中國數碼信息有限公司

2013 ANNUAL REPORT

二零一三年度 年報

CONTENTS

CORPORATE INFORMATION

Directors

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

Non-executive
Mr. WANG Gang
Mr. LAM Bing Kwan

Independent Non-executive
Prof. JIANG Ping
Mr. HU Bin
Mr. FUNG Wing Lap

Company Secretary

Mr. WATT Ka Po James

Auditor

BDO Limited
Certified Public Accountants
Hong Kong

Registered Office

26/F., Siu On Centre
188 Lockhart Road
Wanchai
Hong Kong

Share Registrar

Tricor Abacus Limited
Level 22, Hopewell Centre
183 Queen's Road East
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

On behalf of the board of directors (the "Board") of Sino-i Technology Limited (the "Company"), I am presenting to the shareholders the annual report of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2013. For the year ended 31 December 2013, the net loss attributable to owners of the Company was approximately HK$28.8 million (2012: HK$59.9 million).

In 2013, the Company kept focusing on corporate IT application services for SMEs, primarily developing the e-commerce and informatization application market for SMEs through its main subsidiary 中企動力科技股份有限公司 (CE Dongli Technology Company Limited) ("CE Dongli"). In light of the prevailing macro-economic condition, no fundamental changes occurred in the operating environment of the Group's major customer group — SMEs in the PRC, but SMEs' IT investment approach remained conversative. During the year, under the less favourable market conditions coupled with the feeble growth in sales revenue from products, the Group managed to improve its operating results by lowering down the operating costs, mainly through streamlining its organization structure; enhancing operating efficiency; and cutting administrative expenses.

During the year, CE Dongli still adhered to its strategies of innovation. R&D resources were committed to such areas as e-commerce, Zshop and webmail hosting services. ZTS, a new product, and the new version of Z+ were successfully launched to the market. In addition, products like AZshopS for different market segments, catering to the demands and characteristics of the industry were introduced. Attempts to tap into various market segments, especially specializing in identifying major customers in the industry, were made by establishing a key customer marketing team.

With respect to sales channel, for the year ended 31 December 2013, CE Dongli had nearly 80 branch offices. By means of the online operation of informatization system and the integration of internal information resources during the year, CE Dongli achieved enhancement of the overall operating efficiency in its business network.

CHAIRMAN'S STATEMENT

With respect to cost control, CE Dongli rationalized its lines of product and business to reduce cost of sales. Meanwhile, CE Dongli also commenced various administrative expenses reduction programmes. As a result, administrative expenses of CE Dongli, both at the levels of headquarters and sales branches, were significantly lower as compared to the corresponding period of the previous year.

During the year, the Group, through its subsidiary 新網華通信息技術有限公司 (Xinnet Technology Information Company Limited) gained full control over the management, businesses and operations of 北京新網數碼信息技術有限公司 (Beijing Xinnet Cyber Information Company Limited)("Beijing Xinnet") and became entitled to all benefits generated by the operations of Beijing Xinnet in addition to an option to acquire the entire equity interest of Beijing Xinnet when necessary pursuant to a set of structured agreements. Given such benefits as Beijing Xinnet's existing virtual server hosting equipment; customer base; and valid license for providing internet content services in the PRC, the Group can provide virtual server hosting and maintenance services for its customers in the PRC in a more efficient and cost-effective manner, which are useful in broadening the scope of the Company's corporate IT application services and enhancing its core competitive strengths in the market. The Group disclosed details of the above transactions in its announcements dated 15 November 2013 and 6 December 2013 respectively.

With the reform in the PRC further deepening and such new policies as urbanization and free trade zone gradually taking effect, on-going improvement is expected in the operating environment of SMEs. Besides, commercialization of 4G, continuous development of e-commerce and the growing popularity of mobile internet will foster the ever-growing demand for e-commerce applications from SMEs. Despite the subsistence of such negative factors as increase in costs for growth and sluggish business of the SMEs in the short run, the Group expects its target SMEs customer group will keep investing in IT for maintaining its operation efficiency and competitiveness.

