$'000
Investments in subsidiaries, included in non-current assets			
Unlisted shares, at cost		**1,321,868**	1,349,767
Due from subsidiaries	*(a)*	**55,027**	75,185
Impairment of unlisted shares	*(b)*	**(1,260,687)**	(1,260,686)
Impairment of amounts due from subsidiaries	*(c)*	**(53,564)**	(70,691)
		62,644	93,575
Due to subsidiaries, included in current liabilities	*(a)*	**(5,586)**	(5,907)
		57,058	87,668

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 2013, an accumulated impairment was recognised for certain unlisted shares with an aggregate carrying amount of HK$1,321,868,000 (before deducting the impairment loss) (2012: HK$1,321,868,000, 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	
	2013	2012
	HK$'000	HK$'000
At 1 January	**70,691**	75,551
Write-back of impairment during the year recognised in profit or loss, net	**(2,112)**	(4,860)
Deemed disposal of a subsidiary	**(15,015)**	–
At 31 December	**(53,564)**	(70,691)

17. 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 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
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
China Information Technology Development (Hong Kong) Limited	Hong Kong	HK$100	–	100	Office management

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.

18. INVESTMENT IN AN ASSOCIATE

	Group and Company	
	2013	2012
	HK$'000	HK$'000
Share of net assets *(note (a), (b))*	**3,587**	–

Notes:

(a) The Group did not recognise its share of losses of Easy Code for the years ended 31 December 2012, 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 for the year ended 31 December 2012.

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.

(b) The Group's equity interest in China Luck, a former wholly-owned subsidiary of the Company diluted from 100% to 40% upon the allotment of new shares to an independent third party by China Luck. The Group lost its control over China Luck as a result of the dilution of interest during the year ended 31 December 2013, and China Luck ceased to be a subsidiary of the Group and became an associate of the Group accordingly. Further details of the deconsolidation of China Luck are disclosed in note 34(b) to the financial statements.

Pursuant to an agreement signed between the Company, China Luck, and the third party shareholder of China Luck, the Company and the third party shareholder of China Luck agreed to lend US$800,000 (equivalent to approximately HK$6,240,000) and US$1,200,000 (equivalent to approximately HK$9,360,000) to China Luck respectively for acquiring a subsidiary and an available-for-sale financial asset. Unless the Acquisitions are cancelled, China Luck is not required to repay to the Company and the third party shareholder. The Group determines that those loans are capital injections in China Luck. The Group has injected US$ 460,000 (equivalent to approximately HK$3,587,000) in China Luck and recognized HK$3,587,000 as capital contribution during the year ended 31 December 2013.

(c) Particulars of the associate that is material to the Group as at 31 December 2013 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**
China Luck International Limited	British Virgin Islands	US$250	40%	40%	40%	Investment holding

18. INVESTMENT IN AN ASSOCIATE *(Continued)*

Notes: (Continued)

(d) The following table shows information of an associate, China Luck, that is material to the Group. This associate is accounted for in the consolidated financial statements using the equity method. The summarised financial information presented is based on the HKFRS financial statements of the associates.

Name	**China Luck**
	2013
	HK$
At 31 December:	
Non-current assets	**15,534**
Current assets	**14,982**
Current liabilities	**(21,590)**
Net assets	**8,926**
Group's share of net assets and carrying amount of interests	**3,570**
Goodwill	**17**
	3,587
Year ended 31 December:	
Revenue	**–**
Profit and total comprehensive income for the year	**–**

19. HELD-TO MATURITY INVESTMENTS

	Group	Company
	2013	**2013**
	HK$'000	**HK$'000**
Listed securities in Hong Kong		
Bonds with fixed interest of 9.75% and maturity date of 16 February 2015	**3,293**	**3,293**
Investments with fixed interest of 5.1% and maturity date of 12 February 2014	**12,692**	**–**
	15,985	**3,293**
Analysed as:		
Non-current assets	**3,293**	**3,293**
Current assets	**12,692**	**–**
	15,985	**3,293**

Held-to maturity investments of approximately HK$3,293,000 and HK$12,692,000 are denominated in United States dollar and Renminbi respectively.

