# 2011
# ANNUAL REPORT

## 中國數碼信息有限公司
二零一一年度　年報

中国数码
Sino-i Technology Limited
Stock Code：250　股份代號：250

# Contents

# CORPORATE INFORMATION

## Directors

### Executive

Mr. YU Pun Hoi *(Chairman)*
Ms. CHEN Dan
Ms. LIU Rong
Mr. WANG Gang

### Non-executive

Mr. LAM Bing Kwan

### Independent Non-executive

Mr. HUANG Yaowen
Prof. JIANG Ping
Mr. FUNG Wing Lap

## Company Secretary

Mr. WATT Ka Po James

## Auditor

BDO Limited
Certified Public Accountants
Hong Kong

## Registered Office

Units 15–18, 36/F.,
China Merchants Tower, Shun Tak Centre
168–200 Connaught Road Central
Hong Kong

## Share Registrar

Tricor Abacus Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

## Stock Code

250

## Principal Bankers

DBS Bank (Hong Kong) Limited
The Hongkong and Shanghai Banking
Corporation Limited

## Website Address

http://www.sino-i.com

# CHAIRMAN'S STATEMENT

Over the years, we have been serving the small-and-medium enterprises (the "SMEs"). As the driving force behind the major economies across the globe, SMEs have become the cornerstone supporting the national economic growth in various countries. The Company and its subsidiaries (collectively the "Group") still position ourselves as an e-commerce and information service provider facilitating SMEs in China to upgrade, with the aid of IT and internet technology, their information infrastructure and, in turn, build up their core competitiveness and establish themselves as intelligent enterprises and entrepreneurs.

With repeated explorations and attempts, the Group have eventually created the operation model of pay on demand for IT application services. Being low-cost yet highly efficient, such service model has become one of the information infrastructure models that best caters to the needs of SMEs in China, and provides the Group with immense opportunities for development. By spending our tireless efforts over the years, the Group have succeeded in cultivating a leading edge and core competence in terms of operating products and marketing channels. However, as the result of the ongoing commitment to R&D, technological infrastructure and a nationwide multiple business network, the Group remain in the red.

# CHAIRMAN'S STATEMENT

In 2011, revenue from the Group's corporate IT application services increased to some extent. However, additional costs attributable to new products' launching, technological infrastructure innovation and expansion of branch network together with the investment loss on disposal of certain entities have deepened the loss in this segment as a whole. Besides, losses from our financial information services and distance learning education services, both being the discontinued operations of the Group, increased over the previous year. For the year ended 31 December 2011, net loss attributable to owners of the Company was approximately HK$157,371,000 (2010: HK$79,857,000).

To optimize our operation structure from its fundamental, the Group have made substantial adjustment since the fourth quarter by disposing of our loss-making non-core operations, namely the financial information services and distance learning education services, while retaining the corporate IT application services so as to concentrate our resources on principal activities. Meanwhile, streamlining and integration of core business of the Group were also made to enhance overall operation efficiency.

## I. CORPORATE IT APPLICATION SERVICES

As expected, more and more SMEs tapped into the burgeoning e-commerce market in China and in particular the B2C online retail business last year. Capitalizing on this development, 中企動力科技股份有限公司 (CE Dongli Technology Company Limited) ("CE Dongli"), a major subsidiary of the Group, launched an operating system for B2C online trading, a leading self-developed B2C on-line trading platform in China, which earned acclaims from SME customers, and also generated opportunities for further penetrating the e-commerce market.

As regards the sales and marketing channels, the Group kicked off a new round of business network expansion. CE Dongli has established 14 new branches, leading to its domestic coverage of over 80 cities, and consolidating its existing competitiveness.

In terms of overall operating efficiency, the Group have made substantial streamlining and integration by concentrating our diversified resources and efforts on three major operating entities, namely CE Dongli, 新網華通信息技術有限公司 (Xinnet Technology Information Co., Ltd.) and 北京中企動力廣告有限公司 (Beijing CE Dongli Advertising Company Limited), and disposing of other non-core businesses. At the same time, the Group also adjusted our diversified investment strategies in R&D and operations. The Group now focus on the R&D and operation infrastructure for new products catering the e-commerce market and in-depth exploration of the industry, shaping a more focused strategy for the Group. The efficacy of such optimization measures are expected to take effect in 2012.

## II. DISCONTINUED OPERATIONS OF FINANCIAL INFORMATION SERVICES AND DISTANCE LEARNING EDUCATION SERVICES

In 2011, 北京世華國際金融信息有限公司 (Beijing Shihua International Financial Information Company Limited) ("Shihua") and 北京華夏大地遠程教育網絡服務有限公司 (Beijing Chinese Dadi Distance Education Company Limited) ("Chinese Dadi"), both being subsidiaries of the Group, recorded losses.

Despite certain progress in its development of new products, Shihua has been incurring losses. Given the infancy of the financial information services market in China, there are constraints on the development of this sector and turnaround is nowhere in sight in the near future. Chinese Dadi is principally engaged in a single segment, the provision of on-line self-study tutorials for higher education examinations. Future expansion in this segment is restrained and substantial commitments are required to turn things around. In view of the above, to alleviate the negative impact of such non-core businesses on the Group's results, the above subsidiaries were disposed of in late 2011.

# CHAIRMAN'S STATEMENT

## III. CONCLUSION

During the year under review, the Group have consolidated our leading position in the e-commerce market by launching new products and enhanced our competitive advantages by consolidating sales and marketing channels. At the same time, through the disposal of non-core businesses and a series of integration and streamlining measures, the Group's principal activities have been converged on corporate IT application services.

Currently, in light of the increasingly mature internet-based infrastructure in China, the e-commerce market has come to a turning point. In the future, the dedicated area of the Group demonstrates a promising prospect and immense potential. For the year ahead, the Group will continue to deepen reform and improve operating efficiency in the hope of materializing fundamental improvement to our operating results.

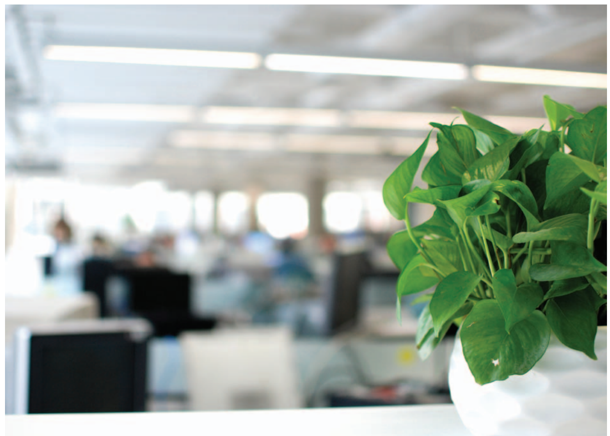
Finally, I would like to express my gratitude to the board of directors (the "Board"), executive committee and all staff for their dedication and contribution, and also to the shareholders for their concern and support to the Group.

**Yu Pun Hoi**
*Chairman*

Hong Kong, 30 March 2012

# MANAGEMENT DISCUSSION AND ANALYSIS

## I. BUSINESS REVIEW



During the year under review, the Group were principally engaged in corporate IT application services, financial information services and distance learning education services. During the year, turnover and net loss attributable to the owners of the Company were approximately HK$824.4 million (comprising HK$792.0 million from continuing operations and HK$32.4 million from discontinued operations) (2010: HK$742.7 million) and approximately HK$157.4 million (2010: HK$79.9 million) respectively. The net assets attributable to the owners of the Company were approximately HK$1,891.3 million (2010: HK$2,036.4 million), representing a value of approximately HK$0.095 per share.

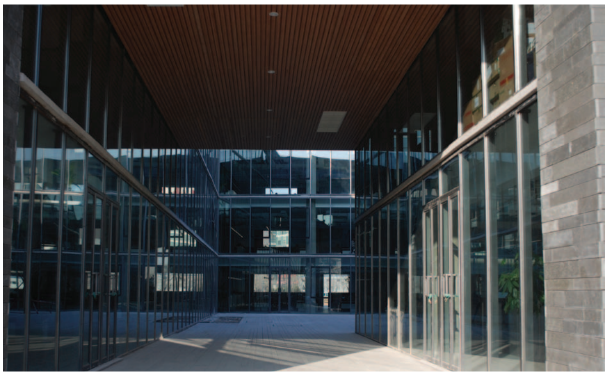
### Corporate IT Application Services

The Group's corporate IT application services division maintained its business development, including the launching of an operating system for B2C online trading, which earned acclaims from customers; and establishment of 14 branch offices which led this division to having a network covering over 80 cities in China. Therefore, sales income increased to some extent. However, for encouraging the sales personnel to sell new IT products to new customers in China, the sales commissions were increased substantially. Besides, in order to upkeep the competitiveness in labour market and comply with the mandatory minimum wages in China, wages of staff were adjusted accordingly. Additional workforce in R&D was required to ensure the competitiveness of our IT products. In view of the foregoing matters, an increase in operating costs was inevitable. Moreover, investment loss was recorded in the disposal of certain loss-making entities and businesses. As a result, this division's overall loss substantially increased by comparing with its loss in 2010. To meet the profit target by way of cost control, this division has adjusted the sales commission structure applicable to new customers since the first quarter of 2012. In addition, responsibilities of R&D personnel will also be adjusted for further cost control. During the year, turnover and net loss before income tax of this division were approximately HK$792.0 million (2010: HK$712.3 million) and approximately HK$205.4 million (2010: HK$97.1 million) respectively.

### Discontinued Operation of Financial Information Services

In 2011, income from the Group's financial information services division decreased over the previous year and loss further widened. The Group disposed of this division in late 2011. During the year, turnover and net loss before income tax of this division were approximately HK$19.6 million (2010: HK$20.2 million — Re-presented) and approximately HK$35.8 million (2010: HK$29.8 million — Re-presented) respectively.

# MANAGEMENT DISCUSSION AND ANALYSIS



### Discontinued Operation of Distance Learning Education Services

The Group's profit-making distance learning education services division slipped into loss in 2011 mainly because of the rising cost resulting from the adjustment to product structure. The Group also disposed of this division in late 2011. During the year, turnover and net loss before income tax of this division were approximately HK$12.8 million (2010: HK$10.2 million — Re-presented) and approximately HK$4.7 million (2010: net profit before income tax of HK$1.2 million — Re-presented) respectively.

## II. LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL

The Group continued to adopt prudent funding and treasury policies. As at 31 December 2011, the net assets attributable to the owners of the Company amounted to approximately HK$1,891.3 million (2010: HK$2,036.4 million), including cash and bank balances of approximately HK$40.2 million (2010: HK$79.3 million), which were mainly denominated in Renminbi and Hong Kong dollars. As at 31 December 2011, the Group's aggregate borrowings were approximately HK$134.3 million (2010: Nil), of which approximately HK$0.4 million were bearing interest at fixed rates while approximately HK$133.9 million at floating rates. As at 31 December 2011, the Group's capital commitment was approximately HK$116.0 million, which would be used as the funding for the construction of the headquarters of corporate IT application services. The gearing ratio of the Group, which is calculated as the net debt divided by adjusted capital plus net debt, was approximately 4.66% as at 31 December 2011 (2010: N/A).

The Group's contingent liabilities as at 31 December 2011 were approximately HK$79.9 million in connection with the guarantees given to secure credit facilities.

As at 31 December 2011, certain interests in leasehold land, construction in progress and intangible assets with a total net carrying value of approximately HK$394.7 million were pledged to secure the credit facilities granted to the Group.

## III. EXPOSURE TO FLUCTUATION IN EXCHANGE RATES

The majority of the Group's borrowings and transactions are primarily denominated in Renminbi and Hong Kong dollars. Both the operating expenses and revenue are primarily denominated in Renminbi. The ever-growing economy of China is expected to warrant a continued appreciation of Renminbi. The Group's reported assets, liabilities and profits may be affected by the Renminbi exchange rates. Although Renminbi exchange risk exposure did not have significant impact on the Group during the year under review, the Group will keep on reviewing and monitoring the fluctuation in exchange rates between Renminbi and Hong Kong dollars, and may make appropriate foreign exchange hedging arrangements when necessary.

## IV. EMPLOYEE

The Company employs and remunerates its employees based on their qualifications, experience and performance. In addition to basic salary payments, other benefits include housing, contributions to mandatory provident fund, group medical insurance, group personal accident insurance and examination leave etc.. Employees are eligible to be granted share options under the Company's share option scheme at the discretion of the Board of the Company. In general, salary review is conducted annually. As at 31 December 2011, the Group had approximately 7,433 employees (2010:

# MANAGEMENT DISCUSSION AND ANALYSIS

8,198 employees). The salaries of and allowances for employees for the year ended 31 December 2011 were approximately HK$647.5 million (2010: HK$542.0 million).

## V. PROSPECT

In comparison with the USA and European countries, the popularity of corporate websites and corporate email hosting for SMEs in China remains at a low level. The popularity rate of websites in the USA is 86%, but it is only 8% in China. The popularity gap in e-commerce websites and relevant applications between the USA and China is much bigger. The popularity rate of corporate email hosting abroad is 60%, but it is only 7% in China. There is a huge difference in actual application in addition to such low popularity rate, which in turn fully reflects the huge potential in the internet infrastructure service market and the e-commerce market.

Challenges and opportunities co-exist certainly. Although the economy of China has been commonly recognized as a new benchmark and growth driver, its uneven development is apparent which increases the complexity of the situation and the difficulty in regulating it. Under such complex and volatile circumstances, dedication and determination are the key factors to successful development. Over the years, the Group have been adhering to our direction and position. In the future, the Group will continue to focus on the development of corporate IT application services in China, capitalize on the opportunities emerging in the markets of e-commerce and information management in China, and share the fruitful results with SMEs in China.

Looking ahead, the Group will concentrate on developing the e-commerce market and keep on improving internal management and raising operating efficiency; striving for an entire improvement in business performance; and creating greater value for the shareholders.

# REPORT OF THE DIRECTORS

The Board of the Company herein presents their report and the audited financial statements of the Group for the year ended 31 December 2011.

## Principal Activities

The principal activity of the Company is investment holding. The subsidiaries are principally engaged in corporate IT application services, financial information services and distance learning education services during the year.

## Segment Information

Particulars of the Group's turnover and segment information for the year are set out in notes 5 and 6 to the financial statements respectively.

## Results and Appropriations

The results of the Group for the year are set out in the consolidated income statement on pages 30 and 31.

The directors do not recommend the declaration of the payment of a final dividend for the year ended 31 December 2011 (2010: Nil).

## Five-year Financial Summary

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 116.

## Property, Plant and Equipment

Details of the movements in property, plant and equipment of the Company and the Group during the year are set out in note 14 to the financial statements.

## Subsidiaries and Associate

Particulars of the Company's principal subsidiaries and associate as at 31 December 2011 are set out in notes 18 and 19 to the financial statements respectively.

## Bank Borrowings

The Group's bank borrowings as at 31 December 2011 is set out in note 29 to the financial statements.

## Share Capital and Share Premium

During the year, there was no movement in share premium of the Company. Details of the share capital of the Company during the year are set out in note 32 to the financial statements.

# REPORT OF THE DIRECTORS

## Reserves

Details of the movements in the reserves of the Company and the Group during the year are set out in note 34 to the financial statements.

## Distributable Reserves

As at 31 December 2011, the amount of the Company's reserves available for distribution was approximately HK$477,482,000. In addition, the Company's share premium account with a balance of HK$39,194,000 may be distributed in the form of fully paid bonus shares.

## Major Customers and Suppliers

The Group's sales to the five largest customers and purchases from the five largest suppliers for the year ended 31 December 2011 accounted for less than 30% of the Group's total turnover and purchases respectively.

## Directors' Emoluments

Details of directors' emoluments are set out in note 38 to the financial statements.

## Directors' Interest in Competing Business

As at 31 December 2011, none of the directors of the Company has an interest in a business which competes or may compete with the business of the Group.

## Pension Costs

Details of retirement benefit plans in respect of the year are set out in note 37 to the financial statements.

## Directors

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

| | |
|---|---|
| Mr. YU Pun Hoi *(Chairman)* | |
| Ms. CHEN Dan | |
| Ms. LIU Rong | |
| Mr. WANG Gang | |
| Mr. LAM Bing Kwan# | |
| Mr. HUANG Yaowen* | |
| Prof. JIANG Ping* | |
| Mr. FUNG Wing Lap* | |
| Mr. LUO Ning# | (retired on 16 May 2011) |
| Mr. QIN Tian Xiang# | (deceased on 30 March 2012) |

# Non-executive directors
* Independent non-executive directors

# REPORT OF THE DIRECTORS

## Directors (Continued)

The Company has received annual confirmation from each of the existing independent non-executive directors confirming his independence to the Company pursuant to Rule 3.13 of the Listing Rules and the Company considers that such directors are independent of the Company.

In accordance with Article 94 of the Company's articles of association, Ms. Chen Dan, Ms. Liu Rong and Prof. Jiang Ping shall retire at the forthcoming annual general meeting and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

## Biographical Details of Directors and Senior Management

### Biographical Details of Directors

*Executive Directors*

**Mr. YU Pun Hoi**, aged 53, was a director of the Company from October 1991 to October 1994, and re-joined the Board of the Company in January 1997. Mr. Yu is the chairman of the Board, and the chairman of executive committee and nomination committee of the Company.

Mr. Yu is also the chairman of the Board, controlling shareholder, and the chairman of executive committee and nomination committee of Nan Hai Corporation Limited ("Nan Hai"), and a director of a number of major subsidiaries of the Company and Nan Hai.

**Ms. CHEN Dan**, aged 43, graduated from Beijing Finance & Trade College and conferred a Bachelor degree in Trade & Economics, and obtained a degree of EMBA in China Europe International Business School, and is also a qualified lawyer in the PRC.

Ms. Chen joined the Group in October 2000. In February 2006, Ms. Chen has been appointed as an executive director, executive committee member and general manager of the Company. In March 2012, Ms. Chen has been appointed as a nomination committee member of the Company.

Ms. Chen is also an executive director, executive committee member and nomination committee member of Nan Hai, and a director of a number of major subsidiaries of the Company and Nan Hai.

**Ms. LIU Rong**, aged 40, graduated from the Law School of Anhui University and obtained a Bachelor degree in Laws, and got a Master of Laws conferred by the Law Institute of Chinese Academy of Social Science, and is also a qualified lawyer in the PRC. Prior to joining the Group, Ms. Liu worked in Chinese government departments and law firms.

Ms. Liu joined the Group in April 2002 as a company secretarial manager, and was responsible for corporate affairs, investments and mergers and acquisitions of the Group in China. Ms. Liu has been appointed as an executive director of the Company in March 2009. Ms. Liu is also a general manager of Dadi group of Nan Hai, and is responsible for the businesses in culture and media of Nan Hai.

Ms. Liu is also an executive director and executive committee member of Nan Hai, and a director of a number of major subsidiaries of the Company and Nan Hai.

# REPORT OF THE DIRECTORS

## Biographical Details of Directors and Senior Management (Continued)

### Biographical Details of Directors (Continued)

*Executive Directors (Continued)*

**Mr. WANG Gang**, aged 56, graduated from Capital University of Economics and Business in China and conferred a Bachelor degree in Business Economics and also obtained an MBA degree from National University of Singapore. Prior to joining the Group, Mr. Wang worked in the headquarters of China Agricultural Bank for many years, and was appointed as a general manager working in the bank's branch office in Singapore.

Mr. Wang joined the Group in December 2007 and has been appointed as an executive director of the Company in March 2009.

Mr. Wang is also an executive director of Nan Hai, and a director of a number of major subsidiaries of Nan Hai.

*Non-executive Director*

**Mr. LAM Bing Kwan**, aged 62, graduated from the University of Oregon in the United States of America and conferred a Bachelor degree in Business Administration in 1974. Prior to joining the Group, Mr. Lam had been in senior management positions in the banking and financial industry for more than 10 years.

Mr. Lam joined the Board of the Company in October 1991, and was re-designated as a non-executive director in April 2002. Mr. Lam is also a non-executive director of Nan Hai, and an independent non-executive director of Lai Sun Development Company Limited, Lai Fung Holdings Limited, eForce Holdings Limited and Lai Sun Garment (International) Limited.

*Independent Non-executive Directors*

**Mr. HUANG Yaowen**, aged 41, graduated from South West University of Politics and Laws in China and conferred a Bachelor degree in Laws in 1992, and obtained a degree of EMBA in China Europe International Business School. Mr. Huang is also a postgraduate in laws in Party School of the Central Committee of C.P.C. in the PRC, and a registered attorney at law in the PRC. Mr. Huang is the executive partner of Kai Wen Law Firm which is Chinese commercial law firms in the PRC.

In February 2006, Mr. Huang joined the Board of the Company and has been appointed as a chairman of audit committee and remuneration committee of the Company. In March 2012, Mr. Huang has been appointed as a nomination committee member of the Company. Mr. Huang is also an independent non-executive director, chairman of audit committee and remuneration committee, and nomination committee member of Nan Hai.

# REPORT OF THE DIRECTORS

## Biographical Details of Directors and Senior Management (Continued)

### Biographical Details of Directors (Continued)

*Independent Non-executive Directors (Continued)*

**Prof. JIANG Ping**, aged 81, graduated from Moscow University with a Bachelor degree in Laws in 1956. Prof. Jiang is the lifetime professor of China University of Political Science and Law, conducts lectures for doctoral degree class in civil and commercial laws, the honorary president of China Comparative Law Research Centre, chairman of Beijing Arbitration Commission, and honorary arbitrator in China International Economic and Trade Arbitration Commission.

In June 2006, Prof. Jiang joined the Board of the Company and has been appointed as a member of audit committee and remuneration committee of the Company. In March 2012, Prof. Jiang has been appointed as a nomination committee member of the Company. Prof. Jiang is also an independent non-executive director, and member of audit committee, remuneration committee and nomination committee of Nan Hai.

**Mr. FUNG Wing Lap**, aged 51, graduated from The Hong Kong Polytechnic University in 1992. Mr. Fung is a fellow member of Association of International Accountants, and a Certified Public Accountant (Practising) of Hong Kong Institute of Certified Public Accountants. Mr. Fung has been a partner of Fung Lau & Company, Certified Public Accountants, since October 2000.

Mr. Fung joined the Board of the Company in September 2004 and has been appointed as a member of audit committee and remuneration committee of the Company. In March 2012, Mr. Fung has been appointed as a nomination committee member of the Company.

### Biographical Details of Senior Management

**Mr. CHEN Ming Fei** (aged 35)
*General Manager*
中企動力科技股份有限公司 (CE Dongli Technology Company Limited)

Mr. Chen has more than 10 years' sales and possesses with acute insight in IT business, and has extensive and professional experiences in product creation, business strategy planning and business management. Prior to joining the Group, Mr. Chen worked in Vorwerk of Co. KG, a German company.

In 2000, Mr. Chen joined CE Dongli, and was appointed as a national commercial director, sales deputy general manager, executive deputy general manager and business general manager. In January 2012, Mr. Chen was promoted to a general manager, and is responsible for operation management of CE Dongli.

Mr. Chen is also a member of executive committee of the Company and Nan Hai.

# REPORT OF THE DIRECTORS

## Biographical Details of Directors and Senior Management (Continued)

### Biographical Details of Senior Management (Continued)

**Mr. ZHANG Bin** (aged 46)
*General Manager — Technology Research and Development*
中企動力科技股份有限公司 (CE Dongli Technology Company Limited)

Mr. Zhang graduated from the Computer Faculty of The University of Defence Technology and his research was in computer architecture. Mr. Zhang has extensive experience in software development and management.