For 2014, the Group will enhance the synergy between CE Dongli and Beijing Xinnet, continue to focus on corporate IT application services and strive to expand both corporate IT infrastructure service and IT infrastructure application service in addition to promotion of upgraded business model by actively establishing IT informalization platform. The Group will put more efforts to the research and development for new products for breaking through the bottleneck in business growth in the existing e-commerce sector. With an emphasis on deepening application of Zshop in different market segments of the industry and the strategic deployment in such new areas as mobile e-commerce, cloud computing technologies and do-it-yourself website, for enhancing the Group's core competitive strengths in the long run. Moreover, the Group will continue to review the operating efficiency of its branch offices and take effort to explore room for tightening cost control; strengthening its capabilities for business development as well as consolidating and boosting operating performance.

Finally, I would like to express my gratitude to the shareholders for their concern and support and also to the Board, management committee and all staff for their dedication and contribution.

Yu Pun Hoi
Chairman

Hong Kong, 28 March 2014

MANAGEMENT DISCUSSION AND ANALYSIS

I. BUSINESS REVIEW

During the year under review, the Group focused on the development of its corporate IT application services business. For 2013, turnover of the Group was approximately HK$683.4 million (2012: HK$659.1 million), representing a growth of approximately 3.69% over the corresponding period last year, while net loss attributable to owners of the Company was approximately HK$28.8 million (2012: HK$59.9 million). Net assets attributable to owners of the Company were approximately HK$1,819.8 million (2012: HK$1,834.8 million), representing a value of approximately HK$0.091 (2012: HK$0.092) per share.

In 2013, the Group's corporate IT application services division spared no efforts to overcome the doldrums of growth. By means of such effective measures as streamlining organization structure, enhancing operating efficiency and tightening control on administrative expenses, operating costs were reduced and performance was improved. Turnover of this division for the year was approximately HK$683.4 million (2012: HK$659.1 million), representing a growth of approximately 3.69% over the corresponding period last year, while net loss before income tax was approximately HK$96.1 million (2012: HK$122.1 million).

MANAGEMENT DISCUSSION AND ANALYSIS

The Group's corporate IT application services division posted only limited growth in turnover as compared to 2012 due to the following two aspects:

Firstly, the Group's major target customer group — SMEs in the PRC bore the brunt of the PRC's slowing economy. Despite some improvements in the economic environment in 2013, those enterprises remained conservative in IT investments. Given the foregoing, the Group's overall revenue experienced limitation on growth.

Secondly, the new products of CE Dongli — mobile platform and e-commerce applications were still at their infant stage, so their contributions to the Group's results were not significant. Investments were made in such new areas as e-commerce and cloud computing technologies which were still at a preliminary stage, and further commitment of large scale of resources would be required. As a result, it may take a certain period of time before revenue comes on stream.

Under the constraint on business growth, the loss was reduced as compared to the corresponding period last year as the Group's corporate IT application services division managed to lower down the costs and expenses through various means, including performance assessment; rationalization of lines of product and business; and reduction of the costs of sales and provision of services in addition to significant reduction in administrative expenses incurred both at the levels of headquarters and sales branches of CE Dongli.

II. FINANCIAL RESOURCES AND LIQUIDITY

The Group continued to adopt prudent funding and treasury policies. As at 31 December 2013, net assets attributable to owners of the Company amounted to approximately HK$1,819.8 million (2012: HK$1,834.8 million), including cash and bank balances of approximately HK$66.4 million (2012: HK$16.6 million) which were mainly denominated in Renminbi and Hong Kong dollars.

As at 31 December 2013, the Group's aggregate borrowings were approximately HK$231.2 million (2012: HK$247.8 million), of which approximately HK$82.6 million (2012: HK$36.4 million) were bearing interest at fixed rates while approximately HK$148.6 million (2012: HK$211.4 million) were at floating rates. The gearing ratio of the Group, which is calculated as net debt divided by the adjusted capital plus net debt, decreased from approximately 11.02% as at 31 December 2012 to approximately 8.17% as at 31 December 2013.

As at 31 December 2013, the Group's capital commitment was approximately HK$120.6 million which would be used as the funding for the construction of the headquarters of corporate IT application services.

The Group's contingent liabilities as at 31 December 2013 were approximately HK$70.9 million in connection with the guarantees given to secure credit facilities.