20. INVENTORIES

	Group	
	2013	2012
	HK$'000	HK$'000
Raw materials	**–**	42
Finished goods and merchandises	**280**	8
	280	50

21. AMOUNTS DUE FROM/TO CONTRACT CUSTOMERS

		Group	
		2013	2012
	Notes	**HK$'000**	HK$'000
Gross amounts due from contract customers	*(a)*	**5,317**	9,903
Less: Impairment	*(b)*	**–**	(805)
		5,317	9,098
Amounts due to contract customers		**(2,754)**	(20,990)
		2,563	(11,892)
Contract costs incurred plus recognised profits less recognised losses to date		**63,617**	140,718
Less: Progress billings		**(61,054)**	(151,805)
Less: Impairment	*(b)*	**–**	(805)
		2,563	(11,892)

Notes:

(a) Included in the Group's amounts due from contract customers as at 31 December 2013 is an amount due from a subsidiary of a major shareholder of HK$nil (2012: HK$37,000) 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	
	2013	2012
	HK$'000	HK$'000
At 1 January	**805**	801
Disposal of a subsidiary	**(813)**	–
Exchange realignment	**8**	4
At 31 December	**–**	805

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.

22. TRADE RECEIVABLES

		Group	
	Notes	**2013 HK$'000**	2012 HK$'000
Trade receivables		**8,337**	9,464
Impairment	*(b)*	**(4,884)**	(4,425)
		3,453	5,039

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	
	2013 HK$'000	2012 HK$'000
Within 1 month	**1,401**	1,515
1 to 2 months	**339**	1,236
2 to 3 months	**–**	–
Over 3 months	**1,713**	2,288
	3,453	5,039

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

	Group	
	2013 HK$'000	2012 HK$'000
At 1 January	**4,425**	4,653
Impairment during the year recognised in profit or loss	**315**	850
Write-back of impairment	**–**	(1,105)
Exchange realignment	**144**	27
At 31 December	**4,884**	4,425

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)

(b) *(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	
	2013	2012
	HK$'000	HK$'000
Neither past due nor impaired	**1,601**	1,515
Less than 1 month past due	**321**	1,315
1 to 3 months past due	**3**	7
Over 3 months past due	**1,528**	2,202
	3,453	5,039

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.

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

23. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

		Group		Company	
		2013	2012	**2013**	2012
	Note	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Prepayments		**1,282**	9,875	**507**	150
Deposits and other receivables		**10,597**	13,020	**1,583**	108
Due from related companies*	*24*	**4,751**	1,729	**2,967**	–
		16,630	24,624	**5,057**	258
Impairment *(note)*		**(10,222)**	(607)	**(2,967)**	–
		6,408	24,017	**2,090**	258

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

	Group		Company	
	2013	2012	**2013**	2012
	HK$'000	HK$'000	**HK$'000**	HK$'000
At 1 January	**607**	32,085	**–**	–
Impairment during the year recognised in profit or loss	**9,563**	–	**2,967**	–
Amount written off as uncollectible	**–**	(31,358)	**–**	–
Write-back of impairment	**–**	(125)	**–**	–
Exchange realignment	**52**	5	**–**	–
At 31 December	**10,222**	607	**2,967**	–

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 as at 31 December 2013.

24. BALANCES WITH RELATED COMPANIES AND AN ASSOCIATE

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

The amounts due from related companies have been arrived at after deducting impairment losses of approximately HK$4,726,000.

25. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group and Company
	2013
	HK$
Bonds, at fair value listed in Hong Kong	
Bonds with fixed interest of 3.625% and maturity date of 16 January 2023	**5,831**
Bonds with fixed interest of 4% and maturity date of 3 December 2022	**5,652**
Bonds with fixed interest of 6.375% and maturity date of 26 September 2017	**6,335**
	17,818

The carrying amounts of the above financial assets are classified as follows:

Held for trading	**17,818**

The investments included above represent investments in bonds that offer the Group the opportunity for return through interest income and fair value gains.