Mr. Zhang joined the Group in 1999, and was appointed as a chief technology officer, deputy general manager of technology development; and deputy general manager of CE Dongli. In April 2011, Mr. Zhang has been appointed as a general manager of technology research and development in CE Dongli.

Mr. Zhang is also a member of executive committee of the Company.

**Ms. SHI Wenqing** (aged 41)
*Deputy General Manager — Sales*
中企動力科技股份有限公司 (CE Dongli Technology Company Limited)

Ms. Shi holds a Bachelor degree in Engineering from Beijing University of Agriculture. Prior to joining the Group, Ms. Shi has worked as a senior sales director in various large size multinational corporations with extensive experience in sales management.

Ms. Shi joined CE Dongli in June 2009 and was appointed as a national business director and sales deputy general manager, and is responsible for sales and marketing businesses.

Ms. Shi is also a member of executive committee of the Company.

**Ms. TAN Jie** (aged 46)
*Vice Executive General Manager*
中企動力科技股份有限公司 (CE Dongli Technology Company Limited)

Ms. Tan obtained a degree of Bachelor of Laws in Peking University, and is a qualified lawyer in China. Prior to joining the Group, Ms. Tan provided legal services for a number of international well-known companies.

Ms. Tan joined the Group in 2002, and was appointed as a director of Company Secretarial Department (China) of the Group, director of Administration Department, and senior director of Company Secretarial Department of CE Dongli. Ms. Tan was promoted to a vice executive general manager of CE Dongli in March 2011, who is responsible for human resources, administration, auditing and legal affairs.

Ms. Tan is also a member of executive committee of the Company.

# REPORT OF THE DIRECTORS

## Directors' Interests and Short Positions in Shares and Underlying Shares

As at 31 December 2011, the interests and short positions of the directors and chief executive of the Company in shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") as set out in Appendix 10 to the Listing Rules were as follows:

### The Company

*Long position in shares in issue*

| | Number of shares of HK$0.01 each | | | | |
|---|---|---|---|---|---|
| **Name of Director** | **Personal interest** | **Corporate interest** | **Family interest** | **Total interest** | **Approximate percentage holding** |
| Yu Pun Hoi ("Mr. Yu") | — | 12,515,795,316 *(Note 1)* | 44,000,000 *(Note 2)* | 12,559,795,316 | 63.07% |
| Fung Wing Lap | 10,000 | — | — | 10,000 | 0.00005% |

*Notes:*

1. Mr. Yu, together with his family and corporate interests, are entitled to control the exercise of more than one-third of the voting power at general meetings of Nan Hai, the holding company of the Company. These 12,515,795,316 shares were collectively held by Goalrise Investments Limited, View Power Investments Limited and Wise Advance Investments Limited, all of which are wholly-owned subsidiaries of Nan Hai. As such, Mr. Yu was taken to be interested in these shares for the purposes of Part XV of the SFO.

2. These 44,000,000 shares were held by Redmap Resources Limited, a company wholly owned by Ms. Kung Ai Ming, the spouse of Mr. Yu.

# REPORT OF THE DIRECTORS

## Directors' Interests and Short Positions in Shares and Underlying Shares (Continued)

### Associated Corporations

As disclosed above, Mr. Yu, together with his family and corporate interests, are entitled to control the exercise of more than one-third of the voting power at general meetings of Nan Hai. As such, Mr. Yu is taken to be interested in the shares that the Company, Nan Hai or their respective controlled corporations hold in the associated corporations of the Company within the meaning of Part XV of the SFO. Nan Hai is a company the shares of which are listed on the Stock Exchange and is also an associated corporation of the Company within the meaning of Part XV of the SFO. As at 31 December 2011, the interests of the directors of the Company in shares and underlying shares of Nan Hai were as follows:

**Nan Hai**

*Long position in shares in issue*

| | Number of shares of HK$0.01 each | | | | |
|---|---|---|---|---|---|
| **Name of Director** | **Personal interest** | **Corporate interest** | **Family interest** | **Total interest** | **Approximate percentage holding** |
| Yu Pun Hoi | — | 34,945,726,203 *(Note 1)* | 69,326,400 *(Note 2)* | 35,015,052,603 | 51.01% |
| Chen Dan | 32,000,000 | — | — | 32,000,000 | 0.05% |
| Wang Gang | 8,500,000 | — | — | 8,500,000 | 0.01% |
| Qin Tian Xiang | 7,000,000 | — | — | 7,000,000 | 0.01% |
| Fung Wing Lap | 15,756 | — | — | 15,756 | 0.00002% |

*Notes:*

1. Out of these 34,945,726,203 shares, 31,203,232,705 shares were collectively held by Mr. Yu through Rosewood Assets Ltd., Pippen Limited and First Best Assets Limited, companies wholly owned by him; and 3,742,493,498 shares were held by Macro Resources Ltd., a company indirectly held as to 60% by Mr. Yu.

2. These 69,326,400 shares were held by Redmap Resources Limited, a company wholly owned by Ms. Kung Ai Ming, the spouse of Mr. Yu.

Save as disclosed above, as at 31 December 2011, none of the directors nor chief executive of the Company had any interests or short positions in shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code as set out in Appendix 10 to the Listing Rules.

# REPORT OF THE DIRECTORS

## Share Option Scheme

On 29 August 2002, the Company adopted a share option scheme (the "Scheme"). Under the Scheme, share options may be granted to directors, employees of the Group and those who have contributed or will contribute to the Group at any time within ten years after its adoption at the discretion of the Board of the Company.

The share options granted on 12 November 2004 at the exercise price of HK$0.16 per share expired at the close of business on 31 December 2008.

During the year ended 31 December 2011, no share options have been granted under the Scheme by the Company.

A summary of the Scheme is as follows:

### (1) Purpose

The purpose of the Scheme is to provide incentives or rewards to participants for their contribution or would-be contribution to the Group and/or to enable the Group to recruit and retain high-calibre employees and attract human resources that are valuable to the Group and any entity in which any member of the Group holds any equity interests (the "Invested Entity").

### (2) Participants

The participants include:

a. any employee (whether full time or part time employee, including any executive director but not any non-executive director) of the Company, its subsidiaries and any Invested Entity;

b. any non-executive director (including independent non-executive director) of the Company, any of its subsidiaries or any Invested Entity;

c. any supplier of goods or services to any member of the Group or any Invested Entity;

d. any customer of the Group or any Invested Entity;

e. any person or entity that provides research, development or technological support or other services to the Group or any Invested Entity;

f. any shareholder or any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity; and

g. any ex-employee who has contributed or may contribute to the development and growth of the Group and any Invested Entity.

# REPORT OF THE DIRECTORS

## Share Option Scheme (Continued)

### (3) Maximum number of shares

The total number of shares which may be issued upon exercise of all share options to be granted under the Scheme must not in aggregate exceed 10% of the issued share capital of the Company at the date of approval of the Scheme or 30% of the issued share capital of the Company from time to time. No share options may be granted under the Scheme if this will result in such limit exceeded. As at the date of this report, the number of Shares available for issue in respect thereof is 1,158,090,487 shares representing approximately 5.82% of the issued share capital of the Company.

### (4) Maximum entitlement of each participant

The total number of shares issued and which may fall to be issued upon exercise of the share options granted under the Scheme and any other share option scheme of the Company (including exercised, cancelled and outstanding options) to each participant in any 12-month period shall not exceed 1 per cent. of the issued share capital of the Company in issue. Any grant of further share options above this limit shall be subject to certain requirements as stipulated in the rules of the Scheme.

### (5) The period within which the shares must be taken up under a share option

The period within which the Shares must be taken up a share option shall be determined by the Board in its absolute discretion at the time of grant, but such period must not exceed 10 years from the date of grant of the relevant share option.

### (6) Minimum period for exercising a share option

The Board of the Company may at its discretion determine the minimum period for which a share option must be held before it can be exercised.

### (7) Acceptance and payment on acceptance

The share option shall be deemed to have been accepted when the duplicate letter duly signed by the grantee, together with a remittance in favour of the Company of HK$1.00 by way of consideration for the grant thereof, is received by the Company. To the extent that the offer is not accepted within 28 days in the manner aforesaid, it will be deemed to have been irrevocable declined and lapsed automatically.

### (8) Basis of determining the subscription price

The subscription price for shares under the Scheme shall be a price determined by the directors, but shall not be lower than the highest of (i) the closing price of the shares as stated in the Stock Exchange's daily quotation sheet on the date of grant, which must be a trading day; (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotation sheet for the five trading days immediately preceding the date of grant; and (iii) the nominal value of a share.

### (9) Remaining life of the Scheme

The Scheme will remain in force for a period of 10 years commencing on 29 August 2002 up to 28 August 2012.

# REPORT OF THE DIRECTORS

## Arrangements to Purchase Shares or Debentures

Except for the Scheme disclosed above, at no time during the year was the Company, or any of its subsidiaries, a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company.

## Directors' Service Contracts

None of the directors who are proposed for re-election at the forthcoming annual general meeting has entered into any service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than the statutory compensation.

No contract concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the year.

## Directors' Interests in Contracts

No contract of significance in relation to the Group's business to which the Company, its subsidiaries, its holding companies or its fellow subsidiaries was a party, and in which any directors of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

# REPORT OF THE DIRECTORS

## Substantial Shareholders' Interests and Short Positions

As at 31 December 2011, those persons (other than directors and chief executive of the Company) who had interests and short positions in shares or underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

| Name of person holding an interest in shares which has been disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO | Nature of interest | Number of shares in issue subject to long position | Approximate percentage of issued share capital of the Company | *Notes* |
|---|---|---|---|---|
| Kung Ai Ming | Family and Corporate interest | 12,559,795,316 | 63.07% | 1 |
| CITIC Group Corporation | Corporate interest | 10,200,000,000 | 51.22% | 2 |
| China Investment Corporation | Corporate interest | 10,200,000,000 | 51.22% | 2 |
| CITIC Limited | Corporate interest | 10,200,000,000 | 51.22% | 2 |
| CITIC Capital Holdings Limited | Corporate interest | 10,200,000,000 | 51.22% | 2 |
| CITIC Capital Credit Limited | Security interest | 10,200,000,000 | 51.22% | 2 |
| Nan Hai | Corporate interest | 12,515,795,316 | 62.85% | |

*Notes:*

1. Ms. Kung Ai Ming is the spouse of Mr. Yu and was taken to be interested in those shares in which Mr. Yu and herself (together with their respective corporate interests) held an interest.

2. CITIC Capital Credit Limited is a wholly-owned subsidiary of CITIC Capital Holdings Limited. CITIC Capital Holdings Limited is indirectly held as to 40% by Warlord Investment Corporation and as to 55% by CITIC Limited. Warlord Investment Corporation is a wholly-owned subsidiary of China Investment Corporation. CITIC Limited is a wholly-owned subsidiary of CITIC Group Corporation (formerly known as CITIC Group).

Save as disclosed above, as at 31 December 2011, no person (other than directors and chief executive of the Company) had notified to the Company any interests or short positions in shares or underlying shares of the Company which was required to be recorded in the register kept by the Company under Section 336 of the SFO.

## Related Party Transactions

Details of related party transactions of the Company and the Group are set out in note 43 to the financial statements.

## Purchase, Sale or Redemption of Securities

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

# REPORT OF THE DIRECTORS

## Public Float

Based on the publicly available information and to the best knowledge of the directors, the Company has maintained during the year sufficient public float as required under the Listing Rules.

## Corporate Governance

Particulars of the Company's corporate governance practices are set out in the "Corporate Governance Report" on pages 22 to 27.

## Audit Committee

The Audit Committee comprises all the independent non-executive directors of the Company, namely Mr. Huang Yaowen, Prof. Jiang Ping and Mr. Fung Wing Lap. The Audit Committee has reviewed with the auditor of the Company and management the accounting principles and practices adopted by the Group, the audited accounts for the year ended 31 December 2011, and discussed the auditing, financial control, internal control and risk management systems.

## Auditor

The financial statements for the year ended 31 December 2009 were audited by Grant Thornton ("GTHK"), now known as JBPB & Co. Due to a merger of the businesses of GTHK and BDO Limited ("BDO") to practise in the name of BDO, GTHK resigned and BDO was appointed as auditor of the Company effective from 19 November 2010. The financial statements for the years ended 31 December 2010 and 2011 were audited by BDO. A resolution will be proposed at the forthcoming annual general meeting of the Company to re-appoint BDO as auditor of the Company.

On behalf of the Board

**Yu Pun Hoi**
*Chairman*

Hong Kong, 30 March 2012

# CORPORATE GOVERNANCE REPORT

The Company is committed to maintain high corporate governance standard and unambiguous procedures to ensure the integrity, transparency and quality of disclosure in order to enhance its shareholders' value.

## Code on Corporate Governance Practices

In the opinion of the Board of the Company, the Company has complied with the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 of the Listing Rules throughout the year ended 31 December 2011, except for the deviations from Code Provisions A.2.1 and A.4.1 which, in the Company's opinion, are unsuitable or inappropriate for adoption. Explanations for such non-compliance are provided below.

## Model Code for Securities Transactions

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules.

Specific enquiries have been made to all the directors and the directors have confirmed that they have complied with the Model Code as set out in Appendix 10 to the Listing Rules throughout the year ended 31 December 2011.

The Company has also established written guidelines on no less exacting than the Model Code (the "Employees Written Guidelines") for securities transactions by employees who are likely to be in possession of unpublished price-sensitive information of the Company.

No incident of non-compliance of the Employees Written Guidelines by the relevant employees was noted by the Company.

## Delegation by the Board

The overall management of the Company's business is vested in the Board, which assumes the responsibility for leadership and control of the Company and is collectively responsible for promoting the success of the Company by directing and monitoring its affairs. All directors should take decisions objectively in the interests of the Company.

The day-to-day management, administration and operation of the Company are delegated to the senior management. The delegated functions and work tasks are periodically reviewed. Approval has to be obtained from the Board prior to any significant transactions entered into by the abovementioned senior management of the Company.

The Board has the full support of its board committees and the senior management of the Company to discharge its responsibilities.

# CORPORATE GOVERNANCE REPORT

## Board of Directors

The current Board is made up of eight directors including four executive directors, one non-executive director and three independent non-executive directors (the "INEDs"). The directors are, collectively and individually, aware of their responsibilities to the shareholders. The directors' biographical information is set out on pages 11 to 14 under the heading "Biographical Details of Directors and Senior Management". The Board consists of the following:

### Executive Directors

Mr. YU Pun Hoi *(Chairman)*
Ms. CHEN Dan
Ms. LIU Rong
Mr. WANG Gang

### Non-executive Directors

Mr. LAM Bing Kwan
Mr. QIN Tian Xiang (deceased on 30 March 2012)

### Independent Non-executive Directors

Mr. HUANG Yaowen
Prof. JIANG Ping
Mr. FUNG Wing Lap

The Board should assume responsibility for its leadership and control and be collectively responsible for promoting its success by directing and supervising its affairs. The Board should regularly review the contribution required from a director to perform his responsibilities to the Company, and whether he is spending sufficient time performing them.

To the best knowledge of the Company, the Board members do not have any financial, business and family or other material/relevant relationship with each other. During the year, the Board held 7 meetings.

### Chairman and Chief Executive Officer

Code Provision A.2.1 stipulated that the roles of chairman and chief executive officer (the "CEO") should be separated and should not be performed by the same individual.

The Company has not appointed a CEO. The role of the CEO is also performed by Mr. Yu Pun Hoi who is the chairman of the Company. The Board believes that vesting the roles of both chairman and CEO in the same person provides the Company with strong and consistent leadership, and allows for effective and efficient planning and implementation of business decisions and strategies.

# CORPORATE GOVERNANCE REPORT

## Board of Directors (Continued)

### Non-executive Directors

Code Provision A.4.1 stipulated that non-executive directors should be appointed for a specific term subject to re-election.

The non-executive directors of the Company are not appointed for a specific term. However, all non-executive directors are subject to the retirement and rotation requirements in accordance with the Company's articles of association. As such, the Board considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the CG Code.

### Independent Non-executive Directors

Pursuant to Rules 3.10(1) and 3.10(2) of the Listing Rules, the Company has appointed three INEDs of whom Mr. Fung Wing Lap is a certified public accountant in Hong Kong. Besides, Mr. Huang Yaowen is a practicing lawyer in the PRC.

The Company has received, from each of the INEDs, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the INEDs are independent.

## Board Committees

The Board has established four board committees, namely Executive Committee, Audit Committee, Remuneration Committee and Nomination Committee, to oversee particular aspects of the Company's affairs and to assist in the execution of the Board's responsibilities.

### Executive Committee

The Company formulated written terms of reference for the Executive Committee, which consists of executive directors and senior management of the Company as follows:

| | |
|---|---|
| Mr. YU Pun Hoi *(Chairman)* | |
| Ms. CHEN Dan | |
| Mr. CHEN Ming Fei* | |
| Mr. ZHANG Bin* | |
| Ms. SHI Wenqing* | (appointed on 1 August 2011) |
| Ms. TAN Jie* | (appointed on 15 November 2011) |
| Ms. LIU Rong | (terminated on 1 August 2011) |
| Mr. WANG Gang | (terminated on 1 August 2011) |
| Ms. LIN Chuan Ju* | (terminated on 15 November 2011) |

* Senior management

The duties of the Executive Committee are empowered to plan, determine, approve, implement, handle, arrange, review and amend all policies, operations and internal control of the Group, ensuring that the delegation of its powers to the senior management is clearly defined, and that a transparent reporting procedural system is in place and effectively monitored. The Executive Committee held 4 meetings during the year.

# CORPORATE GOVERNANCE REPORT

## Board Committees (Continued)

### Audit Committee

The Company formulated written terms of reference for the Audit Committee in accordance with the requirements of the Listing Rules. The Audit Committee consists of all the INEDs as follows:

Mr. HUANG Yaowen *(Chairman of the Audit Committee)*
Prof. JIANG Ping
Mr. FUNG Wing Lap

The primary duties of the Audit Committee are to ensure the objectivity and credibility of financial reports and internal control procedures as well as to maintain an appropriate relationship with the external auditor of the Company.

During the year, the Audit Committee held 2 meetings, in particular, to review with management the accounting principles and practices adopted by the Group, the audited accounts for the year ended 31 December 2010 and the unaudited interim results for the six months ended 30 June 2011, and discussed the auditing, financial control, internal control and risk management systems.

### Remuneration Committee

The Company formulated written terms of reference for the Remuneration Committee in accordance with the requirements of the Listing Rules. The Remuneration Committee consists of all the INEDs as follows:

Mr. HUANG Yaowen *(Chairman of the Remuneration Committee)*
Prof. JIANG Ping
Mr. FUNG Wing Lap

The Remuneration Committee is responsible for ensuring formal and transparent procedures for formulating remuneration policies and determining the remuneration packages of individual executive directors and senior management. It takes into consideration on salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the Group. The Remuneration Committee held 2 meetings during the year.

### Nomination Committee

The Company established a Nomination Committee on 28 March 2012 with written terms of reference for the Nomination Committee in accordance with the requirements of the Listing Rules. The Nomination Committee consists of the directors of the Company as follows:

Mr. YU Pun Hoi *(Chairman of the Nomination Committee)*
Ms. CHEN Dan
Mr. HUANG Yaowen*
Prof. JIANG Ping*
Mr. FUNG Wing Lap*

* INED

The Nomination Committee is responsible for reviewing the structure, size and composition of the Board, identifying individuals suitably qualified to become directors, assessing the independence of INEDs, and making recommendations to the Board on appointment of directors. The Nomination Committee has the authority given by the Board to seek external professional advice in the selection and recommendation for directorship, when required, fulfilling the requirements for professional knowledge and industry experience of any proposed candidates.

# CORPORATE GOVERNANCE REPORT

## Number of Meetings and Directors' Attendance

The following table shows the individual attendance of each director at the meetings of the full Board, the Executive Committee, the Audit Committee and the Remuneration Committee for the year ended 31 December 2011:

| | Attendance/Number of Meetings | | | |
|---|---|---|---|---|
| **Name of Director** | **Board** | **Executive Committee** | **Audit Committee** | **Remuneration Committee** |
| ***Executive Directors*** | | | | |
| Mr. YU Pun Hoi | 7 | 4 | N/A | N/A |
| Ms. CHEN Dan | 7 | 4 | N/A | N/A |
| Ms. LIU Rong | 7 | 1 | N/A | N/A |
| Mr. WANG Gang | 6 | 1 | N/A | N/A |
| ***Non-executive Directors*** | | | | |
| Mr. LAM Bing Kwan | 7 | N/A | N/A | N/A |
| Mr. LUO Ning (retired on 16 May 2011) | 0 | N/A | N/A | N/A |
| Mr. QIN Tian Xiang (deceased on 30 March 2012) | 0 | N/A | N/A | N/A |
| ***Independent Non-executive Directors*** | | | | |
| Mr. HUANG Yaowen | 7 | N/A | 2 | 2 |
| Prof. JIANG Ping | 7 | N/A | 2 | 2 |
| Mr. FUNG Wing Lap | 7 | N/A | 2 | 2 |
| Number of meetings held during the year | 7 | 4 | 2 | 2 |

## Responsibilities in Respect of the Financial Statements and Auditor's Remuneration

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, price-sensitive announcements and other disclosures required under the Listing Rules and other regulatory requirements.

The directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2011.

The statement of the external auditor of the Company about their reporting responsibilities on the financial statements is set out in the "Independent Auditor's Report" on pages 28 and 29.

The remuneration paid to the external auditor of the Group in respect of audit services and non-audit services for the year ended 31 December 2011 amounted to HK$3,133,000 and HK$252,000 respectively. An analysis of the remuneration paid to the external auditor of the Group is set out in note 8 to the financial statements.

# CORPORATE GOVERNANCE REPORT

## Internal Controls

The Company has maintained a tailored governance structure with defined lines of responsibility and appropriate delegation of responsibilities and authorities to the senior management.

During the year under review, the Board, Audit Committee and Executive Committee have conducted regular reviews of the effectiveness of the internal control procedures of the Group.

On behalf of the Board

**Watt Ka Po James**
*Company Secretary*

Hong Kong, 30 March 2012

# INDEPENDENT AUDITOR'S REPORT

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**TO THE SHAREHOLDERS OF SINO-I TECHNOLOGY LIMITED (中國數碼信息有限公司)**
*(incorporated in Hong Kong with limited liability)*

We have audited the consolidated financial statements of Sino-i Technology Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 30 to 115, which comprise the consolidated and company statements of financial position as at 31 December 2011, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

## Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the 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. This report is made solely to you, as a body, in accordance with Section 141 of the Hong Kong Companies Ordinance, 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.

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 auditor's 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 auditor considers 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.

# INDEPENDENT AUDITOR'S REPORT (Continued)

## 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 2011, and of the Group's loss 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 Hong Kong Companies Ordinance.