As at 31 December 2013, certain interests in leasehold land, buildings and intangible assets with a total net carrying value of approximately HK$694.6 million were pledged to secure the credit facilities granted to the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

III. EXPOSURE TO FLUCTUATION IN EXCHANGE RATES

The majority of the Group's borrowings and transactions were primarily denominated in Renminbi and Hong Kong dollars. Both the operating expenses and revenue were primarily denominated in Renminbi. The continued growth in the economy of the PRC is expected to warrant a continuing appreciation of Renminbi. The Group's reported assets, liabilities and results 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. EMPLOYEES AND REMUNERATION POLICY

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 2013, the Group had approximately 6,544 employees (2012: 6,094 employees). The salaries of and allowances for the employees for the year ended 31 December 2013 were approximately HK$478.1 million (2012: HK$528.6 million).

V. PROSPECTS

A trend of slow recovery of global economy has emerged in 2013, but the aftermath of international financial crisis remained. Among the major economies, the USA continued on its recovery course while the Euro zone has posted moderate growth after bottomed out. Slowdown in growth prevailed in emerging markets generally. Notwithstanding the declining trend in its economy in 2013, the PRC stepped up the adjustment to its economic structure and introduced such new measures as urbanization and free trade zone. As such, the economic environment is expected to be improved in the second half of the year.

Looking forward to in 2014, with the deepening reform in the PRC and such new policies as urbanization and free trade zone gradually taking effect, on-going improvement is expected in the operating environment of SMEs. Besides, commercialization of 4G, continuous development of e-commerce and the growing popularity of mobile internet will foster the ever-growing demand for e-commerce applications from SMEs. Despite the subsistence of such negative factors as increase in costs for growth and sluggish business which would continuously affect the intention and amount in IT investments by SMEs in the short run, the Group expects its target SMEs customer group will keep investing in IT for maintaining its operation efficiency and competitiveness.

The Group will continue to focus on corporate IT application services and invest in the development of corporate IT infrastructure and IT infrastructure application services as well as striving to the acceptance of upgraded business model by actively establishing informatization platform despite facing to severe external environment. The Group will continue to put more efforts to the research and development for new products, focusing on the application of Zshop in different market segments of the industry and the strategic deployment in such new areas as mobile e-commerce, cloud computing technologies and do-it-yourself websites, for the purpose of identifying new points of growth and enhancing the Group's core competitive strengths in the long run. Moreover, the Group will continue to review and enhance the operating efficiency of its sales branches and to optimize internal management and tighten control on costs and expenses in a reasonable manner so as to strive to achieve improvement in performance and create 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 2013.

Principal Activities

The principal activity of the Company is investment holding. The subsidiaries are principally engaged in corporate IT application 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 page 32.

The directors do not recommend the declaration of the payment of a final dividend for the year ended 31 December 2013 (2012: 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 118.

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 13 to the financial statements.

Subsidiaries and Associate

Particulars of the Company's principal subsidiaries and associate as at 31 December 2013 are set out in notes 16 and 17 to the financial statements respectively.

Bank Borrowings

The Group's bank borrowings as at 31 December 2013 is set out in note 26 to the financial statements.

Share Capital

Details of the share capital of the Company during the year are set out in note 29 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 31 to the financial statements.

Distributable Reserves

As at 31 December 2013, the amount of the Company's reserves available for distribution was approximately HK$452,059,000. 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 2013 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 36 to the financial statements.

Directors' Interest in Competing Business

As at 31 December 2013, 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 35 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#	
Prof. JIANG Ping*	
Mr. HU Bin*	(appointment with effect from 27 September 2013)
Mr. FUNG Wing Lap*	
Mr. HUANG Yaowen*	(resignation with effect from 1 July 2013)

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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") and the Company considers that such directors are independent of the Company.

In accordance with Article 87 of the articles of association of the Company (the "Articles"), Mr. Hu Bin may hold office only until the annual general meeting (the "AGM") of the Company and, being eligible, will offer himself for re-election.

Furthermore, in accordance with Article 94 of the Articles, Ms. Chen Dan, Mr. Wang Gang and Mr. Fung Wing Lap will retire from office by rotation at the forthcoming AGM and, being eligible, will offer themselves for re-election.