The fair values of bonds are based on current bid prices.

26. CASH AND CASH EQUIVALENTS

	Group		Company	
	2013	2012	**2013**	2012
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and bank balances other than time deposits	**29,338**	103,431	**2,721**	1,835
Time deposits	**44,623**	52,904	**–**	–
Total cash and bank balances	**73,961**	156,335	**2,721**	1,835

Notes:

(a) At 31 December 2013, the cash and bank balances of the Group denominated in RMB amounted to HK$69,902,000 (2012: HK$149,965,000). 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.

(b) 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.

27. 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	
	2013	2012
	HK$'000	HK$'000
Within 1 month	**2,044**	1,479
1 to 2 months	**–**	–
2 to 3 months	**–**	–
Over 3 months	**1,736**	2,599
	3,780	4,078

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

28. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2013	2012	**2013**	2012
	HK$'000	HK$'000	**HK$'000**	HK$'000
Accruals	**4,404**	4,787	**544**	545
Receipts in advance	**2**	211	**–**	–
Other payables	**2,501**	9,902	**9**	47
	6,907	14,900	**553**	592

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

29. LONG TERM AND OTHER LOANS

	Group		Company	
	2013	2012	**2013**	2012
	HK$'000	HK$'000	**HK$'000**	HK$'000
Long term loans	**–**	31,968	**–**	31,968
Other loans	**1,269**	–	**–**	–
	1,269	31,968	**–**	31,968

The long term and other loans are repayable as follows:

	Group		Company	
	2013	2012	**2013**	2012
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within one year	**1,269**	10,656	**–**	10,656
In the second year	**–**	10,656	**–**	10,656
In the third to fifth year inclusive	**–**	10,656	**–**	10,656
	1,269	31,968	**–**	31,968
Less: Amount due for settlement within 12 months	**(1,269)**	(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.

The other loans are denominated in RMB and unsecured.

29. LONG TERM AND OTHER LOANS *(Continued)*

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%. During the year ended 31 December 2013, the Company repaid all the long term loans amounted to HK$31,968,000.

Other loans of approximately HK$1,269,000, comprising amounts due to a director of and a senior manager of a subsidiary of approximately HK$888,000 and HK$381,000 respectively.

The loans are unsecured, bear interest charge at 10% per annum on the unpaid principle, and are repayable in full on 11 July 2014.

30. DEFERRED TAX LIABILITY

No movement in the deferred tax liability of the Group during the years ended 31 December 2013 and 2012.

The Group has tax losses arising in Hong Kong of approximately HK$10,770,000 (2012: HK$10,770,000) that are available indefinitely, and in Mainland China of HK$12,916,000 (2012: HK$5,303,000) 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 investment in a subsidiary, Beijing Enterprises VST Software Technology Co. Ltd, for which deferred tax liabilities have not been recognised totalled approximately HK$28,586,000 (2012: HK$23,392,000) as at 31 December 2013.

31. SHARE CAPITAL

	Nominal value per share	Number of shares	Amount
	HK$		*HK$'000*
Authorised:			
At 31 December 2012, 1 January 2013 and 31 December 2013	0.10	1,000,000,000	100,000
Issued and fully paid:			
At 31 December 2012, 1 January 2013 and 31 December 2013	0.10	898,490,636	89,849

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 Old Scheme became effective on 21 November 2001 and expired on 30 September 2012. A New Share Option Scheme was adopted by the Company on 3 August 2012 and has a term of 10 years.

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:

	2013		2012	
	Weighted average exercise price (HK$ per share)	**Number of options '000**	Weighted average exercise price (Adjusted) (HK$ per share)	Number of options (Adjusted) '000
At 1 January	**–**	**–**	7.9	4,640
Forfeited during the year	**–**	**–**	7.9	(4,640)
At 31 December	**–**	**–**	–	–

32. SHARE OPTION SCHEME *(Continued)*

Notes:

(a) No share options were granted, exercised and lapsed during the year (2012: 4,640,000 share options were lapsed).