**BDO Limited**
*Certified Public Accountants*

**Yu Tsui Fong**
Practising Certificate Number P05440

Hong Kong, 30 March 2012

# CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2011

| | Notes | **2011 HK$'000** | 2010 HK$'000 (Re-presented) |
|---|---|---|---|
| **Continuing operations** | | | |
| Revenue/Turnover | 5(a) | **791,991** | 712,269 |
| Cost of sales and services provided | | **(204,075)** | (167,990) |
| Gross profit | | **587,916** | 544,279 |
| Other operating income | 5(b) | **126,319** | 104,708 |
| (Loss)/Gain on disposal and dissolution of subsidiaries | 36(b) | **(25,139)** | 379 |
| Selling and marketing expenses | | **(325,546)** | (246,337) |
| Administrative expenses | | **(277,930)** | (276,039) |
| Other operating expenses | | **(214,305)** | (168,456) |
| Finance costs | 7 | **(7,377)** | (4,111) |
| Share of results of an associate | | **—** | — |
| Loss before income tax | 8 | **(136,062)** | (45,577) |
| Income tax expense | 9 | **(6,832)** | (16,402) |
| Loss for the year from continuing operations | | **(142,894)** | (61,979) |
| **Discontinued operations** | | | |
| Loss for the year from discontinued operations | 10 | **(40,568)** | (28,596) |
| **Loss for the year** | | **(183,462)** | (90,575) |
| **Loss for the year attributable to:** | | | |
| Owners of the Company | 11 | **(157,371)** | (79,857) |
| Non-controlling interests | 35 | **(26,091)** | (10,718) |
| | | **(183,462)** | (90,575) |

# CONSOLIDATED INCOME STATEMENT (Continued)

For the year ended 31 December 2011

| | Notes | **2011**<br>**HK cent** | 2010<br>HK cent<br>(Re-presented) |
|---|---|---|---|
| **Loss per share for loss from continuing operations attributable to the owners of the Company during the year** | 12(b) | | |
| — Basic | | **(0.66)** | (0.27) |
| — Diluted | | **N/A** | N/A |
| **Loss per share for loss from discontinued operations attributable to the owners of the Company during the year** | 12(c) | | |
| — Basic | | **(0.13)** | (0.13) |
| — Diluted | | **N/A** | N/A |
| **Loss per share for loss attributable to the owners of the Company during the year** | 12(a) | | |
| — Basic | | **(0.79)** | (0.40) |
| — Diluted | | **N/A** | N/A |

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2011

| | **2011** | 2010 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| **Loss for the year** | **(183,462)** | (90,575) |
| **Other comprehensive income, including reclassification adjustments:** | | |
| Exchange differences on translation of financial statements of foreign operations | **7,100** | 7,130 |
| Exchange differences reclassified on disposal and dissolution of subsidiaries | **1,995** | — |
| **Other comprehensive income for the year, including reclassification adjustments** | **9,095** | 7,130 |
| **Total comprehensive income for the year** | **(174,367)** | (83,445) |
| **Total comprehensive income attributable to:** | | |
| Owners of the Company | **(146,885)** | (73,817) |
| Non-controlling interests | **(27,482)** | (9,628) |
| | **(174,367)** | (83,445) |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2011

| | Notes | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|---|
| **ASSETS AND LIABILITIES** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 14 | **429,814** | 281,795 |
| Prepaid land lease payments under operating leases | 16 | **27,662** | 14,010 |
| Interest in an associate | 19 | **—** | — |
| Available-for-sale financial assets | | **479** | 473 |
| Goodwill | 20 | **53,457** | 115,866 |
| Deposits | 22 | **—** | 17,602 |
| Other intangible assets | 21 | **108,202** | 168,961 |
| Loan to ultimate holding company | 28(c) | **1,357,377** | — |
| | | **1,976,991** | 598,707 |
| **Current assets** | | | |
| Financial assets at fair value through profit or loss | 23 | **—** | 22,932 |
| Trade receivables | 24 | **14,427** | 118,778 |
| Deposits, prepayments and other receivables | 22 | **432,548** | 243,059 |
| Loan to ultimate holding company | 28(c) | **—** | 1,634,551 |
| Cash and cash equivalents | 25 | **40,152** | 79,257 |
| | | **487,127** | 2,098,577 |
| Non-current assets classified as held for sale | 17 | **—** | 75,225 |
| | | **487,127** | 2,173,802 |
| **Current liabilities** | | | |
| Trade payables | 26 | **47,514** | 43,134 |
| Other payables and accruals | 27 | **115,045** | 172,826 |
| Deferred revenue | | **44,304** | 64,030 |
| Provision for tax | | **67,761** | 68,516 |
| Amount due to ultimate holding company | 28(c) | **—** | 305,733 |
| Amount due to a director | 28(a) | **11,794** | 32,374 |
| Amounts due to shareholders | 28(b) | **5,006** | 5,006 |
| Amount due to an associate | 28(d) | **5,502** | 5,505 |
| Bank borrowings, secured | 29 | **133,901** | — |
| Finance lease liabilities | 30 | **105** | — |
| | | **430,932** | 697,124 |
| **Net current assets** | | **56,195** | 1,476,678 |
| **Total assets less current liabilities** | | **2,033,186** | 2,075,385 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

As at 31 December 2011

| | Notes | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|---|
| **Non-current liabilities** | | | |
| Finance lease liabilities | 30 | **336** | — |
| Amount due to ultimate holding company | 28(c) | **105,916** | — |
| | | **106,252** | — |
| **Net assets** | | **1,926,934** | 2,075,385 |
| **EQUITY** | | | |
| Share capital | 32 | **199,145** | 199,145 |
| Reserves | 34 | **1,692,117** | 1,837,258 |
| **Equity attributable to the Company's owners** | | **1,891,262** | 2,036,403 |
| **Non-controlling interests** | 35 | **35,672** | 38,982 |
| **Total equity** | | **1,926,934** | 2,075,385 |

**Yu Pun Hoi**
*Director*

**Chen Dan**
*Director*

# STATEMENT OF FINANCIAL POSITION

As at 31 December 2011

| | Notes | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|---|
| **ASSETS AND LIABILITIES** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 14 | **71** | 112 |
| Interests in subsidiaries | 18 | **105,721** | 105,721 |
| Available-for-sale financial assets | | **324** | 324 |
| Loan to ultimate holding company | 28(c) | **320,930** | — |
| | | **427,046** | 106,157 |
| **Current assets** | | | |
| Amounts due from subsidiaries | 18 | **1,311,223** | 948,509 |
| Amount due from an associate | 28(d) | **15,666** | 15,663 |
| Amount due from ultimate holding company | 28(c) | **—** | 649,440 |
| Deposits, prepayments and other receivables | 22 | **46,204** | 2,041 |
| Tax recoverable | | **133** | — |
| Cash and cash equivalents | 25 | **2,866** | 1,959 |
| | | **1,376,092** | 1,617,612 |
| **Current liabilities** | | | |
| Other payables and accruals | 27 | **4,517** | 4,034 |
| Provision for tax | | **—** | 519 |
| Amounts due to subsidiaries | 18 | **202,865** | 192,477 |
| Amount due to a director | 28(a) | **158,148** | 159,999 |
| Amounts due to shareholders | 28(b) | **5,005** | 5,005 |
| | | **370,535** | 362,034 |
| **Net current assets** | | **1,005,557** | 1,255,578 |
| **Total assets less current liabilities** | | **1,432,603** | 1,361,735 |
| **Non-current liabilities** | | | |
| Amount due to ultimate holding company | 28(c) | **54,123** | — |
| | | **54,123** | — |
| **Net assets** | | **1,378,480** | 1,361,735 |
| **EQUITY** | | | |
| Share capital | 32 | **199,145** | 199,145 |
| Reserves | 34 | **1,179,335** | 1,162,590 |
| **Total equity** | | **1,378,480** | 1,361,735 |

**Yu Pun Hoi**
*Director*

**Chen Dan**
*Director*

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2011

| | Notes | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|---|
| **Cash flows from operating activities of continuing and discontinued operations** | | | |
| Loss before income tax | | | |
| Continuing operations | | **(136,062)** | (45,577) |
| Discontinued operations | | **(40,568)** | (28,592) |
| Total | | **(176,630)** | (74,169) |
| Adjustments for: | | | |
| Depreciation of property, plant and equipment | | **29,859** | 27,354 |
| Depreciation of investment property | | **—** | 55 |
| Operating lease charges on prepaid land lease | | **593** | 1,161 |
| Amortisation of intangible assets | | **64,498** | 67,462 |
| Loss/(Gain) on disposal and dissolution of subsidiaries | 36(b) | **11,638** | (379) |
| Loss on disposal of property, plant and equipment | | **203** | 161 |
| Gain on disposal of non-current assets classified as held for sale | | **(31,426)** | — |
| Provision for impairment of receivables | | **517** | 288 |
| Bad debt written off | | **27** | 378 |
| Write-off of property, plant and equipment | | **1,681** | 1,149 |
| Write-off of other intangible assets | | **—** | 214 |
| Dividend income from financial assets at fair value through profit or loss | | **—** | (808) |
| Net fair value (gain)/loss on financial assets at fair value through profit or loss | | **(2,030)** | 15,844 |
| Bank interest income | | **(232)** | (186) |
| Other interest income | | **(91,027)** | (92,881) |
| Interest expenses | | **7,377** | 4,111 |
| Operating loss before working capital changes | | **(184,952)** | (50,246) |
| Decrease in amount due to an associate | | **(3)** | — |
| Decrease/(Increase) in trade receivables | | **67,144** | (85,067) |
| (Increase)/Decrease in deposits, prepayments and other receivables | | **(303,767)** | 158,451 |
| Increase in trade payables, other payables and accruals | | **65,052** | 14,677 |
| Decrease in financial assets at fair value through profit or loss | | **25,077** | 62,698 |
| Increase/(Decrease) in deferred revenue | | **21,861** | (20,761) |
| Cash (used in)/generated from operations | | **(309,588)** | 79,752 |
| Net income tax refunded/(paid) | | **2,679** | (7,483) |
| Net cash (used in)/generated from operating activities | | **(306,909)** | 72,269 |

# CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

For the year ended 31 December 2011

| | Notes | **2011 HK$'000** | 2010 HK$'000 |
|---|---|---|---|
| **Cash flows from investing activities of continuing and discontinued operations** | | | |
| Payments to acquire property, plant and equipment | | **(150,051)** | (99,911) |
| Payments to acquire leasehold land | | **(13,309)** | — |
| Payments of deposits to acquire property, plant and equipment | | **—** | (17,212) |
| Proceeds from disposal of property, plant and equipment | | **32** | 724 |
| Proceeds from disposal of non-current assets classified as held for sale | | **108,395** | — |
| Net cash outflow arising from disposal and dissolution of subsidiaries | 36(b) | **(11,933)** | — |
| Net cash inflow arising from acquisition of subsidiaries | 36(a) | **—** | 410 |
| Payments to acquire intangible assets | | **(48,362)** | (21,228) |
| Dividend income from financial assets at fair value through profit or loss | | **—** | 808 |
| Bank and other interest received | | **1,522** | 186 |
| Net cash used in investing activities | | **(113,706)** | (136,223) |
| **Cash flows from financing activities of continuing and discontinued operations** | | | |
| Proceeds from bank borrowings | | **233,526** | 66,897 |
| Repayments of bank borrowings | | **(18,103)** | (97,959) |
| Repayments of finance lease liabilities | | **(107)** | — |
| Advanced from/(Repayment to) a director | | **18,923** | (9,290) |
| Advanced from ultimate holding company | | **151,604** | 103,811 |
| Proceeds from the securities brokers and margin financiers | | **418** | 2,643 |
| Interest paid | | **(7,377)** | (4,111) |
| Net cash generated from financing activities | | **378,884** | 61,991 |
| **Net decrease in cash and cash equivalents** | | **(41,731)** | (1,963) |
| **Cash and cash equivalents at 1 January** | | **79,257** | 78,654 |
| Effect of foreign exchange rate changes, on cash held | | **2,626** | 2,566 |
| **Cash and cash equivalents at 31 December** | | **40,152** | 79,257 |
| **Analysis of the balances of cash and cash equivalents** | | | |
| Cash at banks and in hand | | **40,152** | 79,257 |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2011

| | Equity attributable to the Company's owners | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital HK$'000 | Share premium HK$'000 | Capital redemption reserve HK$'000 | Capital distribution reserve Note 34(a) HK$'000 | General reserve Note 34(b) HK$'000 | Exchange reserve HK$'000 | Retained profits HK$'000 | Total HK$'000 | Non-controlling interests HK$'000 | Total HK$'000 |
| At 1 January 2010 | 199,145 | 39,194 | 2,258 | 52,622 | 5,885 | 57,175 | 1,753,941 | 2,110,220 | 48,610 | 2,158,830 |
| Loss for the year | — | — | — | — | — | — | (79,857) | (79,857) | (10,718) | (90,575) |
| **Other comprehensive income** | | | | | | | | | | |
| — Exchange differences on translation of financial statements of foreign operations | — | — | — | — | — | 6,040 | — | 6,040 | 1,090 | 7,130 |
| **Total comprehensive income for the year** | — | — | — | — | — | 6,040 | (79,857) | (73,817) | (9,628) | (83,445) |
| At 31 December 2010 and 1 January 2011 | **199,145** | **39,194*** | **2,258*** | **52,622*** | **5,885*** | **63,215*** | **1,674,084*** | **2,036,403** | **38,982** | **2,075,385** |
| Loss for the year | **—** | **—** | **—** | **—** | **—** | **—** | **(157,371)** | **(157,371)** | **(26,091)** | **(183,462)** |
| **Other comprehensive income** | | | | | | | | | | |
| — Exchange differences on translation of financial statements of foreign operations | **—** | **—** | **—** | **—** | **—** | **8,491** | **—** | **8,491** | **(1,391)** | **7,100** |
| — Exchange difference reclassified on disposal and dissolution of subsidiaries (note 36(b)) | **—** | **—** | **—** | **—** | **—** | **1,995** | **—** | **1,995** | **—** | **1,995** |
| **Total comprehensive income for the year** | **—** | **—** | **—** | **—** | **—** | **10,486** | **(157,371)** | **(146,885)** | **(27,482)** | **(174,367)** |
| Transfer to general reserve | **—** | **—** | **—** | **—** | **7,565** | **—** | **(7,565)** | **—** | **—** | **—** |
| Released on disposal and dissolution of subsidiaries | **—** | **—** | **—** | **—** | **(4,694)** | **—** | **4,694** | **—** | **25,916** | **25,916** |
| Released on acquisition of additional interest in subsidiaries | **—** | **—** | **—** | **—** | **—** | **—** | **1,758** | **1,758** | **(1,758)** | **—** |
| Released on deemed acquisition of additional interest in subsidiaries | **—** | **—** | **—** | **—** | **—** | **—** | **(14)** | **(14)** | **14** | **—** |
| **At 31 December 2011** | **199,145** | **39,194*** | **2,258*** | **52,622*** | **8,756*** | **73,701*** | **1,515,586*** | **1,891,262** | **35,672** | **1,926,934** |

* These reserve accounts comprise the consolidated reserves of HK$1,692,117,000 (2010: HK$1,837,258,000) in the consolidated statement of financial position.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 1. General information

Sino-i Technology Limited (the "Company") is a limited liability company incorporated and domiciled in Hong Kong. The address of its registered office and its principal place of business is Units 15–18, 36/F., China Merchants Tower, Shun Tak Centre, 168–200 Connaught Road Central, Hong Kong. The Company's shares are listed on The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange").

The Company and its subsidiaries (the "Group") are principally engaged in corporate IT application services, financial information services and distance learning education services. Subsequent to the disposal of the financial information services and distance learning education services businesses during the year, the Group principally focuses on the provision of corporate IT application services. Details of the principal activities of the Company's subsidiaries are set out in note 18.

The ultimate parent company of the Group is Nan Hai Corporation Limited ("Nan Hai"), a company incorporated and domiciled in Bermuda and its shares are listed on the Hong Kong Stock Exchange.

The financial statements for the year ended 31 December 2011 were approved for issue by the board of directors (the "Board") on 30 March 2012.

## 2. Summary of significant accounting policies

### 2.1 Basis of preparation

The financial statements on pages 30 to 115 have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the requirements of the Hong Kong Companies Ordinance. The financial statements also include the applicable disclosure requirements of the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (the "Listing Rules").

The significant accounting policies that have been used in the preparation of these financial statements are summarised below. These policies have been consistently applied to all the years presented unless otherwise stated. The adoption of new/amended HKFRSs and impacts on the Group's financial statements, if any, are disclosed in note 3.

The financial statements have been prepared on the historical cost basis except for financial instruments classified as available-for-sale and at fair value through profit or loss which are stated at fair values. The measurement bases are fully described in the accounting policies below.

It should be noted that accounting estimates and assumptions are used in preparation of the financial statements. Although these estimates are based on management's best knowledge and judgement of current events and actions, actual results may ultimately differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 4.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 2. Summary of significant accounting policies (Continued)

### 2.2 Business combination and basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries. Inter-company transactions and balances between group companies together with unrealised profits are eliminated in full in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of impairment on the asset transferred, in which case the loss is recognised in profit or loss.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective dates of acquisition or up to the effective dates of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

Acquisition of subsidiaries or businesses is accounted for using the acquisition method. The cost of an acquisition is measured at the aggregate of the acquisition-date fair value of assets transferred, liabilities incurred and equity interests issued by the Group, as the acquirer. The identifiable assets acquired and liabilities assumed are principally measured at acquisition-date fair value. The Group's previously held equity interest (if any) in the acquiree is re-measured at acquisition-date fair value and the resulting gains or losses are recognised in profit or loss. The Group may elect, on a transaction-by-transaction basis, to measure the non-controlling interests that represent present ownership interests in that subsidiary 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 unless another measurement basis is required by HKFRSs. Acquisition-related costs incurred are expensed unless they are incurred in issuing equity instruments in which case the costs are deducted from equity.

Any contingent consideration to be transferred by the acquirer is recognised at acquisition-date fair value. Subsequent adjustments to consideration are recognised against goodwill only to the extent that they arise from new information obtained within the measurement period (a maximum of 12 months from the acquisition date) about the fair value at the acquisition date. All other subsequent adjustments to contingent consideration classified as an asset or a liability are recognised in profit or loss.

Contingent consideration balances arising from business combinations whose acquisition dates preceded 1 January 2010 (i.e. the date the Group first applied HKFRS 3 (2008)) have been accounted for in accordance with the transition requirements in the standard. Such balances are not adjusted upon first application of the standard. Subsequent revisions to estimates of such consideration are treated as adjustments to the cost of these business combinations and are recognised as part of goodwill.

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the Group's interest and the non-controlling interest are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 2. Summary of significant accounting policies (Continued)

### 2.2 Business combination and basis of consolidation (Continued)

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interest. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for in the same manner as would be required if the relevant assets or liabilities were disposed of.

Subsequent to acquisition, the carrying amount of non-controlling interests that represent present ownership interests in the subsidiary is the amount of those interests at initial recognition plus such non-controlling interest's share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interest having a deficit balance.

### 2.3 Subsidiaries

Subsidiaries are entities (including special purpose entities) over which the Group has the power to control the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

In the Company's statement of financial position, subsidiaries are carried at cost less any impairment loss unless the subsidiary is held for sale or included in a disposal group. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable at the reporting date. All dividends whether received out of the investee's pre or post-acquisition profits are recognised in the Company's profit or loss.

### 2.4 Associates

Associates are those entities over which the Group is able to exert significant influence, generally accompanying a shareholding of between 20% and 50% of voting rights but which are neither subsidiaries nor investment in a joint venture.

In consolidated financial statements, an investment in an associate is initially recognised at cost and subsequently accounted for using the equity method. Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. The cost of acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed and equity instruments issued by the Group, plus any costs directly attributable to the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss in the determination of the Group's share of the associate's profit or loss in the period in which the investment is acquired.

Under the equity method, the Group's interest in the associate is carried at cost and adjusted for the post-acquisition changes in the Group's share of the associate's net assets less any identified impairment loss, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). The profit or loss for the period includes the Group's share of the post-acquisition, post-tax results of the associate for the year, including any impairment loss on the investment in associate recognised for the year.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 2. Summary of significant accounting policies (Continued)

### 2.4 Associates (Continued)

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Where unrealised losses on assets sales between the Group and its associates are reversed on equity accounting, the underlying asset is also tested for impairment from the Group's perspective. Where the associate uses accounting policies other than those of the Group for like transactions and events in similar circumstances, adjustments are made, where necessary, to conform the associate's accounting policies to those of the Group when the associate's financial statements are used by the Group in applying the equity method.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate. For this purpose, the Group's interest in the associate is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate.

After the application of equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investment in its associates. At each reporting date, the Group determines whether there is any objective evidence that the investment in associate is impaired. If such indications are identified, the Group calculates the amount of impairment as being the difference between the recoverable amount (higher of value in use and fair value less costs to sell) of the associate and its carrying amount. In determining the value in use of the investment, the Group estimates its share of the present value of the estimated future cash flows expected to be generated by the associate, including cash flows arising from the operations of the associate and the proceeds on ultimate disposal of the investment.

### 2.5 Foreign currency translation

The financial statements are presented in Hong Kong dollars ("HK$"), which is also the functional currency of the Company.

In the individual financial statements of the consolidated entities, foreign currency transactions are translated into the functional currency of the individual entity using the exchange rates prevailing at the dates of the transactions. At the reporting date, monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at that date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the reporting date retranslation of monetary assets and liabilities are recognised in profit or loss.

Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined and are reported as part of the fair value gain or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 2. Summary of significant accounting policies (Continued)

### 2.5 Foreign currency translation (Continued)

In the consolidated financial statements, all individual financial statements of foreign operations, originally presented in a currency different from the Group's presentation currency, have been converted into Hong Kong dollars. Assets and liabilities have been translated into Hong Kong dollars at the closing rates at the reporting date. Income and expenses have been converted into the Hong Kong dollars at the exchange rates ruling at the transaction dates, or at the average rates over the reporting period provided that the exchange rates do not fluctuate significantly. Any differences arising from this procedure have been recognised in other comprehensive income and accumulated separately in the exchange reserve in equity. Goodwill and fair value adjustments arising on the acquisition of a foreign operation on or after 1 January 2005 have been treated as assets and liabilities of the foreign operation and translated into Hong Kong dollars at the closing rates. Goodwill arising on acquisitions of foreign operations before 1 January 2005 is translated at the foreign exchange rate that applied at the date of acquisition of the foreign operation.

Other exchange differences arising from the translation of the net investment in foreign entities are taken to shareholders' equity. On disposal of a foreign operation, the cumulative exchange differences recognised in the exchange reserve relating to that operation up to the date of disposal are reclassified to profit or loss as part of the profit or loss on disposal.

### 2.6 Property, plant and equipment

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

Depreciation is provided to write off the cost less their residual values over their estimated useful lives, using the straight-line method, at the following rates per annum:

| | |
|---|---|
| Buildings | 5% |
| Leasehold improvements, furniture, fixtures and equipment | 10% to 33-$^1/_3$%, or over lease terms whichever involves shorter period |
| Motor vehicles | 10% to 33-$^1/_3$% |

The assets' residual values, depreciation methods and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets, or where shorter, the term of the relevant lease.

The gain or loss arising on retirement or disposal is determined as the difference between the net sales proceeds and the carrying amount of the assets and is recognised in profit or loss.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other costs, such as repairs and maintenance, are charged to the income statement during the financial period in which they are incurred.

Construction in progress represents assets under construction and is carried at cost less any impairment losses, and is not depreciated. Cost comprises direct costs of construction during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment and depreciation commences when the construction work is completed and the asset is ready for use.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 2. Summary of significant accounting policies (Continued)

### 2.7 Operating lease prepayments and land use right

Upfront payments made to acquire land held under an operating lease are stated at costs less accumulated amortisation and any accumulated impairment losses. The determination if an arrangement is or contains a lease and the lease is an operating lease is detailed in note 2.15. Amortisation is calculated on a straight-line basis over the term of the lease/right of use except where an alternative basis is more representative of the time pattern of benefits to be derived by the Group from use of the land.

### 2.8 Investment property

Investment property is a building which is owned or held under a leasehold interest to earn rental income and/or for capital appreciation.