Biographical Details of Directors and Senior Management

Biographical Details of Directors

Executive Directors

Mr. YU Pun Hoi, aged 55, 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 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"), the listed holding company of the Company, and a director of a number of major subsidiaries of the Company and Nan Hai.

Ms. CHEN Dan, aged 45, 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 and general manager of the Company. In March 2012, Ms. Chen has been appointed as a member of nomination committee of the Company.

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

Ms. LIU Rong, aged 42, 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 and has been appointed as an executive director of the Company in March 2009. Ms. Liu is also a general manager of Dadi group, subsidiaries 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)

Non-executive Directors

Mr. WANG Gang, aged 58, graduated from Capital University of Economics and Business in the PRC 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. In May 2012, Mr. Wang was re-designated as a non-executive director of the Company and Nan Hai.

Mr. LAM Bing Kwan, aged 64, 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 director of two subsidiaries and 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

Prof. JIANG Ping, aged 83, 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 member of nomination committee 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. HU Bin, aged 42, is director of the Research Center for Financial Law and Regulations at Chinese Academy of Social Science (CASS). Mr. Hu got his doctoral degree in laws from the graduate school of CASS in 2002 and became a research professor in the Institute of Finance and Banking in 2009.

On 27 September 2013, Mr. Hu was appointed as independent non-executive director, chairman of remuneration committee, members of audit committee and nomination committee of both the Company and Nan Hai. Moreover, Mr. Hu is also an independent non-executive director of Anhui Expressway Company Limited, a company listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), and is an independent non-executive director of Shaanxi Baoguang Vacuum Electric Device Co., Ltd, a company listed on Shanghai Stock Exchange.

REPORT OF THE DIRECTORS

Biographical Details of Directors and Senior Management (Continued)

Biographical Details of Directors (Continued)

Independent Non-executive Directors (Continued)

Mr. FUNG Wing Lap, aged 53, graduated from The Hong Kong Polytechnic University in 1992. Mr. Fung is a fellow member of Association of International Accountants, an associate member of The Taxation Institute of Hong Kong, an associate member of Hong Kong Institute of Certified Public Accountants and certified public accountant (practising). Mr. Fung is an executive director of FCC and Partners CPA Limited.

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 member of nomination committee of the Company. Mr. Fung is also appointed as chairman of audit committee of the Company on 27 September 2013.

Biographical Details of Senior Management

Mr. CHEN Ming Fei (aged 37)
General Manager
中企動力科技股份有限公司 (CE Dongli Technology Company Limited)

General Manager
北京新網數碼信息技術有限公司 (Beijing Xinnet Cyber Information 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 was also the general manager of Beijing Xinnet and is responsible for operation management of Beijing Xinnet.

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

Mr. ZHANG Bin (aged 48)
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 management committee of the Company.

REPORT OF THE DIRECTORS

Biographical Details of Directors and Senior Management (Continued)

Biographical Details of Senior Management (Continued)

Mr. HAN Qi (aged 40)
Deputy General Manager
北京新網數碼信息技術有限公司 (Beijing Xinnet Cyber Information Company Limited)

Mr. Han was graduated from the faculty of computer science in Concordia University Canada (加拿大康考迪亞大學), who has an in-depth experience in computer technology and management. Prior to joining the Group, Mr. Han was working in the position of technology controller in several reputable IT corporations in the PRC during which he gained valuable experience in both technology and management.

Mr. Han joined the Group in 2011, and is now in the position of deputy general manager of Beijing Xinnet.

Mr. Han is also a member of management committee of the Company.

Directors' Interests and Short Positions in Shares and Underlying Shares

As at 31 December 2013, 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 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. 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 2013, 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	–	36,096,430,679 *(Note 1)*	3,811,819,898 *(Note 2)*	39,908,250,577	58.13%
Chen Dan	32,000,000	–	–	32,000,000	0.05%
Wang Gang	8,500,000	–	–	8,500,000	0.01%
Fung Wing Lap	15,756	–	–	15,756	0.00002%

Notes:

1. These 36,096,430,679 shares were collectively held by Rosewood Assets Ltd., Pippen Limited, Staverley Assets Limited and First Best Assets Limited, companies indirectly wholly owned by Mr. Yu through Dadi Holdings Limited, a company wholly owned by Mr. Yu.