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

2013

Number of options '000	Exercise price* (HK$ per share)	Exercise period
–	**N/A**	**N/A**

2012

Number of options '000	Exercise price* (Adjusted) (HK$ per share)	Exercise period
–	7.9	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) No equity-settled share option expense was recognised during the years ended 31 December 2013 and 2012 in respect of share options granted in prior years.

(e) At 31 December 2013 and at the date of approval of these financial statements, the Company had no share options outstanding under the Scheme.

Notes to Financial Statements

For the year ended 31 December 2013

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 2.3 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 2013 were distributable in the form of cash dividends.

(iv) 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.

33. RESERVES *(Continued)*

(b) Company

	Share premium account HK$'000	Share option reserve HK$'000	Capital reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 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	28,920	–	–	–	28,920
Transaction costs attributable to issue of new shares	(1,566)	–	–	–	(1,566)
Transfer of share option reserve upon the forfeiture of share options	–	(22,440)	–	22,440	–
At 31 December 2012 and 1 January 2013	1,193,268	–	8,329	(1,233,492)	(31,895)
Profit for the year and total comprehensive income for the year	–	–	–	28,662	28,662
Transfer of capital reserve	–	–	(8,329)	8,329	–
At 31 December 2013	1,193,268	–	–	(1,196,501)	(3,233)

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.

34. DISPOSAL AND DEEMED DISPOSAL OF SUBSIDIARIES

(a) Disposal of a subsidiary

On 15 November 2012, the Company entered into a sale and purchase agreement (the "Disposal") with QIFA Holdings Limited ("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. 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 Sanxing. Sanxing mainly 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 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. A gain on disposal of Astoria of HK$10,910,000 was recognised upon the completion, being calculated as follows:

	Notes	**2013** **HK$'000**
Net assets disposed of:		
Goodwill	*15*	**19,000**
Property, plant and equipment	*14*	**3,415**
Inventories		**46**
Amounts due from contract customers		**5,072**
Trade receivables		**123**
Prepayments, deposits and other receivables		**17,788**
Cash and bank balances		**67,564**
Amounts due to contract customers		**(17,241)**
Trade payables		**(113)**
Other payables and accruals		**(15,303)**
Tax payables		**(2,787)**
Non-controlling interests		**(18,740)**
		58,824
Exchange fluctuation reserve realised		**(7,494)**
Gain on disposal of a subsidiary	*11(a)*	**10,910**
		62,240
Satisfied by cash		**62,240**

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

(a) Disposal of a subsidiary *(Continued)*

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

	2013 **HK$'000**
Cash and bank balances disposal of	**(67,564)**
Cash consideration	**62,240**
Net outflow of cash and cash equivalents in respect of the disposal of a subsidiary	**(5,324)**

(b) Deemed disposal of a subsidiary

The Group's equity interest in China Luck was diluted from 100% to 40% for the year ended 31 December 2013, following the allotment of new shares to an independent third party by China Luck and the Group lost control over China Luck as a result. Accordingly, China Luck ceased to be a subsidiary of the Group and becomes an associate of the Group since then, at which time the Group deconsolidated China Luck.

	Notes	**2013** **HK$'000**
Net assets deconsolidated:		
Amount due from a related company		**14,980**
Amount due to a shareholder		**(15,025)**
		(45)
Gain on deemed disposal of a subsidiary	*5*	**45**
		–
Reclassification from investment in a subsidiary to investment in an associate		**–**

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

(b) Deemed disposal of a subsidiary *(Continued)*

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

	Group
	2013
	HK$'000
Cash and bank balances deconsolidated and net outflow of cash and cash equivalents in respect of the deconsolidated of a subsidiary	**–**

35. 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 (2012: one to two 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	
	2013	2012
	HK$'000	HK$'000
Within one year	**3,047**	4,041
In the second to fifth years, inclusive	**2,684**	703
	5,731	4,744

At the end of reporting period, the Company did not have any significant operating lease commitments (2012: Nil).