Where the Group acquires a property to earn rental income and/or for capital appreciation, and the property locates on leasehold land which is classified as an operating lease, the cost of acquiring the property is allocated between the land and the building elements in proportion to the relative fair value of the leasehold interests in the land element and building element. The amount attributed to the land element is accounted for under the Group's accounting policy stated in note 2.7 whereas the amount allocated to the building element is accounted for as the cost of investment property.

On initial recognition, investment property is measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment property is stated at cost less accumulated depreciation and any accumulated impairment losses. Depreciation is provided so as to write off the cost of investment property using the straight-line method over the lease term.

Transfer from investment property to property, plant and equipment shall be made when, and only when, there is a change in use, evidenced by commencement of owner-occupation, for a transfer from investment property to owner-occupied property. The transfers between investment property and owner-occupied property which are measured at cost less accumulated depreciation and impairment losses do not change the carrying amount of the property transferred and the cost of that property on transfer.

### 2.9 Goodwill

Set out below are the accounting policies on goodwill arising on acquisition of a subsidiary. Accounting for goodwill arising on acquisition of investment in an associate is set out in note 2.4.

Goodwill represents the excess of the aggregate of consideration transferred and the amount recognised for non-controlling interests over the fair value of the identifiable assets, liabilities and contingent liabilities acquired.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment (note 2.21).

If the consideration transferred and the amount recognised for non-controlling interests is less than the fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary acquired, the difference is recognised directly in the consolidated income statement.

On subsequent disposal of a subsidiary, the attributable amount of goodwill capitalised is included in the determination of the amount of gain or loss on disposal.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 2. Summary of significant accounting policies (Continued)

### 2.10 Other intangible assets and research and development costs

*Other intangible assets*

Acquired intangible assets are recognised initially at cost. After initial recognition, intangible assets with finite useful lives are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on straight-line basis over their estimated useful lives. Amortisation commences when the intangible assets are available for use. The following useful lives are applied:

| | |
|---|---|
| Computer software | 4 years |
| Customer relationships | 2 years |
| Development cost | 4 years |

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the computer software to which it relates. All other expenditure is expensed as incurred.

Intangible assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses.

Intangible assets, with finite and indefinite useful lives, are tested for impairment as described below in note 2.21.

*Research and development costs*

Costs associated with research activities are expensed in profit or loss as they occur. Costs that are directly attributable to the development activities are recognised as intangible assets provided they meet the following recognition requirements:

(i) demonstration of technical feasibility of the prospective product for internal use or sale;

(ii) there is intention to complete the intangible asset and use or sell it;

(iii) the Group's ability to use or sell the intangible asset is demonstrated;

(iv) the intangible asset will generate probable economic benefits through internal use or sale;

(v) sufficient technical, financial and other resources are available for completion; and

(vi) the expenditure attributable to the intangible asset can be reliably measured.

Direct costs include employee costs incurred on development along with an appropriate portion of relevant overheads. The costs of internally generated developments are recognised as intangible assets. They are subject to the same subsequent measurement method as externally acquired intangible assets.

All other development costs are expensed as incurred.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 2. Summary of significant accounting policies (Continued)

### 2.11 Financial assets

The Group's accounting policies for financial assets other than investments in subsidiaries and associates are set out below.

Financial assets are classified into the following categories:

— financial assets at fair value through profit or loss

— loans and receivables

— available-for-sale financial assets

Management determines the classification of its financial assets at initial recognition depending on the purpose for which the financial assets were acquired and where allowed and appropriate, re-evaluates this designation at every reporting date.

All financial assets are recognised when, and only when, the Group becomes a party to the contractual provisions of the instrument. Regular way purchases of financial assets are recognised on trade date. 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.

Derecognition of financial assets occurs when the rights to receive cash flows from the financial assets expire or are transferred and substantially all of the risks and rewards of ownership have been transferred.

At each reporting date, financial assets are reviewed to assess whether there is objective evidence of impairment. If any such evidence exists, impairment loss is determined and recognised based on the classification of the financial asset.

*(i) Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss.

Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term, or it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent pattern of short-term profit-making. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments or financial guarantee contracts.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial asset at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 2. Summary of significant accounting policies (Continued)

### 2.11 Financial assets (Continued)

*(i) Financial assets at fair value through profit or loss (Continued)*

Financial assets may be designated upon initial recognition as at fair value through profit or loss if the following criteria are met:

— the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognising gains or losses on them on a different basis; or

— the assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy and information about the group of financial assets is provided internally on that basis to the key management personnel; or

— the financial asset contains an embedded derivative that would need to be separately recorded.

Subsequent to initial recognition, the financial assets included in this category are measured at fair value with changes in fair value recognised in profit or loss. Fair value is determined by reference to active market transactions or using a valuation technique where no active market exists. Fair value gain or loss does not include any dividend or interest earned on these financial assets. Dividend and interest income is recognised in accordance with the Group's policies in note 2.18 to these financial statements.

*(ii) Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are subsequently measured at amortised cost using the effective interest method, less any impairment losses. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction cost. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

*(iii) Available-for-sale financial assets*

Non-derivative financial assets that do not qualify for inclusion in any of the other categories of financial assets are classified as available-for-sale financial assets.

All financial assets within this category are subsequently measured at fair value. Gain or loss arising from a change in the fair value excluding any dividend and interest income is recognised in other comprehensive income and accumulated separately in the available-for-sale financial assets revaluation reserve in equity, except for impairment losses (see the policy below) and foreign exchange gains and losses on monetary assets, until the financial asset is derecognised, at which time the cumulative gain or loss is reclassified from equity to profit or loss. Interest calculated using the effective interest method is recognised in profit or loss.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 2. Summary of significant accounting policies (Continued)

### 2.11 Financial assets (Continued)

*Impairment of financial assets*

At each reporting date, financial assets other than at fair value through profit or loss are reviewed to determine whether there is any objective evidence of impairment.

Objective evidence of impairment of individual financial assets includes observable data that comes to the attention of the Group about one or more of the following loss events:

— significant financial difficulty of the debtor;

— a breach of contract, such as a default or delinquency in interest or principal payments;

— it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

— significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

— a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

Loss events in respect of a group of financial assets include observable data indicating that there is a measurable decrease in the estimated future cash flows from the group of financial assets. Such observable data includes but not limited to adverse changes in the payment status of debtors in the group, national or local economic conditions that correlate with defaults on the assets in the group, and the failure to renegotiate the repayment terms of loan and receivables that would otherwise be past due or impaired.

If any such evidence exists, the impairment loss is measured and recognised as follows:

(i) Financial assets at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost 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) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The amount of the loss is recognised in profit or loss of the period in which the impairment occurs.

If, in subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that it does not result in a carrying amount of the financial asset exceeding what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in profit or loss of the period in which the reversal occurs.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 2. Summary of significant accounting policies (Continued)

### 2.11 Financial assets (Continued)

*Impairment of financial assets (Continued)*

(ii) Available-for-sale financial assets

When a decline in the fair value of an available-for-sale financial asset has been recognised directly in equity and there is objective evidence that the asset is impaired, an amount is removed from equity and recognised in profit or loss as impairment loss. That amount is measured as the difference between the asset's acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

Reversals in respect of investment in equity instruments classified as available-for-sale are not recognised in the profit or loss. The subsequent increase in fair value is recognised directly in other comprehensive income. Impairment losses in respect of debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversal of impairment losses in such circumstances are recognised in profit of loss.

Financial assets other than financial assets at fair value through profit or loss and loans and receivables that are stated at amortised cost, impairment losses are written off against the corresponding assets directly. Where the recovery of loans and receivables is considered doubtful but not remote, the impairment losses for doubtful receivables are recorded using an allowance account. When the Group is satisfied that recovery of loans and receivables is remote, the amount considered irrecoverable is written off against loans and receivables directly and any amounts held in the allowance account in respect of that receivable are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

### 2.12 Cash and cash equivalents

Cash and cash equivalents included cash at banks and in hand, demand deposits with banks or financial institutions and short-terms highly liquid investments with original maturities of three months or less that are readily convertible into known amounts of cash and which are subject to an insignificant risk of change in value. For the purpose of cash flow statement presentation, cash and cash equivalents include bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

### 2.13 Financial liabilities

The Group classified its financial liabilities depending on the purpose for which the liabilities were incurred.

The Group's financial liabilities include bank borrowings, trade and other payables and finance lease liabilities. They are included in statement of financial position as bank borrowings, amount due to ultimate holding company, amount due to a director, amounts due to shareholders, amount due to an associate, trade payables, other payables and accruals and finance lease liabilities. They are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost, using the effective interest method.

Financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instruments. All related finance costs are recognised in accordance with the Group's accounting policy for finance costs (see note 2.24).

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

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 2. Summary of significant accounting policies (Continued)

### 2.13 Financial liabilities (Continued)

Where 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 the recognition of a new liability, and the difference in the respective carrying amount is recognised in profit or loss.

### 2.14 Financial guarantees issued

A financial guarantee contract is a contract that requires the issuer (or guarantor) to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee is initially recognised as deferred income within other payables. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised if and when it becomes probable that the holder of the guarantee will call upon the Group under the guarantee and the amount of that claim on the Group is expected to exceed the current carrying amount i.e. the amount initially recognised less accumulated amortisation, where appropriate.

### 2.15 Leases

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

*(i)* *Classification of assets leased to the Group*

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

*(ii)* *Operating lease charges as the lessee*

Where the Group has the right to use of assets held under operating leases, payments made under the leases are charged to the income statement on a straight-line basis over the lease terms except where an alternative basis is more representative of the time pattern of benefits to be derived from the leased assets.

Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rental are charged to profit or loss in the accounting period in which they are incurred.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 2. Summary of significant accounting policies (Continued)

### 2.15 Leases (Continued)

(iii) *Assets acquired under finance leases*

When the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments of such assets, are included in property, plant and equipment and the corresponding liabilities, net of finance charges, are recorded as obligation under finance lease.

Subsequent accounting for assets held under finance lease agreements corresponds to those applied to comparable acquired assets. The corresponding finance lease liability is reduced by lease payments less finance charges.

Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

### 2.16 Provisions and contingent liabilities

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

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 of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

Contingent liabilities are recognised in the course of the allocation of purchase price to the assets and liabilities acquired in a business combination. They are initially measured at fair value at the date of acquisition unless the fair value cannot be measured reliably, and subsequently measured at the higher of the amount that would be recognised in a comparable provision as described above and the amount initially recognised less any accumulated amortisation, if appropriate.

### 2.17 Share capital

Ordinary shares are classified as equity. Share capital is determined using the nominal value of shares that have been issued.

Any transaction costs associated with the issuing of shares are deducted from share premium (net of any related income tax benefit) to the extent they are incremental costs directly attributable to the equity transaction.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 2. Summary of significant accounting policies (Continued)

### 2.18 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods, rendering of services and the use by others of the Group's assets yielding interest, royalties and dividends, net of rebates and discounts. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised as follows:

— Sales of goods are recognised upon transfer of the significant risks and rewards of ownership to the customer. This is usually taken as the time when the goods are delivered and the customer has accepted the goods;

— Sales of services are recognised in the accounting period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided. When services are performed by an indeterminate number of acts over a specified period of time, revenue is recognised on a straight-line basis over the specified period of time unless there is evidence that some other method better represents the stage of completion;

— Interest income is recognised on a time-proportion basis using the effective interest method; and

— Dividend is recognised when the right to receive payment is established.

### 2.19 Deferred revenue

Deferred revenue consists primarily of deferred revenue from prepaid service fees received from subscribers and fair value of bonus liabilities granted to customers in accordance with the announced bonus point scheme and the Group's past experience on the level of redemption of points. Revenue from prepaid service fees and bonus liabilities are recognised when the relevant services are rendered.

### 2.20 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government grants are deferred and recognised in profit or loss over the period necessary to match them with the costs that the grants are intended to compensate. Government grants relating to the purchase of assets are included in liabilities as deferred government grants in the statement of financial position and are recognised in profit or loss on a straight-line basis over the expected lives of the related assets.

Government grants relating to income is presented in gross under "Other operating income" in profit or loss.

### 2.21 Impairment of non-financial assets

Goodwill arising on an acquisition of subsidiary, other intangible assets, property, plant and equipment, prepaid land lease payments under operating leases, non-current portion of deposits and interests in subsidiaries and associate are subject to impairment testing.

Goodwill is tested for impairment at least annually, irrespective of whether there is any indication that they are impaired. All other assets are tested for impairment whenever there are indications that the asset's carrying amount may not be recoverable.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 2. Summary of significant accounting policies (Continued)

### 2.21 Impairment of non-financial assets (Continued)

An impairment loss is recognised as an expense immediately for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use. 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 assessment of time value of money and the risk specific to the asset.

For the purposes of assessing impairment, when an assets does not generate cash inflows largely independent from those from other assets, the recoverable amount is determined for the smallest group of assets that generate cash inflows independently (i.e. a cash-generating unit). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill in particular is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the Group at which the goodwill is monitored for internal management purpose.

Impairment losses recognised for cash-generating units, to which goodwill has been allocated, are credited initially to the carrying amount of goodwill. Any remaining impairment loss is charged pro rata to the other assets in the cash-generating unit, except that the carrying value of an asset will not be reduced below its individual fair value less cost to sell, or value in use, if determinable.

An impairment loss on goodwill is not reversed in subsequent periods. In respect of other assets, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the asset's recoverable amount and only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

### 2.22 Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale when:

- they are available for immediate sale;
- management has committed to a plan to sell;
- it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn;
- an active programme to locate a buyer has been initiated;
- the asset or disposal group is being marketed at a reasonable price in relation to its fair value; and
- a sale is expected to complete within 12 months from the date of clarification.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 2. Summary of significant accounting policies (Continued)

### 2.22 Non-current assets held for sale (Continued)

Non-current assets classified as held for sale are measured at the lower of:

- their carrying amount immediately prior to being classified as held for sale in accordance with the Group's accounting policy; and
- fair value less costs to sell.

Following their classification as held for sale, non-current assets (including those in a disposal group) are not depreciated.

The results of operations disposed of during the year are included in profit or loss up to the date of disposal.

### 2.23 Employee benefits

(i) *Short-term employee benefits*

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the reporting date.

Non-accumulating compensated absences such as sick leave and maternity leave are not recognised until the time of leave.

(ii) *Retirement benefits*

The Group operates several staff retirement schemes for employees in Hong Kong and Mainland China, the People's Republic of China (the "PRC"), comprising defined contribution pension schemes and a Mandatory Provident Fund ("MPF") scheme. The assets of these schemes are held separately from those of the Group in independently administered funds. The retirement schemes are generally funded by payments from employees and by the relevant subsidiaries of the Group.

The subsidiaries operating in Mainland China are required to participate in the defined contribution retirement scheme for their employees, organised by the relevant local government authorities. They are required to make contributions to the retirement schemes at a rate of 10% to 22% (depending on the locations of the subsidiaries) of basic salaries of their employees and there are no other further obligations to the Group.

Before 1 December 2000, the Group operated a defined contribution retirement scheme (the "ORSO Scheme") in Hong Kong for all qualified employees. The rate of contribution payable by the Group was 5% of the individual employees' monthly basic salaries. The Group's contributions under the ORSO Scheme were reduced by contributions forfeited by those employees who left the scheme prior to vesting fully in the contributions. There are no legal or constructive obligations to pay further contributions after payment of the fixed contribution.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 2. Summary of significant accounting policies (Continued)

### 2.23 Employee benefits (Continued)

*(ii) Retirement benefits (Continued)*

The Mandatory Provident Fund Schemes Authority has approved the ORSO Scheme as a Mandatory Provident Fund Exempted Occupational Retirement Scheme under the Mandatory Provident Fund Schemes Ordinance (the "MPF Schemes Ordinance"). With effect from 1 December 2000, the MPF Scheme was also set up under the MPF Schemes Ordinance for existing staff who opt for this scheme and eligible staff recruited on or after that date. When the underlying staff elects the MPF Scheme, pension scheme benefits attributed to the staff under the ORSO Scheme remain unchanged in the MPF Scheme. Under the MPF Scheme, eligible employees are required to contribute 5% of their monthly basic salaries whereas the Group's monthly contribution will be 5% of the relevant employee's basic salaries with a maximum monthly contribution of HK$1,000. There are no legal or constructive obligations to pay further contributions after payment of the fixed contribution.

The contributions recognised in respect to defined contribution retirement schemes are expensed as they fall due. Liabilities and assets may be recognised if underpayment or prepayment has occurred and are included in current liabilities or current assets as they are normally of a short term nature.

*(iii) Share-based employee compensation*

All share-based payment arrangements granted after 7 November 2002 and had not vested on 1 January 2005 are recognised in the financial statements. The Group operates equity-settled share-based compensation plans for remuneration of its employees.

All employee services received in exchange for the grant of any share-based compensation are measured at their fair values. These are indirectly determined by reference to the share options awarded. Their value is appraised at the grant date and excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets).

All share-based compensation is recognised as an expense in profit or loss over the vesting period if vesting conditions apply, or recognised as an expense in full at the grant date when the equity instruments granted vest immediately unless the compensation qualifies for recognition as asset, with a corresponding increase in share option reserve in equity. If vesting conditions apply, the expense is recognised over the vesting period, based on the best available estimate of the number of equity instruments expected to vest. Non-market vesting conditions are included in assumptions about the number of equity instruments that are expected to become exercisable. Estimates are subsequently revised, if there is any indication that the number of equity instruments expected to vest differs from previous estimates.

### 2.24 Finance costs

Finance costs incurred for the acquisition, construction or production of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. A qualifying asset is an asset which necessarily takes a substantial period of time to get ready for its intended use or sale. Other borrowing costs are expensed as incurred.

Finance costs are capitalised as part of the cost of a qualifying asset when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are being undertaken. Capitalisation of borrowing costs ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 2. Summary of significant accounting policies (Continued)

### 2.25 Accounting for income taxes

Income tax for the year comprises current tax and deferred tax.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting period, that are unpaid at the reporting date. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognised as a component of income tax expense in profit or loss.

Deferred tax is calculated using the liability method on temporary differences at the reporting date between the carrying amounts of assets and liabilities in the financial statements and their respective tax bases. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, tax losses available to be carried forward as well as other unused tax credits, to the extent that it is probable that taxable profit including existing taxable temporary differences will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

Deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither taxable nor accounting profit or loss.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associate, except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax is calculated, without discounting, at tax rates that are expected to apply in the period the liability is settled or the asset realised, provided they are enacted or substantively enacted at the reporting date.

Changes in deferred tax assets or liabilities are recognised in profit or loss, in other comprehensive income or in equity if they relate to items that are charged or credited to other comprehensive income or directly to equity.

### 2.26 Segment reporting

The Group identifies operating segments and prepares segment information based on the regular internal financial information reported to the executive directors for their decisions about resources allocation to the Group's business components and for their review of the performance of those components. The business components in the internal financial information reported to the executive directors are determined following the Group's major product and service lines.

The Group has identified the following reportable segments:

(a) Financial information services

(b) Corporate IT application services

(c) Distance learning education services

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 2. Summary of significant accounting policies (Continued)

### 2.26 Segment reporting (Continued)

Information about other business activities and operating segments that are not reportable are combined and disclosed in an "all other segments". All other segments included trading of securities.

Each of these operating segments is managed separately as each of the product and service lines requires different resources as well as marketing approaches. All inter-segment transfers are carried out at arm length prices.

The measurement policies the Group uses for reporting segment results under HKFRS 8 are the same as those used in its financial statements prepared under HKFRSs, except that:

- Share of results of associate
- Certain bank interest income
- Certain other interest income
- Certain gain on disposal and dissolution of subsidiaries
- Income tax expenses
- Corporate income and expenses which are not directly attributable to the business activities or any operating segment

are not included in arriving at the operating results of the operating segment.

Segment assets include all assets but loan to ultimate holding company, certain cash and cash equivalents, interest in an associate and available-for-sale financial assets. In addition, corporate assets which are not directly attributable to the business activities of any operating segment are not allocated to a segment which primarily applies to the Group's headquarter.

Segment liabilities exclude corporate liabilities which are not directly attributable to the business activities of any operating segment and are not allocated to a segment. These include provision for tax, amounts due to ultimate holding company/a director/shareholders/an associate.

No asymmetrical allocations have been applied to reportable segments.

### 2.27 Discontinued operations

A discontinued operation is a clearly distinguishable component of the Group's business that has been disposed of or is classified as held for sale, which represents a separate major line of business or geographical area of operations of the Group.

Classification as a discontinued operation occurs upon disposal. It also occurs when the operation is abandoned.

Where an operation is classified as discontinued, a single amount is presented on the face of profit and loss account, which comprises the post-tax profit or loss for the discontinued operation.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 2. Summary of significant accounting policies (Continued)

### 2.28 Related parties

(a) A person or a close member of that person's family is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of key management personnel of the Group or the Company's parent.

(b) An entity is related to the Group if any of the following conditions apply:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(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 the employees of the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

(i) that person's children and spouse or domestic partner;

(ii) children of that person's spouse or domestic partner; and

(iii) dependents of that person or that person's spouse or domestic partner.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 3. Adoption of new/amended HKFRSs

### 3.1 Impact of new/amended HKFRSs which are effective during the year

In current year, the Group has applied for the first time the following new standards, amendments and interpretations (the "new HKFRSs") issued by the HKICPA, which are relevant to and effective for the Group's financial statements for the annual period beginning on 1 January 2011.

| | |
|---|---|
| HKFRSs (Amendments) | Improvements to HKFRSs 2010 |
| Amendments to HKAS 32 | Classification of Rights Issues |
| HKAS 24 (Revised) | Related Party Disclosures |

Except as explained below, the adoption of these new/revised standards and interpretations has no significant impact on the Group's financial statements.

*HKFRS 3 (Amendments) — Business Combinations*

As part of the Improvements to HKFRSs issued in 2010, HKFRS 3 has been amended to clarify that the option to measure non-controlling interests ("NCI") at either fair value or the NCI's proportionate share in the recognised amounts of the acquiree's identifiable net assets is limited to instruments that are present ownership interests and entitle their holders to a proportionate share of the acquiree's net assets in the event of liquidation. All other components of NCI are measured at their acquisition date fair value unless another measurement basis is required by HKFRSs. The Group has amended its accounting policies for measuring NCI but the adoption of the amendment has had no impact on the Group's financial statements.

*HKAS 24 (Revised) — Related Party Disclosures*

HKAS 24 (Revised) amends the definition of related party and clarifies its meaning. This may result in changes to those parties who are identified as being related parties of the reporting entity. The Group has revised its accounting policy for the identification of its related parties and has reassessed counterparties of transactions in accordance with the revised definition. The reassessment did not result in new related parties being identified. Related parties identified in prior years remain unchanged under the new accounting policy and the Group concluded that the revised definition does not have any material impact on the Group's related party disclosures in the current and previous years. The adoption of HKAS 24 (Revised) has no impact on the Group's reported profit or loss, total comprehensive income or equity for any period presented.

HKAS 24 (Revised) also introduces simplified disclosure requirements applicable to related party transactions where the Group and the counterparty are under the common control, joint control or significant influence of a government, government agency or similar body. These new disclosures are not relevant to the Group because the Group is not a government related entity.

# NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2011

## 3. Adoption of new/amended HKFRSs (Continued)

### 3.2 Impact of new/amended HKFRSs which are issued but not yet effective

The following new/revised HKFRSs, potentially relevant to the Group's financial statements, have been issued, but are not yet effective and have not been early adopted by the Group.

| | |
|---|---|
| Amendments to HKFRS 7 | Disclosures — Transfers of Financial Assets[1] |
| Amendments to HKAS 1 (Revised) | Presentation of Items of Other Comprehensive Income[2] |
| Amendments to HKAS 32 | Financial Instruments: Presentation — Offsetting Financial Assets and Financial Liabilities[4] |
| Amendments to HKFRS 7 | Disclosures — Offsetting Financial Assets and Financial Liabilities[3] |
| HKFRS 9 | Financial Instruments[5] |
| HKFRS 10 | Consolidated Financial Statements[3] |
| HKFRS 12 | Disclosure of Interests in Other Entities[3] |
| HKFRS 13 | Fair Value Measurement[3] |
| HKAS 27 (2011) | Separate Financial Statements[3] |
| HKAS 28 (2011) | Investments in Associates and Joint Ventures[3] |

1 Effective for annual periods beginning on or after 1 July 2011
2 Effective for annual periods beginning on or after 1 July 2012
3 Effective for annual periods beginning on or after 1 January 2013
4 Effective for annual periods beginning on or after 1 January 2014
5 Effective for annual periods beginning on or after 1 January 2015

*Amendments to HKFRS 7 — Disclosures — Transfers of Financial Assets*

The amendments to HKFRS 7 improve the disclosure requirements for transfer transactions of financial assets and allow users of financial statements to better understand the possible effects of any risks that may remain with the entity on transferred assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period.

*Amendments to HKAS 1 (Revised) — Presentation of Items of Other Comprehensive Income*

The amendments to HKAS 1 (Revised) require the Group to separate items presented in other comprehensive income into those that may be reclassified to profit and loss in the future (e.g. revaluations of available-for-sale financial assets) and those that may not (e.g. revaluations of property, plant and equipment). Tax on items of other comprehensive income is allocated and disclosed on the same basis. The amendments will be applied retrospectively.

*Amendments to HKAS 32 — Financial Instruments: Presentation — Offsetting Financial Assets and Financial Liabilities*

The amendments clarify the requirements for offsetting financial instruments. The amendments address inconsistencies in current practice when applying the offsetting criteria and clarify:

— the meaning of 'currently has a legally enforceable right of set-off'; and

— that some gross settlement systems may be considered equivalent to net settlement.

The amendments will be applied retrospectively.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 3. Adoption of new/amended HKFRSs (Continued)

### 3.2 Impact of new/amended HKFRSs which are issued but not yet effective (Continued)

*HKFRS 9 — Financial Instruments*

Under HKFRS 9, financial assets are classified into financial assets measured at fair value or at amortised cost depending on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Fair value gains or losses will be recognised in profit or loss except for those non-trade equity investments, which the entity will have a choice to recognise the gains and losses in other comprehensive income. HKFRS 9 carries forward the recognition, classification and measurement requirements for financial liabilities from HKAS 39, except for financial liabilities that are designated at fair value through profit or loss, where the amount of change in fair value attributable to change in credit risk of that liability is recognised in other comprehensive income unless that would create or enlarge an accounting mismatch. In addition, HKFRS 9 retains the requirements in HKAS 39 for derecognition of financial assets and financial liabilities.

*HKFRS 10 — Consolidated Financial Statements*

HKFRS 10 introduces a single control model for consolidation of all investee entities. An investor has control when it has power over the investee (whether or not that power is used in practice), exposure or rights to variable returns from the investee and the ability to use the power over the investee to affect those returns. HKFRS 10 contains extensive guidance on the assessment of control. For example, the standard introduces the concept of "de facto" control where an investor can control an investee while holding less than 50% of the investee's voting rights in circumstances where its voting interest is of sufficiently dominant size relative to the size and dispersion of those of other individual shareholders to give it power over the investee. Potential voting rights are considered in the analysis of control only when these are substantive, i.e. the holder has the practical ability to exercise them. The standard explicitly requires an assessment of whether an investor with decision making rights is acting as principal or agent and also whether other parties with decision making rights are acting as agents of the investor. An agent is engaged to act on behalf of and for the benefit of another party and therefore does not control the investee when it exercises its decision making authority. The implementation of HKFRS 10 may result in changes in those entities which are regarded as being controlled by the Group and are therefore consolidated in the financial statements. The accounting requirements in the existing HKAS 27 on other consolidation related matters are carried forward unchanged. HKFRS 10 is applied retrospectively subject to certain transitional provisions.

*HKFRS 12 — Disclosure of Interests in Other Entities*

HKFRS 12 integrates and makes consistent the disclosures requirements about interests in subsidiaries, associates and joint arrangements. It also introduces new disclosure requirements, including those related to unconsolidated structured entities. The general objective of the standard is to enable users of financial statements to evaluate the nature and risks of a reporting entity's interests in other entities and the effects of those interests on the reporting entity's financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 3. Adoption of new/amended HKFRSs (Continued)

### 3.2 Impact of new/amended HKFRSs which are issued but not yet effective (Continued)

*HKFRS 13 — Fair Value Measurement*

HKFRS 13 provides a single source of guidance on how to measure fair value when it is required or permitted by other standards. The standard applies to both financial and non-financial items measured at fair value and introduces a fair value measurement hierarchy. The definitions of the three levels in this measurement hierarchy are generally consistent with HKFRS 7 "Financial Instruments: Disclosures". HKFRS 13 defines fair value as 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 (i.e. an exit price). The standard removes the requirement to use bid and ask prices for financial assets and liabilities quoted in an active market. Rather the price within the bid-ask spread that is most representative of fair value in the circumstances should be used. It also contains extensive disclosure requirements to allow users of the financial statements to assess the methods and inputs used in measuring fair values and the effects of fair value measurements on the financial statements. HKFRS 13 can be adopted early and is applied prospectively.

The Group is in the process of making an assessment of the potential impact of these new/revised HKFRSs but are not yet in a position to state whether they could have material financial impact on the Group's results and financial position.

## 4. Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

### 4.1 Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

*Depreciation and amortisation*

The Group depreciates and amortises property, plant and equipment and intangible assets other than goodwill on a straight-line basis over the estimated useful life, and after taking into account of their estimated residual value, at the rate of 5% to 33-$^1/_3$% per annum and 25% to 50% per annum, respectively, commencing from the date on which the assets are available for use. The estimated useful life reflects the directors' estimate of the periods that the Group intends to derive future economic benefits from the use of the Group's property, plant and equipment and other intangible assets.

*Provision for impairment of receivables*

The policy for the provision for impairment of receivables of the Group is based on the evaluation of collectability and aging analysis of accounts and on management's judgement. A considerable amount of judgement 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 of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional provision for impairment may be required.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 4. Critical accounting estimates and judgements (Continued)

### 4.1 Critical accounting estimates and assumptions (Continued)

*Impairment of goodwill*

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in note 2.21. The recoverable amounts of cash-generating units have been determined based on value in use calculations. These calculations require the use of estimates about future cash flows and discount rates. In the process of estimating expected future cash flow management makes assumptions about future revenues and profits. These assumptions relate to future events and circumstances. The actual results may vary and may cause a material adjustment to the carrying amount of goodwill within the next financial year. Determining the appropriate discount rate involves estimating the appropriate adjustment for market risk and for asset specific risk factors. Details of the estimates of the recoverable amounts of cash generating units ("CGU") containing goodwill are disclosed in note 20.

*Impairment of other assets*

The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Indefinite life intangible assets are tested for impairment annually and at other times when such indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or CGU and choose a suitable discount rate in order to calculate the present value of those cash flows.

### 4.2 Critical judgements in applying the Group's accounting policies

*Current tax and deferred tax*

The Group is subject to income taxes in Hong Kong and PRC. Significant judgement is required in determining the amount of the provision for taxes and the timing of payment of the related taxation. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises taxes based on estimates of the likely outcome with reference to current tax laws and practices. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income taxes and deferred tax provision in the period in which such determination is made.

Deferred tax assets relating to certain temporary differences and tax losses will be recognised when management considers it is probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. Where the expectation is different from the original estimate, such differences will impact the recognition of deferred tax assets and taxation in the periods in which such estimate is changed.

*Research and development costs*

Careful judgement by the Group's management is applied when deciding whether the recognition requirements for development costs have been met. This is necessary as the economic success of any product development is uncertain and may be subject to future technical problems at the time of recognition. Judgements are based on the best information available at each reporting period. In addition, all internal activities related to the research and development of new software products are continuously monitored by the Group's management.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 5. Revenue/Turnover and other operating income

(a) The Group's turnover represents revenue from its principal activities as set out below:

| | Continuing operations | | Discontinued operations | | Total | |
|---|---|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 | **2011** | 2010 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| | | (Re-presented) | | (Re-presented) | | (Re-presented) |
| Corporate IT application services | **791,991** | 712,269 | **—** | — | **791,991** | 712,269 |
| Financial information services | **—** | — | **19,578** | 20,238 | **19,578** | 20,238 |
| Distance learning education services | **—** | — | **12,781** | 10,237 | **12,781** | 10,237 |
| | **791,991** | 712,269 | **32,359** | 30,475 | **824,350** | 742,744 |

(b) Other operating income:

| | Continuing operations | | Discontinued operations | | Total | |
|---|---|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 | **2011** | 2010 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| | | (Re-presented) | | (Re-presented) | | (Re-presented) |
| Bank interest income | **226** | 176 | **6** | 10 | **232** | 186 |
| Other interest income | **84,482** | 86,381 | **6,545** | 6,500 | **91,027** | 92,881 |
| Gain on disposal of non-current assets classified as held for sale | **31,426** | — | **—** | — | **31,426** | — |
| Net fair value gain on financial assets at fair value through profit or loss | **2,030** | — | **—** | — | **2,030** | — |
| Rental income | **—** | 1,264 | **—** | — | **—** | 1,264 |
| Government grants (note) | **709** | 14,043 | **—** | — | **709** | 14,043 |
| Sundry income | **7,446** | 2,844 | **668** | 815 | **8,114** | 3,659 |
| | **126,319** | 104,708 | **7,219** | 7,325 | **133,538** | 112,033 |

Note: Government grants were granted during the years ended 31 December 2011 and 31 December 2010 to subsidise certain software development projects of the Group in PRC, of which the entitlement was unconditional.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 6. Segment information

The executive directors have identified the Group's three services lines as the following operating segments as further described in note 2.26.

These operating segments are monitored and strategic decisions are made on the basis of adjusted segment operating results.

| | 2011 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Continuing operations | | | Discontinued operations | | | Total |
| | Corporate IT application services HK$'000 | All other segments HK$'000 | Total HK$'000 | Financial information services HK$'000 | Distance learning education services HK$'000 | Total HK$'000 | HK$'000 |
| Revenue | | | | | | | |
| From external customers | 791,991 | — | 791,991 | 19,578 | 12,781 | 32,359 | 824,350 |
| From other segments | — | — | — | — | — | — | — |
| **Reportable segment revenue** | 791,991 | — | 791,991 | 19,578 | 12,781 | 32,359 | 824,350 |
| **Reportable and all other segments profit/(loss)** | (205,371) | 2,024 | (203,347) | (35,825) | (4,743) | (40,568) | (243,915) |
| Bank interest income | 211 | — | 211 | 4 | 2 | 6 | 217 |
| Other interest income | — | — | — | 6,545 | — | 6,545 | 6,545 |
| Finance costs | (7,377) | — | (7,377) | — | — | — | (7,377) |
| Depreciation and amortisation of non-financial assets | (94,328) | — | (94,328) | (493) | (81) | (574) | (94,902) |
| Loss on disposal of property, plant and equipment | — | — | — | (174) | (29) | (203) | (203) |
| Gain on disposal of non-current assets classified as held for sale | 31,426 | — | 31,426 | — | — | — | 31,426 |
| (Loss)/Gain on disposal and dissolution of subsidiaries | (25,196) | — | (25,196) | 17,240 | (3,739) | 13,501 | (11,695) |
| **Reportable and all other segments assets** | 1,018,205 | — | 1,018,205 | — | — | — | 1,018,205 |
| Additions to non-current segment assets during the year | 228,918 | 8 | 228,926 | 812 | 134 | 946 | 229,872 |
| **Reportable and all other segments liabilities** | (309,320) | — | (309,320) | — | — | — | (309,320) |

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 6. Segment information (Continued)

| | 2010 (Re-presented) | | | | | | |
|---|---|---|---|---|---|---|---|
| | Continuing operations | | | Discontinued operations | | | Total |
| | Corporate IT application services HK$'000 | All other segments HK$'000 | Total HK$'000 | Financial information services HK$'000 | Distance learning education services HK$'000 | Total HK$'000 | HK$'000 |
| Revenue | | | | | | | |
| From external customers | 712,269 | — | 712,269 | 20,238 | 10,237 | 30,475 | 742,744 |
| From other segments | 1,269 | — | 1,269 | — | — | — | 1,269 |
| **Reportable segment revenue** | 713,538 | — | 713,538 | 20,238 | 10,237 | 30,475 | 744,013 |
| **Reportable and all other segments profit/(loss)** | (97,117) | (15,046) | (112,163) | (29,798) | 1,206 | (28,592) | (140,755) |
| Bank interest income | 173 | — | 173 | 7 | 3 | 10 | 183 |
| Other interest income | — | — | — | 6,500 | — | 6,500 | 6,500 |
| Finance costs | (4,111) | — | (4,111) | — | — | — | (4,111) |
| Depreciation and amortisation of non-financial assets | (95,309) | — | (95,309) | (600) | (127) | (727) | (96,036) |
| Provision for impairment of receivables | (96) | — | (96) | — | — | — | (96) |
| (Loss)/Gain on disposal of property, plant and equipment | 17 | — | 17 | (112) | (66) | (178) | (161) |
| **Reportable and all other segments assets** | 1,074,355 | 23,035 | 1,097,390 | 8,194 | 4,229 | 12,423 | 1,109,813 |
| Additions to non-current segment assets during the year | 266,597 | — | 266,597 | 106 | — | 106 | 266,703 |
| **Reportable and all other segments liabilities** | (232,137) | — | (232,137) | (22,808) | (1,612) | (24,420) | (256,557) |

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 6. Segment information (Continued)

The totals presented for the Group's operating segments are reconciled to the Group's key financial figures as presented in the financial statements as follows:

| | **2011** **HK$'000** | 2010 HK$'000 (Re-presented) |
|---|---|---|
| Reportable segment revenue — continuing operations | **791,991** | 713,538 |
| Reportable segment revenue — discontinued operations | **32,359** | 30,475 |
| Elimination of inter-segment revenue | **—** | (1,269) |
| Group revenue | **824,350** | 742,744 |
| Reportable segment results — continuing operations | **(205,371)** | (97,117) |
| All other segments results — continuing operations | **2,024** | (15,046) |
| Reportable segment results — discontinued operations | **(40,568)** | (28,592) |
| Bank interest income | **15** | 3 |
| Other interest income | **84,482** | 86,381 |
| Depreciation and amortisation | **(48)** | (26) |
| Gain on disposal and dissolution of subsidiaries | **57** | 379 |
| Provision for impairment of receivables | **(517)** | (192) |
| Unallocated corporate expenses | **(16,704)** | (18,690) |
| Elimination of inter-segment profit | **—** | (1,269) |
| Loss before income tax (note) | **(176,630)** | (74,169) |

Note:

Loss before income tax is represented by:

| | | |
|---|---|---|
| Loss before income tax — continuing operations | **(136,062)** | (45,577) |
| Loss before income tax — discontinued operations (note 10) | **(54,069)** | (28,592) |
| Gain on disposals of subsidiaries — discontinued operations (note 10) | **13,501** | — |
| | **(176,630)** | (74,169) |

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 6. Segment information (Continued)

| | 2011<br>HK$'000 | 2010<br>HK$'000<br>(Re-presented) |
|---|---|---|
| Reportable segment assets — continuing operations | **1,018,205** | 1,074,355 |
| All other segments assets — continuing operations | **—** | 23,035 |
| Reportable segment assets — discontinued operations | **—** | 12,423 |
| Loan to ultimate holding company | **1,357,377** | 1,634,551 |
| Cash and cash equivalents | **3,469** | 2,940 |
| Available-for-sale financial assets | **324** | 324 |
| Other financial and corporate assets | **84,743** | 26,157 |
| Elimination of inter-segment assets | **—** | (1,276) |
| Group assets | **2,464,118** | 2,772,509 |
| Reportable segment liabilities — continuing operations | **309,320** | 232,137 |
| Reportable segment liabilities — discontinued operations | **—** | 24,420 |
| Amount due to ultimate holding company | **105,916** | 305,733 |
| Amount due to a director | **11,794** | 32,374 |
| Amounts due to shareholders | **5,006** | 5,006 |
| Amount due to an associate | **5,502** | 5,505 |
| Provision for tax | **67,761** | 68,516 |
| Other corporate liabilities | **31,885** | 23,433 |
| Group liabilities | **537,184** | 697,124 |

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 6. Segment information (Continued)

The Group's revenue from external customers and its non-current assets (other than financial instruments) are divided into the following geographical areas:

### Revenue from external customers

| | Continuing operations | | Discontinued operations | | Total | |
|---|---|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 | **2011** | 2010 |
| | **HK$'000** | HK$'000 (Re-presented) | **HK$'000** | HK$'000 (Re-presented) | **HK$'000** | HK$'000 (Re-presented) |
| Hong Kong | **33** | 105 | **—** | — | **33** | 105 |
| Mainland China (domicile) | **791,958** | 712,164 | **32,359** | 30,475 | **824,317** | 742,639 |
| Total | **791,991** | 712,269 | **32,359** | 30,475 | **824,350** | 742,744 |

### Non-current assets

| | Continuing operations | | Discontinued operations | | Total | |
|---|---|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 | **2011** | 2010 |
| | **HK$'000** | HK$'000 (Re-presented) | **HK$'000** | HK$'000 (Re-presented) | **HK$'000** | HK$'000 (Re-presented) |
| Hong Kong | **580** | 112 | **—** | — | **580** | 112 |
| Mainland China (domicile) | **618,555** | 596,636 | **—** | 1,486 | **618,555** | 598,122 |
| Total | **619,135** | 596,748 | **—** | 1,486 | **619,135** | 598,234 |

The geographical location of customers is based on the location at which the services were provided or the goods delivered. The geographical location of the non-current assets is based on the physical and operating location of the assets. The Company is an investment holding company incorporated in Hong Kong where the Group has the majority of its operations and workforce in Mainland China, and therefore, Mainland China is considered as the Group's country of domicile for the purpose of the disclosures as required by HKFRS 8 "Operating Segments".

## 7. Finance costs

| | Continuing operations | | Discontinued operations | | Total | |
|---|---|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 | **2011** | 2010 |
| | **HK$'000** | HK$'000 (Re-presented) | **HK$'000** | HK$'000 (Re-presented) | **HK$'000** | HK$'000 (Re-presented) |
| Interest on bank loans wholly repayable within five years | **7,351** | 4,111 | **—** | — | **7,351** | 4,111 |
| Interest on finance leases | **26** | — | **—** | — | **26** | — |
| | **7,377** | 4,111 | **—** | — | **7,377** | 4,111 |

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 8. Loss before income tax

Loss before income tax is arrived at after charging/(crediting):

| | Continuing operations | | Discontinued operations | |
|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| | | (Re-presented) | | (Re-presented) |
| Auditors' remuneration | **3,093** | 3,171 | **40** | 50 |
| Net foreign exchange loss* | **90** | 2 | **5** | — |
| Gross depreciation of property, plant and equipment | | | | |
| — owned assets | **29,170** | 26,657 | **574** | 727 |
| Less: Amounts included in research and development expenses | **(237)** | (225) | **—** | — |
| Amounts capitalised in intangible assets | **(203)** | (30) | **—** | — |
| Net depreciation of owned assets* | **28,730** | 26,402 | **574** | 727 |
| Depreciation of leased assets* | **115** | — | **—** | — |
| Depreciation of investment property* | **—** | 55 | **—** | — |
| Gross operating lease charges on land and buildings | **43,720** | 35,259 | **3,299** | 2,128 |
| Less: Amounts capitalised in intangible assets | **—** | (906) | **—** | — |
| Net operating lease charges on land and buildings | **43,720** | 34,353 | **3,299** | 2,128 |
| Operating lease charges on prepaid land lease* | **593** | 1,161 | **—** | — |
| Gross retirement benefit contributions | **76,316** | 68,829 | **9,347** | 7,670 |
| Less: Amounts included in research and development expenses | **(10,872)** | (1,116) | **—** | — |
| Amounts included in cost of provision of corporate IT application services | **(10,510)** | (4,571) | **—** | — |
| Amounts capitalised in intangible assets | **—** | (2,753) | **—** | — |
| Net retirement benefit contributions | **54,934** | 60,389 | **9,347** | 7,670 |
| Cost of provision of corporate IT application services | **204,075** | 167,990 | **—** | — |
| Cost of provision of financial information services | **—** | — | **25,151** | 11,067 |
| Cost of inventories sold — distance learning materials | **—** | — | **1,623** | 1,282 |
| Cost of sales and services provided | **204,075** | 167,990 | **26,774** | 12,349 |
| Provision for impairment of receivables, net* | **517** | 288 | **—** | — |
| Bad debt written off* | **—** | 378 | **27** | — |
| (Gain)/Loss on disposal of property, plant and equipment* | **—** | (17) | **203** | 178 |
| Gross amortisation of intangible assets other than goodwill | **64,498** | 67,462 | **—** | — |
| Less: Amounts included in research and development expenses | **(2,694)** | (2,542) | **—** | — |
| Net amortisation of intangible assets other than goodwill* | **61,804** | 64,920 | **—** | — |
| Write-off of property, plant and equipment* | **1,681** | 1,149 | **—** | — |
| Write-off of other intangible assets | **—** | 214 | **—** | — |
| Net fair value (gain)/loss on financial assets at fair value through profit or loss* | **(2,030)** | 15,844 | **—** | — |
| Gain on disposal of non-current assets classified as held for sale | **(31,426)** | — | **—** | — |
| Research and development expenses* | **92,064** | 37,293 | **—** | — |

* included in other operating expenses

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 9. Income tax expense

| | Continuing operations | | Discontinued operations | | Total | |
|---|---|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 | **2011** | 2010 |
| | **HK$'000** | HK$'000 (Re-presented) | **HK$'000** | HK$'000 (Re-presented) | **HK$'000** | HK$'000 (Re-presented) |
| The tax expense comprises: | | | | | | |
| Current tax | | | | | | |
| — Hong Kong Profits Tax | | | | | | |
| Tax charge for the year | **9,256** | 8,870 | **—** | — | **9,256** | 8,870 |
| — PRC Enterprise Income Tax | | | | | | |
| Tax charge for the year | **1,997** | 7,532 | **—** | 4 | **1,997** | 7,536 |
| Over-provision in respect of prior years | **(4,421)** | — | **—** | — | **(4,421)** | — |
| | **6,832** | 16,402 | **—** | 4 | **6,832** | 16,406 |

For the years ended 31 December 2011 and 31 December 2010, Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits for the year.

PRC Enterprise Income Tax ("EIT") has been provided on the estimated assessable profits of subsidiaries operating in Mainland China at 25% (2010: 25%), unless preferential rates are applicable in the cities where the subsidiaries are located.

Certain subsidiaries of the Group are wholly-owned foreign enterprises in accordance with the Income Tax Law of the PRC for Enterprise with Foreign Investment and Foreign Enterprises and are entitled to full exemption from EIT for two years and a 50% reduction in the following three years thereafter starting from the first profit making year after offsetting prior years' tax losses.

In addition, certain subsidiaries that are located in the Beijing Economic-Technological Development Area are entitled to preferential PRC EIT rate of 15% (2010: 15%).