2. Out of these 3,811,819,898 shares, 69,326,400 shares were held by Redmap Resources Limited, a company wholly owned by Ms. Kung Ai Ming, the spouse of Mr. Yu; and 3,742,493,498 shares were held by Macro Resources Ltd., a company held as to 50% each by Ms. Kung Ai Ming and Mr. Yu Ben Hei, the son of Mr. Yu and Ms. Kung Ai Ming.

Save as disclosed above, as at 31 December 2013, 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 as 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 28 May 2012, 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.

During the year ended 31 December 2013, 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 total number of shares in issue of the Company at the date of approval of the Scheme or 30% of the total number of shares in issue 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 1,991,450,487 shares representing approximately 10% of the total number of shares in issue 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 total number of shares in issue of the Company. 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 of the Company 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.

REPORT OF THE DIRECTORS

Share Option Scheme (Continued)

(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 May 2012 up to 28 May 2022.

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 AGM 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 2013, 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
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 Group Corporation, CITIC Limited and CITIC Capital Holdings Limited were each taken to be interested in the security interest in which CITIC Capital Credit Limited held an interest.

Save as disclosed above, as at 31 December 2013, 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 41 to the financial statements.

Purchase, Sale or Redemption of Listed 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 20 to 29.

Audit Committee

The Audit Committee comprises all the independent non-executive directors of the Company, namely Mr. Fung Wing Lap, Prof. Jiang Ping and Mr. Hu Bin. The Audit Committee has reviewed with the auditor of the Company and the management the accounting principles and practices adopted by the Group, the audited consolidated financial statements of the Group for the year ended 31 December 2013, and discussed the auditing, financial control, internal control and risk management systems.

Auditor

The financial statements for the years ended 31 December 2013 were audited by BDO Limited ("BDO"). A resolution will be proposed at the forthcoming AGM of the Company to re-appoint BDO as auditor of the Company.

By order of the Board
Yu Pun Hoi
Chairman

Hong Kong, 28 March 2014

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 Corporate Governance Code (the "CG Code") and Corporate Governance Report as set out in Appendix 14 to the Listing Rules throughout the year ended 31 December 2013, except for the deviations from Code Provision A.2.1, A.4.1 and A.6.7. Explanation 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 2013.

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 inside information of the Company.

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

Board of Directors

The current Board of the Company is made up of eight directors including three executive directors, two non-executive directors 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 10 to 12 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

Non-executive Directors

Mr. WANG Gang
Mr. LAM Bing Kwan

Independent Non-executive Directors

Prof. JIANG Ping	
Mr. HU Bin	(appointment with effect from 27 September 2013)
Mr. FUNG Wing Lap	
Mr. HUANG Yaowen	(resignation with effect from 1 July 2013)

CORPORATE GOVERNANCE REPORT

Board of Directors (Continued)

The overall management of the Company's business is vested in the Board of the Company, 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 of the Company prior to any significant transactions entered into by the abovementioned senior management of the Company.

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

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 12 meetings.

According to Code Provision A.5.6, the Company adopted a board diversity policy and updated the terms of reference of Nomination Committee in August 2013.

Chairman and Chief Executive Officer

Code Provision A.2.1 stipulates 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 of the Company 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.

Non-executive Directors

Code Provision A.4.1 stipulates 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 Articles. As such, the Board of the Company 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.

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.

CORPORATE GOVERNANCE REPORT

Board of Directors (Continued)

Independent Non-executive Directors (Continued)

Pursuant to Code Provision A.4.3, any further appointment of independent non-executive director serving more than nine years should be subject to a separate resolution to be approved by the shareholders of the Company. Notwithstanding that Mr. Fung Wing Lap has served as an independent non-executive director of the Company for more than nine years, (i) the Board of the Company has assessed and reviewed the annual confirmation of independence based on the requirement set out in Rule 3.13 of the Listing Rules and affirmed that Mr. Fung Wing Lap remains independent; (ii) the Nomination Committee of the Company has assessed and is satisfied of the independence of Mr. Fung Wing Lap; and (iii) the Board of the Company considers that Mr. Fung Wing Lap remains independent of management and free of any relationship which could materially interfere with the exercise of his independent judgement. Notwithstanding the length of his service, the Company believes that his valuable knowledge and experience in the Group's business will continue to benefit the Company and the shareholders as a whole.