36. CAPITAL COMMITMENTS

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

	2013
	HK$'000
Partnership interest	
Contracted but not provided for	31,018

Bloom Faith Holdings Limited and 深圳市乾惕投資有限公司 (collectively "the Vendors"), both are the independent third parties, together with the Company entered into an agreement on 6 September 2013, pursuant to which the Company conditionally agreed to purchase and the Vendors conditionally agreed to sell 21.45% partnership interest in 上海瑞鴻九坊投資合夥企業, for the consideration of RMB25,000,000 (equivalent to approximately HK$31,518,000) before 31 December 2013. During the year ended 31 December 2013, deposit of HK$500,000 was paid to the Vendors.

The Vendors and the Company entered into a supplemental agreement on 30 December 2013 whereby the parties mutually agreed to extend the long stop date of the agreement from 31 December 2013 to 31 March 2014.

37. OTHER COMMITMENT

Pursuant to an agreement signed between the Company, China Luck and a third party shareholder of China Luck, the Company and the third party shareholder of China Luck agreed to lend US$800,000 (equivalent to approximately HK$6,240,000) and US$1,200,000 (equivalent to approximately HK$9,360,000) to China Luck respectively for acquiring a subsidiary and an available-for-sale financial asset. The Company lent US$ 460,000 (equivalent to approximately HK$3,587,000) to China Luck during the year. Commitment of US$340,000 (equivalent to approximately HK$2,653,000) is outstanding as at 31 December 2013.

38. 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:

	Notes	2013 HK$'000	2012 HK$'000
A subsidiary of a major shareholder of the Company:			
Service fee income	(i)	–	259

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.

(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. 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.

(c) Outstanding balances with related parties

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

38. RELATED PARTY DISCLOSURES *(Continued)*

(d) Compensation of key management personnel of the Group

	2013 HK$'000	2012 HK$'000
Short term employee benefits	**4,283**	4,620
Pension schemes contribution	**54**	95
Total compensation paid to key management personnel	**4,337**	4,715

Further details of directors' emoluments and remuneration of the five highest paid employees are included in notes 8 and 9 to the financial statements, respectively.

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments mainly comprise held-to-maturity investment, financial assets at fair value through profit or loss and cash and cash equivalents. 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.

39. 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, liquidity risk and price 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 2013				
Floating rate:				
Bank balances	29,265	–	29,265	0.35%
Fixed rate:				
Time deposits	44,422	–	44,422	3.30%
Short term loans	1,269	–	1,269	10.00%
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%

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

(b) Interest rate risk *(Continued)*

At 31 December 2013, 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 decrease/increase the Group's loss before tax for the year ended 31 December 2013 by HK$293,000/HK$102,000 (2012: increase/decrease of HK$42,000/HK$715,000).

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
2013		
If Hong Kong dollar weakens against RMB	**5**	**(93)**
If Hong Kong dollar strengthens against RMB	**(5)**	**93**
2012		
If Hong Kong dollar weakens against RMB	5	(94)
If Hong Kong dollar strengthens against RMB	(5)	94

39. 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 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, except other loan of approximately HK$1,269,000, included in current liabilities as at the end of the reporting period had no fixed terms of repayment.

39. 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 2013

	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$'000**	**Total HK$'000**
Trade payables	**3,780**	**–**	**–**	**–**
Other payables	**2,501**	**–**	**–**	**–**
Other loans	**1,269**	**–**	**–**	**–**
	7,550	**–**	**–**	**–**

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$'000	Total HK$'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

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES
(Continued)

(e) Liquidity risk *(Continued)*

Company
31 December 2013

	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	**9**	**–**	**–**	**9**
Due to subsidiaries	**5,586**	**–**	**–**	**5,586**
	5,595	**–**	**–**	**5,595**

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

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES
(Continued)

(f) Price risk

The Group's financial assets at fair value through profit or loss are measured at fair value at the end of each reporting period. Therefore, the Group is exposed to security price risk. The directors manage this exposure by maintaining a portfolio of investments with difference risk profiles.

As at 31 December 2013, if the interest rate had increased/decreased by 1% with all other variables held constant and the Group's financial assets at fair value through profit or loss moved according to the historical correlation with the interest rate, the fair value of these financial assets at fair value through profit or loss would decrease/increase by 6%.