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 9. Income tax expense (Continued)

Reconciliation between income tax expense and accounting loss at applicable tax rates:

| | **2011** **HK$'000** | 2010 HK$'000 (Re-presented) |
|---|---|---|
| Loss before income tax | | |
| Continuing operations | **(136,062)** | (45,577) |
| Discontinued operations | **(40,568)** | (28,592) |
| | **(176,630)** | (74,169) |
| Tax on loss before taxation, calculated at the rates applicable to profits in the tax jurisdictions concerned | **(35,650)** | (19,919) |
| Tax effect of non-deductible expenses | **9,921** | 20,123 |
| Tax effect of non-taxable revenue | **(4,601)** | (1,366) |
| Tax effect of unused tax losses not recognised | **45,698** | 18,041 |
| Utilisation of tax losses previously not recognised | **(4,115)** | — |
| Tax effect on temporary differences not recognised | **—** | (473) |
| Over-provision in respect of prior years | **(4,421)** | — |
| Income tax expense | **6,832** | 16,406 |

## 10. Discontinued operations

On 19 December 2011 and 28 December 2011, two subsidiaries of the Group entered into two disposal agreements to dispose of their 100% equity interest in another two subsidiaries, namely China Education Online Limited ("CEOL") and Shihua (Hong Kong) Financial Information Company Limited ("Shihua"). The disposed subsidiaries were principally engaged in financial information services and distance learning education services. The disposal of the CEOL and Shihua were completed on 19 December 2011 and 28 December 2011. CEOL and Shihua are together referred to as the "Disposal Group" hereafter.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 10. Discontinued operations (Continued)

As the Disposal Group represented separate components of the Group's business, the operations and cash flows of which could be clearly distinguished from the rest of the Group and which represented separate major lines of businesses, the Group presented, in its financial statements, the operations of the Disposal Group as discontinued operations in accordance with HKFRS 5. The results and cash flows from financial information services operation and distance learning services operation included in the consolidated financial statements are as follows:

| | Notes | **2011**<br>**HK$'000** | 2010<br>HK$'000<br>(Re-presented) |
|---|---|---|---|
| Revenue/Turnover | 5(a) | **32,359** | 30,475 |
| Cost of sales and services provided | | **(26,774)** | (12,349) |
| Other operating income | 5(b) | **7,219** | 7,325 |
| Selling and marketing expenses | | **(13,021)** | (13,074) |
| Administrative expenses | | **(51,784)** | (38,963) |
| Other operating expenses | | **(2,068)** | (2,006) |
| **Loss before income tax** | 8 | **(54,069)** | (28,592) |
| Income tax expense | 9 | **—** | (4) |
| **Loss for the year** | | **(54,069)** | (28,596) |
| Gain on disposals of subsidiaries | 36(b) | **13,501** | — |
| Loss for the year from discontinued operations | | **(40,568)** | (28,596) |
| Net cash used in operating activities | | **(1,576)** | (38,204) |
| Net cash used in investing activities | | **(907)** | (1,307) |
| **Net cash outflows** | | **(2,483)** | (39,511) |

## 11. Loss for the year attributable to the owners of the Company

Of the consolidated loss for the year attributable to the owners of the Company of HK$157,371,000 (2010: HK$79,857,000), a profit of HK$16,745,000 (2010: HK$4,010,000) has been dealt with in the financial statements of the Company.

## 12. Loss per share

### (a) From continuing and discontinued operations

The calculation of basic loss per share from continuing and discontinued operations are based on the loss attributable to the owners of the Company of HK$157,371,000 (2010: HK$79,857,000) and on 19,914,504,877 (2010: 19,914,504,877) ordinary shares in issue during the year.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 12. Loss per share (Continued)

### (b) From continuing operations

The basic loss per share from continuing operations attributable to the owners of the Company is calculated based on the following data:

Loss figures are calculated as follows:

| | **2011** | 2010 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| | | (Re-presented) |
| **Loss for the year from continuing operations** | **142,894** | 61,979 |
| Less: Loss for the year from continuing operations attributable to non-controlling interests | **(11,901)** | (8,528) |
| **Loss for the year from continuing operations attributable to owners of the Company** | **130,993** | 53,451 |

The denominators used are the same as those detailed above basic loss per share from continuing and discontinued operations.

### (c) From discontinued operations

The basic loss per share from discontinued operations attributable to the owners of the Company is calculated based on the following data:

Loss figures are calculated as follows:

| | **2011** | 2010 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| | | (Re-presented) |
| **Loss for the year from discontinued operations** | **40,568** | 28,596 |
| Less: Loss for the year from discontinued operations attributable to non-controlling interests | **(14,190)** | (2,190) |
| **Loss for the year from discontinued operations attributable to owners of the Company** | **26,378** | 26,406 |

The denominators used are the same as those detailed above for basic loss per share from continuing and discontinued operations.

**(d)** Diluted per share amount for the years ended 31 December 2011 and 31 December 2010 was not presented as there were no potentially dilutive ordinary shares in issue during the years.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 13. Employee benefit expenses (including directors' emoluments)

| | **2011**<br>**HK$'000** | 2010<br>HK$'000<br>(Re-presented) |
|---|---|---|
| **Continuing operations** | | |
| Directors' fee (note 38(a)) | **558** | 514 |
| Wages and salaries | **501,906** | 413,480 |
| Pension costs — defined contribution plans | **76,316** | 68,829 |
| Staff welfare | **17,152** | 19,593 |
| | **595,932** | 502,416 |
| Less: Amounts capitalised in intangible assets | **—** | (4,823) |
| | **595,932** | 497,593 |
| **Discontinued operations** | | |
| Wages and salaries | **40,471** | 30,491 |
| Pension costs — defined contribution plans | **9,347** | 7,670 |
| Staff welfare | **2,332** | 1,927 |
| | **52,150** | 40,088 |
| Less: Amounts capitalised in intangible assets | **—** | — |
| | **52,150** | 40,088 |
| Total employee benefit expenses | **648,082** | 537,681 |

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 14. Property, plant and equipment

**Group**

| | Buildings HK$'000 | Construction in progress HK$'000 | Leasehold improvements, furniture, fixtures and equipment HK$'000 | Motor vehicles HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| At 1 January 2010 | | | | | |
| Cost | 24,250 | 141,611 | 204,675 | 3,071 | 373,607 |
| Accumulated depreciation | (3,031) | — | (147,103) | (879) | (151,013) |
| Net carrying amount | 21,219 | 141,611 | 57,572 | 2,192 | 222,594 |
| Year ended 31 December 2010 | | | | | |
| Opening net carrying amount | 21,219 | 141,611 | 57,572 | 2,192 | 222,594 |
| Additions | — | 76,833 | 23,009 | 69 | 99,911 |
| Transfer from investment property (note 15) | 11,488 | — | — | — | 11,488 |
| Acquisition of subsidiaries (note 36(a)) | — | — | 4 | — | 4 |
| Disposals | — | — | (962) | (124) | (1,086) |
| Transfer to non-current assets classified as held for sale (note 17) | (32,152) | — | — | — | (32,152) |
| Written off | — | — | (1,149) | — | (1,149) |
| Depreciation | (1,517) | — | (25,315) | (552) | (27,384) |
| Net exchange differences | 962 | 6,651 | 1,890 | 66 | 9,569 |
| Closing net carrying amount | — | 225,095 | 55,049 | 1,651 | 281,795 |
| At 31 December 2010 and 1 January 2011 | | | | | |
| Cost | — | 225,095 | 209,911 | 2,605 | 437,611 |
| Accumulated depreciation | — | — | (154,862) | (954) | (155,816) |
| Net carrying amount | — | 225,095 | 55,049 | 1,651 | 281,795 |
| **Year ended 31 December 2011** | | | | | |
| Opening net carrying amount | **—** | **225,095** | **55,049** | **1,651** | **281,795** |
| Additions | **5,054** | **122,183** | **40,444** | **520** | **168,201** |
| Disposals | **—** | **—** | **(251)** | **—** | **(251)** |
| Disposal and dissolution of subsidiaries (note 36(b)) | **—** | **—** | **(4,508)** | **—** | **(4,508)** |
| Written off | **—** | **—** | **(1,681)** | **—** | **(1,681)** |
| Depreciation | **(98)** | **—** | **(29,253)** | **(508)** | **(29,859)** |
| Net exchange differences | **111** | **13,177** | **2,747** | **82** | **16,117** |
| **Closing net carrying amount** | **5,067** | **360,455** | **62,547** | **1,745** | **429,814** |
| **At 31 December 2011** | | | | | |
| Cost | **5,168** | **360,455** | **219,340** | **3,257** | **588,220** |
| Accumulated depreciation | **(101)** | **—** | **(156,793)** | **(1,512)** | **(158,406)** |
| **Net carrying amount** | **5,067** | **360,455** | **62,547** | **1,745** | **429,814** |

As at 31 December 2011, construction in progress of the Group were charged to secure banking facilities as detailed in note 41 (2010: HK$Nil).

The carrying amount of the Group's motor vehicles included an amount of HK$404,000 (2010: HK$Nil) in respect of assets acquired under finance lease.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 14. Property, plant and equipment (Continued)

**Company**

| | Leasehold improvements, furniture, fixtures and equipment HK$'000 |
|---|---|
| At 1 January 2010 | |
| Cost | 436 |
| Accumulated depreciation | (436) |
| Net carrying amount | — |
| Year ended 31 December 2010 | |
| Opening net carrying amount | — |
| Additions | 139 |
| Depreciation | (27) |
| Closing net carrying amount | 112 |
| At 31 December 2010 and 1 January 2011 | |
| Cost | 575 |
| Accumulated depreciation | (463) |
| Net carrying amount | 112 |
| **Year ended 31 December 2011** | |
| Opening net carrying amount | **112** |
| Additions | **7** |
| Depreciation | **(48)** |
| **Closing net carrying amount** | **71** |
| **At 31 December 2011** | |
| Cost | **582** |
| Accumulated depreciation | **(511)** |
| **Net carrying amount** | **71** |

# NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2011

## 15. Investment property

**Group**

| | HK$'000 |
|---|---|
| At 1 January 2010 | |
| Cost | 13,039 |
| Accumulated depreciation | (1,630) |
| Net carrying amount | 11,409 |
| Year ended 31 December 2010 | |
| Opening net carrying amount | 11,409 |
| Depreciation | (55) |
| Transfer to property, plant and equipment (note 14) | (11,488) |
| Net exchange differences | 134 |
| Closing net carrying amount | — |
| At 31 December 2010, 1 January 2011 and 31 December 2011 | |
| Cost | — |
| Accumulated depreciation | — |
| Net carrying amount | — |

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 16. Prepaid land lease payments under operating leases

The Group's interests in leasehold land/land use rights represent prepaid operating lease payments and their carrying amounts are analysed as follows:

| | Group 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|
| Outside Hong Kong, held on land with: | | |
| Unexpired terms of leases of between 10 to 50 years | **14,318** | 14,010 |
| Unexpired terms of leases over 50 years | **13,344** | — |
| | **27,662** | 14,010 |

| | Group 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|
| Opening net carrying amount | **14,010** | 56,316 |
| Additions during the year | **13,309** | — |
| Annual charges of prepaid operating lease payments | **(593)** | (1,161) |
| Transfer to non-current assets classified as held for sale (note 17) | **—** | (43,073) |
| Net exchange differences | **936** | 1,928 |
| **Closing net carrying amount** | **27,662** | 14,010 |

As at 31 December 2011, certain prepaid land lease payments under operating leases were charged to secure banking facilities.

As at 31 December 2010, no prepaid land lease payment under operating leases was charged to secure banking facilities.

## 17. Non-current assets classified as held for sale

In October 2010 the board resolved and announced its intention to dispose of its interest in certain prepaid land lease payments under operating leases and property, plant and equipment. The disposal was supposed to complete in January 2011 and the Group entered into an operating lease agreement for the lease of property from 1 February 2011 to 30 June 2011. As at 31 December 2010, the following major classes of assets relating to this disposal was classified as held for sale in the consolidated statement of financial position. During the year ended 31 December 2011, there was a gain on disposal of non-current assets classified as held for sale amounting to HK$31,426,000 on such disposal.

| | Group 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|
| Prepaid land lease payments under operating leases | **—** | 43,073 |
| Property, plant and equipment | **—** | 32,152 |
| | **—** | 75,225 |

# NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2011

## 18. Interests in subsidiaries

| | Company 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|
| Unlisted shares, at cost | **290,977** | 295,977 |
| Less: Provision for impairment | **(185,256)** | (190,256) |
| | **105,721** | 105,721 |
| Amounts due from subsidiaries | **1,889,962** | 1,587,965 |
| Less: Provision for impairment of receivables | **(578,739)** | (639,456) |
| | **1,311,223** | 948,509 |
| Amounts due to subsidiaries | **(202,865)** | (192,477) |

The amounts due from/(to) subsidiaries are unsecured, interest-free and repayable on demand.

Particulars of the principal subsidiaries at 31 December 2011 are as follows:

| Name | Country/place of incorporation/ registration and operations | Particulars of issued and paid-up share capital/ registered capital | Percentage held by the Company Directly | Percentage held by the Company Indirectly | Principal activities |
|---|---|---|---|---|---|
| CE Dongli Advertising (HK) Company Limited | Hong Kong | 100 ordinary shares of HK$1 each | — | 100 | Investment holding |
| China Enterprise ASP Limited ("CE ASP") | Hong Kong | 9,000,000 ordinary shares of HK$1 each | — | 100 | Investment holding |
| Dadi Media Limited ("Dadi Media") | Hong Kong | 2 ordinary shares of HK$1 each | 100 | — | Investment holding |
| Robina Profits Limited | BVI | 1 ordinary share of US$1 each | 100 | — | Investment holding |
| 中企動力科技股份有限公司 (note a) | PRC | RMB500,000,000 | — | 99.85 | Information technology business |
| 北京中企動力廣告有限公司 (note b) | PRC | RMB1,000,000 | — | 100 | Information technology business |

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 18. Interests in subsidiaries (Continued)

The above table lists out the subsidiaries of the Company as at 31 December 2011 which, in the opinion of the directors, principally affected the Group's 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.

Notes:

a. This subsidiary is registered as joint stock limited company under the law of PRC.

b. This subsidiary is registered as limited liability company under the law of PRC.

## 19. Interest in an associate

| | Group | |
|---|---|---|
| | **2011** | 2010 |
| | **HK$'000** | HK$'000 |
| Balance at 1 January | **—** | — |
| Share of results of an associate | | |
| — loss before income tax | **—** | — |
| — income tax expense | **—** | — |
| **Balance at 31 December** | **—** | — |
| The carrying amount of interest in the associate can be analysed as follows: | | |
| Share of net assets | **—** | — |
| Goodwill | **—** | — |
| **Balance at 31 December** | **—** | — |

Particulars of the associate as at 31 December 2011 and 31 December 2010 are as follows:

| Name | Particulars of issued capital/ registered capital | Country of incorporation/ establishment and operations | Percentage of interest held by the Group 2011 | 2010 | Nature of business |
|---|---|---|---|---|---|
| Genius Reward Company Limited ("Genius Reward") ** | 2 ordinary shares of HK$100 each | Hong Kong | **50%** | 50% | Inactive |

** unlisted limited liability company

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 19. Interest in an associate (Continued)

The summarised financial information of the Group's associate extracted from its management accounts is as follows:

| | 2011<br>HK$'000 | 2010<br>HK$'000 |
|---|---|---|
| Assets | **25,702** | 25,702 |
| Liabilities | **(35,749)** | (34,960) |
| Loss for the year | **(788)** | (786) |

The Group has discontinued recognising its share of loss of the associate. The amount of unrecognised share of loss of the associate for the year and cumulatively unrecognised share of loss of the associate amounted to HK$394,000 (2010: HK$393,000) and HK$5,023,000 (2010: HK$4,629,000) respectively.

## 20. Goodwill

| | Notes | Group<br>2011<br>HK$'000 | <br>2010<br>HK$'000 |
|---|---|---|---|
| **At 1 January** | | | |
| Gross carrying amount | | **423,322** | 388,963 |
| Accumulated impairment | | **(307,456)** | (306,865) |
| Net carrying amount | | **115,866** | 82,098 |
| **Year ended 31 December** | | | |
| Opening net carrying amount | | **115,866** | 82,098 |
| Acquisition of subsidiaries | 36(a) | **—** | 31,096 |
| Disposal and dissolution of subsidiaries | 36(b) | **(66,323)** | (6) |
| Net exchange differences | | **3,914** | 2,678 |
| **Closing net carrying amount** | | **53,457** | 115,866 |
| **At 31 December** | | | |
| Gross carrying amount | | **61,282** | 423,322 |
| Accumulated impairment | | **(7,825)** | (307,456) |
| **Net carrying amount** | | **53,457** | 115,866 |

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 20. Goodwill (Continued)

For the purpose of the annual impairment test, the carrying amount of goodwill, net of any impairment loss, is allocated to the following CGU:

| | **2011** **HK$'000** | 2010 HK$'000 |
|---|---|---|
| Corporate IT application services | **53,457** | 115,866 |

The recoverable amounts for the CGU given above were determined based on value in use calculations, covering a detailed five-year financial budget. The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates.

The key assumptions used for value in use calculations:

| | **Corporate IT application services** | |
|---|---|---|
| | **2011** | 2010 |
| Discount rates | **6.8%** | 4.8% |

The budgeted gross margin and net profit margin were determined by the management for the CGU based on past performance and its expectations for market development. The growth rate used for the above CGU is determined by reference to the average growth rate for the industry to which it belongs.

The discount rates used are pre-tax and reflect specific risks relating to the segment.

During the year ended 31 December 2010, goodwill arose from acquisition of subsidiaries as stated in note 36(a), which are engaged in software development and information technology business is attributable to the expanding corporate IT application services and the capture of business opportunities.

Apart from the considerations described in determining the value in use of the CGU above, the Group's management is not currently aware of any other probable changes that would necessitate changes in its key estimates.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 21. Other intangible assets

**Group**

| | Computer software HK$'000 | Development cost HK$'000 | Others* HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| At 1 January 2010 | | | | |
| Cost | 142,956 | 41,007 | — | 183,963 |
| Accumulated amortisation | (112,035) | (6,744) | — | (118,779) |
| Net carrying amount | 30,921 | 34,263 | — | 65,184 |
| Year ended 31 December 2010 | | | | |
| Opening net carrying amount | 30,921 | 34,263 | — | 65,184 |
| Additions | 145,675 | 19,455 | — | 165,130 |
| Acquisition of subsidiaries (note 36(a)) | 1,120 | — | 676 | 1,796 |
| Amortisation charge for the year | (58,969) | (8,180) | (313) | (67,462) |
| Written off | — | (214) | — | (214) |
| Net exchange differences | 3,073 | 1,438 | 16 | 4,527 |
| Closing net carrying amount | 121,820 | 46,762 | 379 | 168,961 |
| At 31 December 2010 and 1 January 2011 | | | | |
| Cost | 308,452 | 62,325 | 699 | 371,476 |
| Accumulated amortisation | (186,632) | (15,563) | (320) | (202,515) |
| Net carrying amount | 121,820 | 46,762 | 379 | 168,961 |
| **Year ended 31 December 2011** | | | | |
| Opening net carrying amount | **121,820** | **46,762** | **379** | **168,961** |
| Additions | **—** | **48,362** | **—** | **48,362** |
| Disposal and dissolution of subsidiaries (note 36(b)) | **(12,835)** | **(39,241)** | **—** | **(52,076)** |
| Amortisation charge for the year | **(48,255)** | **(15,886)** | **(357)** | **(64,498)** |
| Net exchange differences | **4,548** | **2,896** | **9** | **7,453** |
| **Closing net carrying amount** | **65,278** | **42,893** | **31** | **108,202** |
| **At 31 December 2011** | | | | |
| Cost | **294,829** | **43,858** | **731** | **339,418** |
| Accumulated amortisation | **(229,551)** | **(965)** | **(700)** | **(231,216)** |
| **Net carrying amount** | **65,278** | **42,893** | **31** | **108,202** |

* Other intangible assets include customer relationship.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 22. Deposits, prepayments and other receivables

| | Group | | Company | |
|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Deposits and prepayments | **57,639** | 49,920 | **321** | 1,415 |
| Outstanding consideration receivable arising from the disposal of a subsidiary | **37,923** | 75,818 | **—** | — |
| Amount due from a former subsidiary | **57,777** | — | **57,777** | — |
| Others | **305,340** | 159,700 | **3,665** | 3,666 |
| | **458,679** | 285,438 | **61,763** | 5,081 |
| Less: Provision for impairment of other receivables | **(26,131)** | (24,777) | **(15,559)** | (3,040) |
| | **432,548** | 260,661 | **46,204** | 2,041 |
| Less non-current portion: | | | | |
| Deposits for purchase of property, plant and equipment | **—** | (17,602) | **—** | — |
| Current portion | **432,548** | 243,059 | **46,204** | 2,041 |

The outstanding consideration receivable arising from the disposal of a subsidiary was unsecured, bore interest at the rate 5.00% per annum and was originally repayable on 24 September 2009.

On 25 September 2009, the Group entered into supplemental agreement to extend the loan, which bore interest at the rate of 5.00% per annum and was repayable on 24 September 2010.

The repayment period of the receivable was further extended to 30 June 2011 after another supplemental agreement was signed on 25 September 2010.

On 1 July 2011, the Group entered into supplemental agreement to further extend the loan, which bore interest at rate of 5.00% per annum and will be repayable on 31 August 2012.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 22. Deposits, prepayments and other receivables (Continued)

Impairment losses in respect of other receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against other receivables directly. The movement in the provision for impairment of other receivables is as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| At the beginning of the year | **24,777** | 23,879 | **3,040** | 3,040 |
| Provision for impairment | **517** | 173 | **48,508** | — |
| Amounts written off during the year | **—** | — | **(35,989)** | — |
| Disposal of subsidiaries | **(168)** | — | **—** | — |
| Net exchange differences | **1,005** | 725 | **—** | — |
| At the end of the year | **26,131** | 24,777 | **15,559** | 3,040 |

At each of the reporting date, the Group's other receivables were individually determined to be impaired. The Group encountered difficulties in collection of certain other receivables and appropriate provision for impairment has been made against these other receivables. The individually impaired receivables are recognised based on the credit history of these debtors, such as financial difficulties or default in payments, and current market conditions. Consequently, specific impairment provision was recognised. Except for certain other receivables that are being undertaken by a substantial shareholder of the Company, the Group does not hold any collateral over these balances. Except for the amount impaired, none of the above assets is either past due or impaired.

The directors of the Group consider that the fair value of other receivables which are expected to be recovered within one year are not materially different from their carrying amounts because these balances have short maturity periods on their inception.

## 23. Financial assets at fair value through profit or loss

| | Group | |
|---|---|---|
| | **2011** | 2010 |
| | **HK$'000** | HK$'000 |
| Listed equity securities in Hong Kong, at fair value | **—** | 500 |
| Listed equity securities in PRC, at fair value | **—** | 22,432 |
| | **—** | 22,932 |

The above financial assets at fair value through profit or loss are classified as held for trading. The fair value of the Group's investments in listed securities has been determined by reference to their quoted bid prices at the reporting date.

Changes in fair values of the financial assets at fair value through profit or loss are recorded in other operating income/other operating expenses in the profit or loss.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 24. Trade receivables

Based on the invoice dates, the aging analysis of the trade receivables is as follows:

| | Group | |
|---|---|---|
| | **2011** | 2010 |
| | **HK$'000** | HK$'000 |
| 0–90 days | **11,847** | 56,550 |
| 91–180 days | **4,240** | 2,762 |
| 181–270 days | **2,335** | 68,211 |
| 271–360 days | **1,681** | 588 |
| Over 360 days | **4,840** | 1,250 |
| Trade receivables, gross | **24,943** | 129,361 |
| Less: Provision for impairment of receivables | **(10,516)** | (10,583) |
| Trade receivables, net | **14,427** | 118,778 |

Trade receivables are due on presentation of invoices.

Impairment losses in respect of trade receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly. The movement in the provision for impairment of trade receivables is as follows:

| | Group | |
|---|---|---|
| | **2011** | 2010 |
| | **HK$'000** | HK$'000 |
| At the beginning of the year | **10,583** | 10,114 |
| Provision for impairment | **—** | 115 |
| Disposal of subsidiaries | **(557)** | — |
| Exchange differences | **490** | 354 |
| At the end of the year | **10,516** | 10,583 |

At each reporting date, the Group's trade receivables are individually assessed for impairment. The Group encountered difficulties in collection of certain trade receivables and appropriate provision for impairment has been made against these trade receivables. The individually impaired receivables are recognised based on the credit history of its customers, their financial position and record of delinquency in payments, and current market conditions. The Group does not hold any collateral over these balances.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 24. Trade receivables (Continued)

The aging analysis of trade receivables that are not considered to be impaired is as follows:

| | Group | |
|---|---|---|
| | **2011** | 2010 |
| | **HK$'000** | HK$'000 |
| 0–90 days past due | **11,847** | 56,550 |
| 91–180 days past due | **2,092** | 2,762 |
| 181–270 days past due | **217** | 58,200 |
| 271–360 days past due | **83** | 588 |
| Overdue for more than 360 days | **188** | 678 |
| | **14,427** | 118,778 |

As at 31 December 2011 and 31 December 2010, no trade receivable was neither past due nor impaired.

Trade receivables that were past due but not impaired relate to a number of independent customers that had a good track record with the Group.

Based on past experience, the management believes that no impairment allowance 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.

The directors of the Group consider that the fair value of trade receivables which are expected to be recovered within one year are not materially different from their carrying amounts because these balances have short maturity periods on their inception.

## 25. Cash and cash equivalents

| | Group | | Company | |
|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Bank and cash balances | **40,152** | 79,257 | **2,866** | 1,959 |

Deposits with banks earn interest at floating rates based on daily bank deposit rates.

Included in bank and cash balance of the Group is an aggregate amount of approximately HK$27,458,000 (2010: HK$74,594,000), which represented Renminbi ("RMB") deposits placed with banks in Mainland China.

RMB is not freely convertible into foreign currencies. Under the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sales and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for foreign currencies through banks which are authorised to conduct foreign exchange business.

The Company did not have any deposits denominated in RMB deposited with banks in Mainland China as at 31 December 2011 and 31 December 2010.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 26. Trade payables

Based on invoice dates, the aging analysis of the trade payables is as follows:

| | Group | |
|---|---|---|
| | **2011** | 2010 |
| | **HK$'000** | HK$'000 |
| 0–90 days | **5,411** | 19,886 |
| 91–180 days | **6,742** | 9,207 |
| 181–270 days | **3,883** | 5,954 |
| 271–360 days | **2,415** | 1,514 |
| Over 360 days | **29,063** | 6,573 |
| | **47,514** | 43,134 |

All amounts are short term and hence the carrying values of the Group's trade payables are considered to be a reasonable approximation of their fair value.

## 27. Other payables and accruals

Included in the Group's other payables and accruals at 31 December 2011 is HK$1,408,000 (2010: HK$21,415,000) in respect of deferred government grants mainly related to the Group's design, research and development of new software products by the Group which contributes positively to the local industry environment. The government grant must be utilised for the development of products specified and is recognised when those conditions are fulfilled.

All amounts are short term and hence the carrying values of the Group's and the Company's other payables and accruals are considered to be a reasonable approximation of fair value.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 28. Loan to/Amount(s) due from/(to) ultimate holding company/a director/ shareholders/an associate

### (a) Amount due to a director

The amount due to a director is unsecured, interest-free and repayable on demand.

### (b) Amounts due to shareholders

The amounts due to shareholders are unsecured, interest-free and repayable on demand.

### (c) Loan to/Amount due from/(to) ultimate holding company

| | Group | | Company | |
|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| **Non-current assets** | | | | |
| Loan to ultimate holding company | **1,357,377** | — | **320,930** | — |
| **Current assets** | | | | |
| Loan to ultimate holding company | **—** | 1,634,551 | **—** | 413,747 |
| Amount due from ultimate holding company | **—** | — | **—** | 235,693 |
| | **—** | 1,634,551 | **—** | 649,440 |
| **Non-current liabilities** | | | | |
| Amount due to ultimate holding company | **(105,916)** | — | **(54,123)** | — |
| **Current liabilities** | | | | |
| Amount due to ultimate holding company | **—** | (305,733) | **—** | — |

*Loan to ultimate holding company*

**Group and Company**

On 29 May 2009, the Company and the Group entered into a loan agreement with its ultimate holding company to advance a loan of HK$529,584,000 and HK$1,645,530,000 respectively which bore interest at 6.00% per annum and would be repayable on or before 29 June 2011 and was secured by share mortgage of a fellow subsidiary.

On 20 May 2011, loan extension agreement in respect of the loan agreement dated 29 May 2009 was signed and was conditional upon its ultimate holding company having settled in full, the interest accrued on the outstanding principle amount under the loan agreement on or before 29 June 2011. It was agreed that the repayment date for the outstanding principle to be extended for two years to 29 June 2013.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 28. Loan to/Amount(s) due from/(to) ultimate holding company/a director/ shareholders/an associate (Continued)

### (c) Loan to/Amount due from/(to) ultimate holding company (Continued)

*Loan to ultimate holding company (Continued)*

**Group and Company (Continued)**

As at 31 December 2011, included in the balances of the Company and the Group, approximately HK$311,291,000 and HK$1,317,149,000 (2010: HK$379,584,000 and HK$1,499,588,000) respectively was interest bearing at 6.00% per annum, and the remaining balance was interest-free. The total amount will be repayable on or before 29 June 2013 (2010: 29 June 2011) and secured by share mortgage of a fellow subsidiary.

*Amount due to ultimate holding company*

**Group and Company**

The amount due to ultimate holding company is unsecured, interest-free and repayable after one year (2010: repayable on demand).

*Amount due from ultimate holding company*

**Company**

The amount due from ultimate holding company is unsecured, interest-free and repayable on demand.

### (d) Amount due from/(to) an associate

| | **Group** | | **Company** | |
|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Amount due from an associate | **—** | — | **20,201** | 20,198 |
| Less: Provision for impairment of receivables | **—** | — | **(4,535)** | (4,535) |
| | **—** | — | **15,666** | 15,663 |
| Amount due to an associate | **(5,502)** | (5,505) | **—** | — |

The amount due from/(to) an associate is unsecured, interest-free and repayable on demand.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 29. Bank borrowings, secured

At 31 December 2011, the bank borrowings, which are denominated in RMB, are repayable as follows:

| | Group | |
|---|---|---|
| | **2011** | 2010 |
| | **HK$'000** | HK$'000 |
| Within one year | **133,901** | — |

At 31 December 2011, the bank borrowings' interest rate profiles are as follows:

| | Group | |
|---|---|---|
| | **2011** | 2010 |
| | **HK$'000** | HK$'000 |
| Floating rates | | |
| — ranging from 5.81% to 8.53% (2010: Nil) per annum | **133,901** | — |

The carrying amounts of the borrowings approximate their fair value.

## 30. Finance lease liabilities

(a) Total minimum lease payments is as follows:

| | Group | |
|---|---|---|
| | **2011** | 2010 |
| | **HK$'000** | HK$'000 |
| Due within one year | **123** | — |
| Due in the second to fifth years | **360** | — |
| | **483** | — |
| Future finance charges on finance lease | **(42)** | — |
| Present value of finance lease liabilities | **441** | — |

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 30. Finance lease liabilities (Continued)

(b) The present value of finance lease liabilities is as follows:

| | Group | |
|---|---|---|
| | **2011** | 2010 |
| | **HK$'000** | HK$'000 |
| Due within one year under current liabilities | **105** | — |
| Due in the second to fifth years under non-current liabilities | **336** | — |
| | **441** | — |

The Group has entered into finance leases for item of a motor vehicle (2010: Nil) with remaining lease terms of four years (2010: Nil). Interest rate under the leases is fixed at 2.5% (2010: Nil) per annum. The lease does not have options to renew or any contingent rental provisions. Under the lease terms, the Group has the option to purchase the leased asset at a price that is expected to be sufficiently lower than the fair value of the leased asset at the end of the leases.

Finance lease liabilities are secured by the underlying asset where the lessor has the rights to revert in event of default. The carrying amount of the finance lease liabilities are denominated in Hong Kong dollars and approximate their fair values.

## 31. Deferred tax

At 31 December 2011, the Group has unrecognised deferred tax asset arising from tax losses of the subsidiaries operating in Hong Kong and in Mainland China of approximately HK$6,085,000 and HK$204,695,000 (2010: HK$6,071,000 and HK$381,487,000) respectively. The amount of unrecognised deferred tax assets are as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Tax effect of: | | | | |
| — unused tax losses | **52,178** | 90,865 | **—** | — |
| | **52,178** | 90,865 | **—** | — |

Deferred tax asset in respect of unused tax losses has not been recognised in the financial statements due to the unpredictability of future profit streams against which the tax losses can be utilised. The tax losses of the subsidiaries operating in Mainland China can be carried forward for 5 years, while tax losses of the companies within the Group operating in Hong Kong can carry forward their tax losses indefinitely under the current tax legislation.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 32. Share capital

| | Number of ordinary shares of HK$0.01 each | HK$'000 |
|---|---|---|
| Authorised: | | |
| At 1 January 2010, 31 December 2010 and **31 December 2011** | **30,000,000,000** | **300,000** |
| Issued and fully paid: | | |
| At 1 January 2010, 31 December 2010 and **31 December 2011** | **19,914,504,877** | **199,145** |

## 33. Share option scheme

On 29 August 2002, the Company adopted a share option scheme (the "Scheme"). Under the Scheme, share options may be granted to directors, employees of the Group and those who have contributed or will contribute to the Group at any time within ten years after its adoption at the discretion of the Board.

On 12 November 2004, share options to subscribe for a total of 233,360,000 shares, representing approximately 1.68% of the issued share capital of the Company as at the date of the adoption of the Scheme, were granted to the directors and employees of the Company and subsidiaries and the persons who have provided research, development or other technological support or services to the Group (the "Consultants") at an exercise price of HK$0.16 per share.

The share options vest upon the commencement of the exercise period, which is determined by the directors at the date of grant.

All the fair value of the share options are recognised as expense with the corresponding amount credited to share option reserve. The Group has no legal or constructive obligation to repurchase or settle the options other than by issuing the Company's ordinary shares.

At 31 December 2009, all share options were expired. No additional options were granted during the years ended 31 December 2011 and 31 December 2010. There was no share-based compensation expense included in the income statement for the years ended 31 December 2011 and 31 December 2010.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 34. Reserves

### Group

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 on page 38 of the financial statements.

Notes:

(a) The Group's capital distribution reserve represents the excess of the credit arising from the reduction of nominal value of ordinary shares and share premium account, over the net assets of a subsidiary distributed during the year ended 31 December 2005.

(b) The Group's general reserve includes capital reserve arising from acquisitions of subsidiaries in prior years and statutory reserves.

Subsidiaries of the Company established in Mainland China are required to transfer 10% of their profit after tax calculated in accordance with the PRC accounting regulations to the statutory reserve until the reserve reaches 50% of their respective capital, upon which any further appropriation will be at the directors' recommendation. Such reserve may be used to reduce any losses incurred by the subsidiaries or be capitalised as paid-up capital of the subsidiaries.

### Company

| | Share premium HK$'000 | Capital redemption reserve HK$'000 | General reserve (note a) HK$'000 | Retained profits (note b) HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| At 1 January 2010 | 39,194 | 2,258 | 79,579 | 1,037,549 | 1,158,580 |
| Profit for the year | — | — | — | 4,010 | 4,010 |
| At 31 December 2010 and 1 January 2011 | **39,194** | **2,258** | **79,579** | **1,041,559** | **1,162,590** |
| Profit for the year | **—** | **—** | **—** | **16,745** | **16,745** |
| **At 31 December 2011** | **39,194** | **2,258** | **79,579** | **1,058,304** | **1,179,335** |

Notes:

(a) The Company's general reserve includes capital reserve arising from acquisitions of subsidiaries in prior years.

(b) Included in the Company's retained profits is an amount of approximately HK$79,150,000 (2010: approximately HK$79,589,000) which represents the balance of the special reserve arising from the Company's capital reduction effected in a prior year.

According to the court order dated 21 June 2001 confirming the Company's capital reduction, the Company was required to credit a sum arising from the capital reduction to a special reserve which cannot be treated as realised profit as long as (a) the outstanding liabilities of the Company as at the effective date of the capital reduction (i.e. the "Relevant Debts") are not fully discharged; and (b) the persons to whom the Relevant Debts are due have not agreed otherwise.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 35. Non-controlling interests

| | Note | **2011 HK$'000** | 2010 HK$'000 |
|---|---|---|---|
| At 1 January | | **38,982** | 48,610 |
| Loss for the year | | **(26,091)** | (10,718) |
| Released on acquisition of additional interest in subsidiaries | | **(1,758)** | — |
| Released on deemed acquisition of additional interest in subsidiaries | | **14** | — |
| Released on disposal and dissolution of subsidiaries | 36(b) | **25,916** | — |
| Net exchange differences | | **(1,391)** | 1,090 |
| **As at 31 December** | | **35,672** | 38,982 |

## 36. Notes to the consolidated statement of cash flows

### (a) Business combination — acquisition of subsidiaries

In January 2010, the Company, through its subsidiary, entered into sales and purchases agreements to acquire 100% equity interest in a subsidiary, 北京中企動力廣告有限公司, which was engaged in corporate IT application services, for consideration of RMB1,000,000.

Details of the assets acquired and liabilities assumed and the corresponding goodwill were as follows:

| | 2010 HK$'000 |
|---|---|
| Cash consideration | 1,142 |
| Fair value of net liabilities assumed | 29,954 |
| Goodwill (note 20) | 31,096 |

The assets and liabilities arising from the acquisitions were as follows:

| | | 2010 |
|---|---|---|
| | Fair value HK$'000 | Acquiree's carrying amount HK$'000 |
| Property, plant and equipment | 4 | 5 |
| Other intangible assets | 1,796 | 1,120 |
| Available-for-sale financial assets | 144 | 1,941 |
| Deposits, prepayments and other receivables | 23,400 | 23,400 |
| Cash and cash equivalents | 410 | 410 |
| Accruals and other payables | (55,708) | (55,708) |
| Net liabilities assumed | (29,954) | (28,832) |

None of the receivables had been impaired and it is expected that the full contractual amounts could be collected.

The goodwill of HK$31,096,000, which is not deductible for tax purposes, comprises the acquired workforce and the value of expected synergies arising from the combination of acquired business with the existing operations of the Group.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 36. Notes to the consolidated statement of cash flows (Continued)

### (a) Business combination — acquisition of subsidiaries (Continued)

The net cash inflows arising from the acquisitions were as follows:

| | 2010<br>HK$'000 |
|---|---|
| Purchase considerations | |
| — Cash considerations | 1,142 |
| — Consideration payables | (1,142) |
| Settled in cash | — |
| Cash and cash equivalents in subsidiary acquired | (410) |
| Cash inflows on acquisitions | (410) |

Since the acquisition, the subsidiary contributed HK$13,305,000 to the Group's turnover and HK$204,000 to the consolidated loss for the year ended 31 December 2010.

Had the combination been taken place at the beginning of the year, the revenue of the Group and the loss of the Group for the year ended 31 December 2010 would have been HK$744,531,000 and HK$92,466,000 respectively. This pro forma information was for illustrative purposes only and it was not necessary an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2010, nor was it intended to be a projection of future results.

The acquisition-related costs had been expensed and were included in administrative expenses.

### (b) Disposal and dissolution of subsidiaries

(i) On 19 December 2011, the Group entered into a sale and purchase agreement to dispose of 100% equity interests in subsidiary, Noble Grade International Limited and its subsidiaries to an independent third party at a total consideration of HK$1. The transaction was completed on 19 December 2011.

On 19 December 2011, the Group entered into a sale and purchase agreement to dispose of 100% equity interests in subsidiary, CEOL and its subsidiary to an independent third party at a total consideration of HK$1. The transaction was completed on 19 December 2011.

On 28 December 2011, the Group entered into a sale and purchase agreement to dispose of 100% equity interests in subsidiary, Shihua and its subsidiaries to an independent third party at a total consideration of HK$1. The transaction was completed on 28 December 2011.

On 29 December 2011, the Group entered into a sale and purchase agreement to dispose of 100% equity interests in subsidiary, Victorious Limited and its subsidiaries to an independent third party at a total consideration of HK$100,000. The transaction was completed on 30 December 2011.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 36. Notes to the consolidated statement of cash flows (Continued)

### (b) Disposal and dissolution of subsidiaries (Continued)

The net assets of the above subsidiaries at the date of disposal were:

| | 2011<br>HK$'000 |
|---|---|
| Net assets disposed of: | |
| Property, plant and equipment | 4,508 |
| Other intangible assets (note 21) | 52,076 |
| Goodwill (note 20) | 66,323 |
| Trade receivables | 3,883 |
| Deposits, prepayments and other receivables | 52,809 |
| Cash and cash equivalents | 12,033 |
| Non-controlling interests (note 35) | 25,916 |
| Other payables and accruals | (86,452) |
| Trade payables | (38,867) |
| Deferred revenue | (44,050) |
| Provision for tax | (10,848) |
| Bank and other borrowings | (86,388) |
| Amounts due from group companies | 58,800 |
| | 9,743 |
| Exchange reserve released on disposal and dissolution | 1,995 |
| Net loss on disposal and dissolution of subsidiaries | (11,638) |
| Total consideration | 100 |
| Satisfied by: | |
| Cash | 100 |

Included in total of net gain/(loss) on disposal and dissolution of subsidiaries, gain of HK$13,501,000 (2010: HK$Nil) and loss of HK$25,139,000 (2010: gain of HK$379,000) was related to loss on disposal and dissolution of subsidiaries from discontinued operations (note 10) and continuing operations respectively.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 36. Notes to the consolidated statement of cash flows (Continued)

### (b) Disposal and dissolution of subsidiaries (Continued)

The analysis of the net outflow of cash and cash equivalents in respect of the disposal and dissolution of subsidiaries is as follows:

| | **2011** **HK$'000** |
|---|---|
| Cash and cash equivalents disposed of | **(12,033)** |
| Cash consideration received | **100** |
| Net cash outflow on disposal | **(11,933)** |

The subsidiaries disposed of consumed HK$14,039,000, HK$29,638,000 and generated HK$84,152,000 of the Group's cash flows relating to operating, investing and financing activities respectively during the year ended 31 December 2011.

(ii) For the year ended 31 December 2010, the disposal and dissolution of subsidiaries were as follows:

| | 2010 HK$'000 |
|---|---|
| Net assets disposed of: | |
| Goodwill (note 20) | 6 |
| Trade receivables | 80 |
| Amounts due to group companies | (465) |
| | (379) |
| Net gain on disposal and dissolution of subsidiaries | 379 |
| Total consideration | — |
| Satisfied by: | |
| Cash | — |
| Consideration receivable included in other receivables | — |
| | — |

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 36. Notes to the consolidated statement of cash flows (Continued)

### (b) Disposal and dissolution of subsidiaries (Continued)

The analysis of the net inflow/(outflow) of cash and cash equivalents in respect of the disposal and dissolution of subsidiaries is as follows:

| | 2010 HK$'000 |
|---|---|
| Cash and cash equivalents disposed of | — |
| Cash consideration received | — |
| Net cash outflow on disposal | — |

The subsidiaries disposed of consumed HK$194,000, HK$Nil and HK$Nil of the Group's cash flows relating to operating, investing and financing activities respectively during the year ended 31 December 2010.

### (c) Major non-cash transactions

During the year ended 31 December 2011, the Group had trade and other receivable of HK$39,503,000 (2010: HK$Nil) offset against the amount due to a director in accordance with the debts assignment signed among these parties.

During the year ended 31 December 2010, the Group had trade and other receivables of HK$153,513,000 offset against the amount due to ultimate holding company in accordance with the debts assignment signed among these parties.

## 37. Retirement benefit plans

### Defined contribution retirement plans

The Group operates a MPF scheme and an ORSO scheme for all qualifying employees in Hong Kong. The assets of the schemes are held separately from those of the Group in funds under the control of the trustees.

Subsidiaries operating in Mainland China are required to participate in a defined contribution retirement benefit plan organised by the relevant government authorities. These subsidiaries are required to contribute a specified percentage of payroll costs to the retirement benefit plan to fund the benefits. The only obligation of the Group with respect to the retirement benefit plan is to make the specified contributions.

The total costs charged to the consolidated income statement from continuing and discontinued operations of HK$76,316,000 and HK$9,347,000 (2010: HK$66,076,000 and HK$7,670,000) respectively represent contributions payable to the schemes by the Group at the rates specified in the rules of the schemes.

There is no outstanding contribution payable to the MPF Scheme as at 31 December 2011 and 2010.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 38. Directors' remuneration and senior management's emoluments

### (a) Directors' emoluments

Directors' emoluments and fees disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance are as follows:

| | Fees HK$'000 | Basic salaries, housing, other allowances and benefits in kind HK$'000 | Pension scheme contributions HK$'000 | Share-based compensations HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| **2011** | | | | | |
| **Executive directors** | | | | | |
| YU Pun Hoi | — | 120 | 6 | — | 126 |
| CHEN Dan | — | 649 | 35 | — | 684 |
| LIU Rong | — | — | — | — | — |
| WANG Gang | — | — | — | — | — |
| **Non-executive directors** | | | | | |
| QIN Tian Xiang# | 120 | — | — | — | 120 |
| LUO Ning* | — | — | — | — | — |
| LAM Bing Kwan | 30 | — | — | — | 30 |
| **Independent non-executive directors** | | | | | |
| HUANG Yaowen | 144 | — | — | — | 144 |
| Prof. JIANG Ping | 144 | — | — | — | 144 |
| FUNG Wing Lap | 120 | — | — | — | 120 |
| | 558 | 769 | 41 | — | 1,368 |

* Retired on 16 May 2011
# Deceased on 30 March 2012

| | Fees HK$'000 | Basic salaries, housing, other allowances and benefits in kind HK$'000 | Pension scheme contributions HK$'000 | Share-based compensations HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| **2010** | | | | | |
| **Executive directors** | | | | | |
| YU Pun Hoi | — | 120 | 6 | — | 126 |
| CHEN Dan | — | 827 | 65 | — | 892 |
| LIU Rong | — | — | — | — | — |
| WANG Gang | — | — | — | — | — |
| **Non-executive directors** | | | | | |
| QIN Tian Xiang | 120 | — | — | — | 120 |
| LUO Ning | — | — | — | — | — |
| LAM Bing Kwan | — | — | — | — | — |
| **Independent non-executive directors** | | | | | |
| HUANG Yaowen | 137 | — | — | — | 137 |
| Prof. JIANG Ping | 137 | — | — | — | 137 |
| FUNG Wing Lap | 120 | — | — | — | 120 |
| | 514 | 947 | 71 | — | 1,532 |

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 38. Directors' remuneration and senior management's emoluments (Continued)

### (b) Five highest paid individuals

The five highest paid individuals of the Group for the year included one (2010: one) director, details of whose emoluments are set out above. The emoluments of the remaining four (2010: four) employees are as follows:

| | **2011** | 2010 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Basic salaries, other allowances and benefits in kind | **2,331** | 2,010 |
| Pension contributions | **321** | 156 |
| | **2,652** | 2,166 |

The emoluments of the five highest paid individuals, other than the director, fell within the following band:

| **Emolument band** | **Number of individuals** | |
|---|---|---|
| | **2011** | 2010 |
| HK$Nil–HK$1,000,000 | **4** | 4 |

During the years ended 31 December 2011 and 31 December 2010, no emoluments were paid to any of the Company's directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

None of the directors have waived or agreed to waive any emoluments in respect of the years ended 31 December 2011 and 31 December 2010.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 39. Commitments

### (a) Capital commitments

At 31 December 2011, the Group had outstanding capital commitments as follows:

| | Group | |
|---|---|---|
| | **2011** | 2010 |
| | **HK$'000** | HK$'000 |
| Contracted but not provided for in respect of: | | |
| — construction in progress | **116,007** | 144,452 |

At 31 December 2011 and 31 December 2010, the Company did not have any significant capital commitments.