The consolidated profit after tax for the year would increase/decrease as a result of gains/losses on security classified as at fair value through profit or loss.

(g) Categories of financial instruments

	Group		Company	
	2013	2012	**2013**	2012
	HK$'000	HK$'000	**HK$'000**	HK$'000
Financial assets:				
Financial assets at fair value through profit or loss:				
Held for trading	**17,818**	–	**17,818**	–
Held-to-maturity investments	**15,985**	–	**3,293**	–
Loans and receivables (including cash and cash equivalents)	**82,540**	175,516	**4,304**	1,943
Financial liabilities:				
Financial liabilities at amortised cost	**11,955**	29,423	**6,139**	38,467

(h) Fair values

The carrying amounts of the Group's financial assets and financial liabilities as reflected in the consolidated statement of financial position approximate their respective fair values.

(i) 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 2013 and 2012.

40. FAIR VALUE MEASUREMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following disclosures of fair value measurements use a fair value hierarchy that categorises into three levels the inputs to valuation techniques used to measure fair value:

Level 1 inputs: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date.

Level 2 inputs: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs: unobservable inputs for the asset or liability.

The Group's policy is to recognise transfers into and transfers out of any of the three levels as of the date of the event or change in circumstances that caused the transfer.

(a) Disclosures of level in fair value hierarchy at 31 December 2013:

	Fair value measurements using:			**Total**
Description	**Level 1**	**Level 2**	**Level 3**	**2013**
	HK$'000	HK$'000	HK$'000	HK$'000
Recurring fair value measurements:				
Financial assets at fair value through profit or loss				
Listed securities in Hong Kong	17,818	–	–	17,818
Total recurring fair value measurements	17,818	–	–	17,818

41. EVENTS AFTER THE REPORTING PERIOD

Pursuant to an ordinary resolution passed at the extraordinary general meeting on 27 January 2014, the authorised share capital of the Company was increased from HK$100 million to HK$400 million by creation of an additional 3,000 million new shares of HK$0.10 each.

Subsequently, pursuant to an ordinary resolution passed in the same extraordinary meeting, 1,796,981,272 new shares were issued as an open offer at HK$0.11 each and raised gross proceeds of approximately HK$197.7 million. The open offer was completed on 6 March 2014.

42. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 21 March 2014.

Five Year Financial Summary

31 December 2013

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				
	2013	2012	2011	2010	2009
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
RESULTS					
CONTINUING OPERATIONS					
REVENUE	**59,923**	56,414	90,337	118,374	106,972
Loss before tax from continuing operations	**(18,835)**	(6,692)	(28,242)	(12,136)	(30,206)
Income tax expenses	**(118)**	(1,160)	(2,620)	(5,004)	(4,093)
LOSS FOR THE YEAR FROM CONTINUING OPERATIONS	**(18,953)**	(7,852)	(30,862)	(17,140)	(34,299)
DISCONTINUED OPERATION					
Profit/(loss) for the year from a discontinued operation	**9,244**	(131)	28,040	(9,391)	(21,947)
Loss for the year	**(9,709)**	(7,983)	(2,822)	(26,531)	(56,246)
Attributable to:					
Owners of the Company	**(9,066)**	(7,986)	(1,284)	(29,189)	(57,396)
Non-controlling interests	**(643)**	3	(1,538)	2,658	1,150
	(9,709)	(7,983)	(2,822)	(26,531)	(56,246)

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	Year ended 31 December				
	2013	2012	2011	2010	2009
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
TOTAL ASSETS	**143,666**	237,830	240,131	270,503	270,045
TOTAL LIABILITIES	**(24,104)**	(85,029)	(132,382)	(156,685)	(150,656)
NET ASSETS	**119,562**	152,801	107,749	113,818	119,389
Equity attributable to:					
Owners of the Company	**120,538**	134,475	89,521	96,315	105,163
Non-controlling interests	**(976)**	18,326	18,228	17,503	14,226
	119,562	152,801	107,749	113,818	119,389