### (b) Operating lease commitments

At 31 December 2011, total future minimum lease payments in respect of land and buildings under non-cancellable operating leases are payable as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Within one year | **25,367** | 24,705 | **—** | 97 |
| In the second to fifth years | **14,987** | 15,727 | **—** | — |
| | **40,354** | 40,432 | **—** | 97 |

The Group leases a number of properties under operating leases. The leases of the Group run for an initial period of one to three years (2010: one to three years), with options to renew the lease terms at the expiry dates or at dates as mutually agreed between the Group and the respective landlords. None of the leases includes any contingent rentals.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 40. Contingent liabilities

Guarantees given in connection with credit facilities granted to:

| | Group | | Company | |
|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| An associate (note) | **14,768** | 13,982 | **14,768** | 13,982 |
| Third parties (note) | **65,091** | 65,531 | **65,091** | 65,531 |
| | **79,859** | 79,513 | **79,859** | 79,513 |

Note:

In February 1993, a Group's associate borrowed a loan of US$5 million from a Filipino bank namely Banco de Oro-EPCI Inc. (formerly known as Equitable PCI Bank Inc.) ("EPCIB"). The loan was secured by a guarantee executed by the Company ("EPCIB Guarantee"), and by a share mortgage of 74,889,892 shares ("Philippines Shares") of Acesite (Philippines) Hotel Corporation Inc. ("Acesite Phils."). Due to the pending litigation as mentioned in note 42(a), the Group cannot ascertain the fair value of the guarantee in respect of the loan borrowed by the associate.

In addition to the EPCIB Guarantee, the Company executed another guarantee in favour of Singapore Branch of Industrial and Commercial Bank of China ("ICBC") in respect of a loan facility of US$15,000,000 ("ICBC Loan") made available to Acesite Phils. in March 1995. Resulting from the purported foreclosure of the Philippines Shares, Acesite Phils. is now controlled by a third party. The Group does not have updated information of the outstanding balance of the indebtedness under the ICBC Loan ("ICBC Indebtedness"), therefore, the fair value of the guarantee for ICBC Indebtedness cannot be ascertained.

## 41. Credit facilities

As at 31 December 2011 and 31 December 2010, the Group's credit facilities were secured by the following:

(a) charge over interest in leasehold land (note 16) with a net carrying value of approximately HK$14,318,000 (2010: HK$Nil);

(b) charge over construction in progress with a net carrying value of approximately HK$360,455,000 (2010: HK$Nil);

(c) charge over financial assets at fair value through profit or loss with a net carrying value of approximately HK$Nil (2010: HK$500,000);

(d) charge over certain intangible assets with net carrying value of approximately HK$19,971,000 (2010: HK$Nil); and

(e) charge over certain properties held under development and completed properties held for sale provided by a fellow subsidiary with carrying value of approximately HK$47,054,000 (2010: HK$Nil).

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 42. Pending litigations

(a) In respect of the purported sale of the Philippines Shares, which were mortgaged by Acesite Limited ("Acesite"), by EPCIB, to Waterfront Philippines Inc. ("Waterfront"), a Filipino company, in February 2003, Acesite, a former subsidiary of the Company; Evallon Investment Limited, a wholly-owned subsidiary of the Company; Mr. Yu, the chairman and executive director of both the Company and Nan Hai, the holding company of the Company; and, South Port Development Limited, a former wholly-owned subsidiary of the Company as first, second, third and fourth plaintiff respectively issued a claim against EPCIB and Waterfront, on the grounds that the purported sale of the Philippines Shares was unlawful as such sale was in breach of the terms of the mortgage; in breach of a compromise agreement reached in January 2003; and in other breaches, for damages; further or other relief; interest and costs and etc. in February 2006 under High Court Number of HCCL 5 of 2006 ("1st Case"). In May 2007, Acesite Phils. filed a claim against Mr. Yu; Mr. Lam Bing Kwan, a non-executive director of both the Company and Nan Hai; the Company; and Acesite for damages; further or other relief; interest and costs and etc. under High Court Number of HCA498 of 2007 ("2nd Case"). The defendants in both cases have filed their defences respectively to the Court. Acesite Phils. filed a consent order dated 16 August 2011 to the High Court for dismissal of the 2nd Case. The 1st Case is still in progress and no date has been fixed for trial.

(b) Dadi Media, a wholly-owned subsidiary of the Company as plaintiff, issued a claim against two minority shareholders of CE Dongli Technology Group Company Limited, a subsidiary of the Company, for the sum of HK$27,750,498 together with interest thereon and costs in May 2004 under High Court Number of HCA1130 of 2004. The two defendants filed a defence and counterclaim in June 2004 and then an amended defence and counterclaim in September 2004. The counterclaim was further amended and re-amended. In December 2004, the two defendants issued a claim against CE ASP, a wholly-owned subsidiary of Dadi Media, for (1) the sum of HK$806,250; (2) an award of compensation pursuant to section 32P of the Employment Ordinance; (3) the sum of HK$13,000; and (4) interest and costs under High Court Number HCA2892 of 2004. CE ASP filed a defence in March 2005. These two cases are still in progress and no trial date has been fixed.

The Group, after discussion with legal advisers, considered that it would not incur a material outflow of resources as a result of the above matters.

## 43. Related party transactions

Remuneration for key management personnel represents amounts paid to the Company's directors as disclosed in note 38.

Included in other interest income of HK$91,027,000 (2010: HK$92,881,000), HK$88,048,000 (2010: HK$89,975,000) was interest income from ultimate holding company.

Except as disclosed above and elsewhere in the financial statements, there was no other material related party transaction during the year.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 44. Financial risk management and fair value measurements

The Group is exposed to financial risks through its use of financial instruments in its ordinary course of operations and in its investment activities. The financial risks include market risk (including currency risk, interest risk and other price risk), credit risk and liquidity risk.

Financial risk management is coordinated at the Group's headquarters, in close co-operation with the Board. The overall objectives in managing financial risks focus on securing the Group's short to medium term cash flows by minimising its exposure to financial markets. Long term financial investments are managed to generate lasting returns with acceptable risk levels.

It is not the Group's policy to actively engage in the trading of financial instruments for speculative purposes. The Board from time to time identifies ways to access financial markets and monitors the Group's financial risk exposures.

### 44.1 Categories of financial assets and liabilities

The carrying amounts presented in the statements of financial position relate to the following categories of financial assets and financial liabilities:

| | Group | | Company | |
|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| **Financial assets** | | | | |
| Available-for-sale financial assets | **479** | 473 | **324** | 324 |
| Financial assets at fair value through profit or loss | **—** | 22,932 | **—** | — |
| Loans and receivables: | | | | |
| — Loan to ultimate holding company | **1,357,377** | 1,634,551 | **320,930** | — |
| — Trade receivables | **14,427** | 118,778 | **—** | — |
| — Other receivables | **404,073** | 220,660 | **46,002** | 762 |
| — Amount due from ultimate holding company | **—** | — | **—** | 649,440 |
| — Amounts due from subsidiaries | **—** | — | **1,311,223** | 948,509 |
| — Amount due from an associate | **—** | — | **15,666** | 15,663 |
| Cash and cash equivalents | **40,152** | 79,257 | **2,866** | 1,959 |
| | **1,816,508** | 2,076,651 | **1,697,011** | 1,616,657 |

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 44. Financial risk management and fair value measurements (Continued)

### 44.1 Categories of financial assets and liabilities (Continued)

| | Group | | Company | |
|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| **Financial liabilities** | | | | |
| Financial liabilities measured at amortised cost: | | | | |
| — Trade payables | **47,514** | 43,134 | **—** | — |
| — Other payables and accruals | **115,045** | 109,953 | **4,517** | 4,034 |
| — Amount due to ultimate holding company | **105,916** | 305,733 | **54,123** | — |
| — Amount due to a director | **11,794** | 32,374 | **158,148** | 159,999 |
| — Amounts due to subsidiaries | **—** | — | **202,865** | 192,477 |
| — Amounts due to shareholders | **5,006** | 5,006 | **5,005** | 5,005 |
| — Amount due to an associate | **5,502** | 5,505 | **—** | — |
| — Bank borrowings | **133,901** | — | **—** | — |
| — Finance lease liabilities | **441** | — | **—** | — |
| | **425,119** | 501,705 | **424,658** | 361,515 |

### 44.2 Currency risk

Currency risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's exposure to currency exchange rates in Renminbi is minimal as majority of the subsidiaries of the Group operates in Mainland China with most of the transactions denominated and settled in Renminbi. The Group currently does not have a hedging policy on currency risk but the management would consider hedging significant foreign currency exposure should the need arise.

The policies to manage currency risk have been followed by the Group since prior years and are considered to be effective.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 44. Financial risk management and fair value measurements (Continued)

### 44.3 Cash flow interest rate risk

The Group is exposed to interest rate risk through the impact of interest rate changes on interest bearing bank borrowings carrying interests at variable rates and cash and cash equivalents. Borrowings and cash and cash equivalents carried at variable rates expose the Group to cash flow interest rate risk. The Group will review whether bank loans bearing fixed or floating rates should be drawn from time to time with reference to the trend of changes in interest rates. The interest rates and repayment terms of bank borrowings and cash and cash equivalents of the Group are disclosed in notes 29 and 25 respectively. The Group currently does not have an interest rate hedging policy. However, the directors monitor interest rate change exposure and will consider hedging significant interest rate exchange exposure should the need arise.

*Cash-flow interest rate risk sensitivity*

At 31 December 2011, the Group was exposed to changes in market interest rates through its cash and cash equivalents and bank borrowings, which are subject to variable interest rates. The following table illustrates the sensitivity of the (loss)/profit for the year and retained earnings to a change in interest rates of +100 basis points and -100 basis points (2010: +100 basis points and -100 basis points), with effect from the beginning of the year. The calculations are based on the Group's and the Company's bank borrowings and bank balance held at each reporting date. All other variables are held constant.

| | **Group** | |
|---|---|---|
| | **2011** | 2010 |
| | **HK$'000** | HK$'000 |
| If interest rates were 100 basis points (2010: 100 basis points) higher (Increase)/Decrease in loss for the year | **(918)** | 634 |
| If interest rates were 100 basis points (2010: 100 basis points) lower Decrease/(Increase) in loss for the year | **918** | (634) |

| | **Company** | |
|---|---|---|
| | **2011** | 2010 |
| | **HK$'000** | HK$'000 |
| If interest rates were 100 basis points (2010: 100 basis points) higher Increase in profit for the year | **28** | 19 |
| If interest rates were 100 basis points (2010: 100 basis points) lower Decrease in profit for the year | **(28)** | (19) |

The assumed changes in interest rates are considered to be reasonably possible based on observation of current market conditions and represents management's assessment of a reasonably possible change in interest rate over the next twelve month period.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 44. Financial risk management and fair value measurements (Continued)

### 44.4 Other price risk

Other price risk relates to the risk that the fair values or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than change in interest rates and foreign exchange rate). The Group is exposed to change in market prices in respect of its investments in listed equity securities classified as financial assets at fair value through profit or loss.

To manage its market price risk arising from these investments, the Group diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the Board. The Group's listed investments are listed on the Stock Exchanges of Hong Kong, Shenzhen and Shanghai, Mainland China. Decisions to buy or sell trading securities are based on daily monitoring of the performance of individual securities compared to that of the index and other industry indicators, as well as the Group's liquidity needs. Investments held in the available-for-sale portfolio have been chosen based on their longer term growth potential and are monitored regularly for performance against expectations.

The policies to manage other price risk have been followed by the Group since prior years and are considered to be effective.

*Equity price sensitivity*

As at 31 December 2011, the Group and the Company did not hold any listed equity securities classified as financial assets at fair value through profit or loss. For listed equity securities as at 31 December 2010, an average volatility of 15% was observed in 2010. If the quoted price for the Group's listed equity securities existing as at 31 December 2010 increased or decreased by that amount, loss for the year and retained earnings would have decreased/increased and increased/decreased respectively by HK$3,365,000.

The assumed volatilities of listed securities represent management's assessment of a reasonably possible change in these security prices over the next twelve month period.

### 44.5 Credit risk

Credit risk refers to the risk that the counterparty to a financial instrument would fail to discharge its obligation under the terms of the financial instrument and cause a financial loss to the Group. As at 31 December 2011, the Group's maximum exposure to credit risk in the event of counterparties' failure to perform their obligation and financial guarantees provided by the Group is arising from:

— carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position; and

— the amount of contingent liabilities in relation to the financial guarantees provided by the Group as disclosed in note 40.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 44. Financial risk management and fair value measurements (Continued)

### 44.5 Credit risk (Continued)

In order to minimise the credit risk, the management of the Group has formulated a defined fixed credit policy and delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade and other receivables regularly at each reporting date to ensure that adequate impairment losses are made for irrecoverable amount. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

Further quantitative disclosure in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in notes 24 and 22 respectively.

### 44.6 Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and availability of funding through the ability to close-out market positions. In the opinion of the directors of the Company, the Group does not have any significant liquidity risk exposure.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 44. Financial risk management and fair value measurements (Continued)

### 44.6 Liquidity risk (Continued)

The following table details the remaining contractual maturities at the reporting date of the Group's and the Company's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the reporting date) and the earliest date the Group and the Company can be required to pay:

**Group**

| | Carrying amount HK$'000 | Total contractual undiscounted cash flow HK$'000 | On demand or within one year HK$'000 | More than 1 year but less than 2 years HK$'000 | More than 2 years but less than 5 years HK$'000 |
|---|---|---|---|---|---|
| **As at 31 December 2011** | | | | | |
| Trade payables | 47,514 | 47,514 | 47,514 | — | — |
| Other payables and accruals | 115,045 | 115,045 | 115,045 | — | — |
| Amount due to ultimate holding company | 105,916 | 105,916 | — | 105,916 | — |
| Amount due to a director | 11,794 | 11,794 | 11,794 | — | — |
| Amounts due to shareholders | 5,006 | 5,006 | 5,006 | — | — |
| Amount due to an associate | 5,502 | 5,502 | 5,502 | — | — |
| Bank borrowings | 133,901 | 136,945 | 136,945 | — | — |
| Finance lease liabilities | 441 | 483 | 123 | 123 | 237 |
| | 425,119 | 428,205 | 321,929 | 106,039 | 237 |
| Financial guarantee issued | | | | | |
| Maximum amount guaranteed | — | 79,859 | 79,859 | — | — |

| | Carrying amount HK$'000 | Total contractual undiscounted cash flow HK$'000 | On demand or within one year HK$'000 |
|---|---|---|---|
| As at 31 December 2010 | | | |
| Trade payables | 43,134 | 43,134 | 43,134 |
| Other payables and accruals | 109,953 | 109,953 | 109,953 |
| Amount due to ultimate holding company | 305,733 | 305,733 | 305,733 |
| Amount due to a director | 32,374 | 32,374 | 32,374 |
| Amounts due to shareholders | 5,006 | 5,006 | 5,006 |
| Amount due to an associate | 5,505 | 5,505 | 5,505 |
| | 501,705 | 501,705 | 501,705 |
| Financial guarantee issued | | | |
| Maximum amount guaranteed | — | 79,513 | 79,513 |

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 44. Financial risk management and fair value measurements (Continued)

### 44.6 Liquidity risk (Continued)

**Company**

| | Carrying amount HK$'000 | Total contractual undiscounted cash flow HK$'000 | On demand or within one year HK$'000 | More than 1 year but less than 2 years HK$'000 |
|---|---|---|---|---|
| **As at 31 December 2011** | | | | |
| Other payables and accruals | **4,517** | **4,517** | **4,517** | **—** |
| Amount due to ultimate holding company | **54,123** | **54,123** | **—** | **54,123** |
| Amounts due to subsidiaries | **202,865** | **202,865** | **202,865** | **—** |
| Amount due to a director | **158,148** | **158,148** | **158,148** | **—** |
| Amounts due to shareholders | **5,005** | **5,005** | **5,005** | **—** |
| | **424,658** | **424,658** | **370,535** | **54,123** |
| Financial guarantees issued | | | | |
| Maximum amount guaranteed | **—** | **79,859** | **79,859** | **—** |

| | Carrying amount HK$'000 | Total contractual undiscounted cash flow HK$'000 | On demand or within one year HK$'000 |
|---|---|---|---|
| As at 31 December 2010 | | | |
| Other payables and accruals | 4,034 | 4,034 | 4,034 |
| Amounts due to subsidiaries | 192,477 | 192,477 | 192,477 |
| Amount due to a director | 159,999 | 159,999 | 159,999 |
| Amounts due to shareholders | 5,005 | 5,005 | 5,005 |
| | 361,515 | 361,515 | 361,515 |
| Financial guarantees issued | | | |
| Maximum amount guaranteed | — | 79,513 | 79,513 |

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 44. Financial risk management and fair value measurements (Continued)

### 44.7 Fair value

The carrying amounts of the following financial assets and financial liabilities approximate their fair value as all of them are in short-term nature: cash and cash equivalents, trade receivables and payables, other receivables and payables, bank borrowings, loan to ultimate holding company, amounts due to/from a director/shareholders/ ultimate holding company/an associate/subsidiaries. Analysis of the interest rate and carrying amounts of borrowings are presented in note 29 to the financial statements.

The following table presents financial assets and liabilities measured at fair value in the statement of financial position in accordance with the fair value hierarchy. The hierarchy groups financial assets and liabilities into three levels based on the relative reliability of significant inputs used in measuring the fair value of these financial assets and liabilities. The fair value hierarchy has the following levels:

— Level 1: quoted price (unadjusted) in active markets for identical assets and liabilities;

— Level 2: inputs other than quoted prices included within Level 1 that are observable of the asset and liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

— Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level in the fair value hierarchy within which the financial asset or liability is categorised in its entirely is based on the lowest level of input that is significant to the fair value measurement.

The financial assets and liabilities measured at fair value in the statements of financial position are grouped into the fair value hierarchy as follows:

| | Group | | | |
|---|---|---|---|---|
| | **Level 1 HK$'000** | **Level 2 HK$'000** | **Level 3 HK$'000** | **Total HK$'000** |
| **As at 31 December 2011** | | | | |
| **Asset** | | | | |
| Available-for-sale financial assets | **—** | **324** | **155** | **479** |
| Total fair values | **—** | **324** | **155** | **479** |

| | Company | | | |
|---|---|---|---|---|
| | **Level 1 HK$'000** | **Level 2 HK$'000** | **Level 3 HK$'000** | **Total HK$'000** |
| **As at 31 December 2011** | | | | |
| **Asset** | | | | |
| Available-for-sale financial assets | **—** | **324** | **—** | **324** |
| Total fair values | **—** | **324** | **—** | **324** |

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 44. Financial risk management and fair value measurements (Continued)

### 44.7 Fair value (Continued)

| | Group | | | |
|---|---|---|---|---|
| | Level 1 HK$'000 | Level 2 HK$'000 | Level 3 HK$'000 | Total HK$'000 |
| As at 31 December 2010 | | | | |
| Assets | | | | |
| Available-for-sale financial assets | — | 324 | 149 | 473 |
| Listed securities held for trading | 22,932 | — | — | 22,932 |
| Total fair values | 22,932 | 324 | 149 | 23,405 |

| | Company | | | |
|---|---|---|---|---|
| | Level 1 HK$'000 | Level 2 HK$'000 | Level 3 HK$'000 | Total HK$'000 |
| As at 31 December 2010 | | | | |
| Assets | | | | |
| Available-for-sale financial assets | — | 324 | — | 324 |
| Total fair values | — | 324 | — | 324 |

There have been no significant transfers between level 1, 2 and 3 in the reporting period. The methods and valuation techniques used for the purpose of measuring fair value are unchanged compared to the previous reporting period.

## 45. Capital management

The primary objective of the Group's capital management is to ensure the Group's ability to continue as a going concern and to provide an adequate return to shareholders by pricing goods and services commensurately with the level of risk.

The Group actively and regularly reviews its capital structure and make adjustments in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payables to shareholders, issue new shares or raise and repay debts. The Group's capital management objectives, policies or processes were unchanged during the current and previous years.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 45. Capital management (Continued)

The Group monitors capital using a gearing ratio, which is net debt divided by the total equity plus net debt. Net debt is calculated as the sum of the bank borrowings and finance lease liabilities less cash and cash equivalents as shown in the statements of financial position. The Group aims to maintain the gearing ratio at a reasonable level. The gearing ratios as at the reporting date were as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Bank borrowings | **133,901** | — | **—** | — |
| Finance lease liabilities | **441** | — | **—** | — |
| Total debt | **134,342** | — | **—** | — |
| Less: Cash and cash equivalents | **(40,152)** | (79,257) | **(2,866)** | (1,959) |
| **Net debt** | **94,190** | (79,257) | **(2,866)** | (1,959) |
| **Total equity** | **1,926,934** | 2,075,385 | **1,378,480** | 1,361,735 |
| **Total equity plus net debt** | **2,021,124** | 1,996,128 | **1,375,614** | 1,359,776 |
| **Gearing ratio** | **4.66%** | N/A | **N/A** | N/A |

## 46. Comparative figures

The Company has made a presentational change as set out below related to amounts due to a director and to ultimate holding company under the consolidated statement of cash flows. The change would classify the nature of the captioned items and reflect better presentation of the cash flows. The detail of the change which has been applied retrospectively is listed below.

The amounts due to a director and to ultimate holding company are now classified under cash flows from financing activities of continuing and discontinued operations instead of cash flows from operating activities of continuing and discontinued operations.

# FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out as follows:

| | **2011** **HK$'000** | 2010 HK$'000 | 2009 HK$'000 | 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|---|---|---|
| Revenue/Turnover (continuing and discontinued operations) | **824,350** | 742,744 | 427,004 | 439,032 | 666,109 |
| (Loss)/Profit for the year | **(183,462)** | (90,575) | (151,491) | (91,266) | 692,765 |
| Non-controlling interests | **26,091** | 10,718 | 9,009 | 14,729 | (2,965) |
| (Loss)/Profit attributable to the owners of the Company | **(157,371)** | (79,857) | (142,482) | (76,537) | 689,800 |
| Total assets | **2,464,118** | 2,772,509 | 2,697,658 | 2,624,499 | 2,796,543 |
| Total liabilities | **(537,184)** | (697,124) | (538,828) | (301,192) | (345,881) |
| | **1,926,934** | 2,075,385 | 2,158,830 | 2,323,307 | 2,450,662 |

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