Directors' Training

According to the Code Provision A.6.5, all directors should participate in a programme of continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board of the Company remains informed and relevant. The Company should be responsible for arranging and funding training, placing an appropriate emphasis on the roles, functions and duties of the directors.

From time to time, directors are provided with written materials to develop and refresh their professional skills on the latest development of applicable laws, rules and regulations for the directors to assist them in discharging their duties. The Company had received from each of the directors the confirmations on taking continuous professional training during the year.

Board Committees

The Board has established four committees, namely Management 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.

Management Committee

The Company established a Management Committee on 11 July 2013 with written terms of reference. The Management Committee consists of senior management and department heads of the Company as follows:

Mr. CHEN Ming Fei *(Chairman)*
Mr. ZHANG Bin
Mr. HAN Qi
Mr. YAO Jun
Mr. HU Guang Bin
Mr. ZHOU Jian
Ms. WU Xiu Jiao
Ms. SHI Wenqing (removal with effect from 21 February 2014)

CORPORATE GOVERNANCE REPORT

Board Committees (Continued)

Management Committee (Continued)

The primary duties of the Management Committee included to vest with all the general powers of management and control of the daily operations of the Group; to establish unambiguous and effective levels of hierarchy and appropriate human resources management system for discharging different functions and duties effectively and efficiently for accomplishment of the Group's objectives set out by the Board of the Company; to establish an internal control system for safeguarding against operation or manpower deficiency or redundancy, including any unlawful or unethical activities which would affect the interest or reputation of any member of the Group; and to carry out corporate compliance and governance matters as per the Board's instructions.

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. FUNG Wing Lap *(Chairman of the Audit Committee)*	(appointment as Chairman with effect from 27 September 2013)
Prof. JIANG Ping	
Mr. HU Bin	(appointment with effect from 27 September 2013)
Mr. HUANG Yaowen	(resignation with effect from 1 July 2013)

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 financial statements for the year ended 31 December 2012 and the unaudited interim results for the six months ended 30 June 2013, 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. HU Bin *(Chairman of the Remuneration Committee)*	(appointment with effect from 27 September 2013)
Prof. JIANG Ping	
Mr. FUNG Wing Lap	
Mr. HUANG Yaowen	(resignation with effect from 1 July 2013)

CORPORATE GOVERNANCE REPORT

Board Committees (Continued)

Remuneration Committee (Continued)

The Remuneration Committee is responsible for making recommendations to the Board of the Company on the establishing of formal and transparent procedures for developing remuneration policies and 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.

During the year, the Remuneration Committee held 2 meetings, in particular, to review and recommend to the Board of the Company the remuneration of the new appointment of director; and to review the remuneration policies and the remuneration packages of the Company.

For the year ended 31 December 2013, the emoluments paid or payable to members of senior management was within the following band:

Emolument band	**Number of individuals**	
	2013	2012
Nil — HK$1,000,000	**3**	3

Nomination Committee

The Company formulated 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
Prof. JIANG Ping*
Mr. HU Bin* (appointment with effect from 27 September 2013)
Mr. FUNG Wing Lap*
Mr. HUANG Yaowen* (resignation with effect from 1 July 2013)

* INED

The Nomination Committee is responsible for reviewing the structure, size and composition of the Board of the Company, identifying individuals suitably qualified to become directors, assessing the independence of INEDs, and make recommendations to the Board of the Company on relevant of appointment of directors, and review the board diversity policy annually. The Nomination Committee has the authority given by the Board of the Company 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.

During the year, the Nomination Committee held 2 meetings, in particular, to review and assessment of the independence of all independent non-executive directors of the Company; to consider and recommend to the Board of the Company for approval the list of retiring directors for re-election at the annual general meeting held on 3 June 2013 (the "2013 AGM"); to review the structure, size and composition of the Board of the Company; and to review and recommend to the Board of the Company for approval the appointment of Mr. Hu Bin as an independent non-executive director of the Company.

CORPORATE GOVERNANCE REPORT

Corporate Governance Functions

The Board of the Company are responsible for performing the duties on corporate governance functions set out below:

a. To develop and review the Company's policies and practices on corporate governance and make recommendations to the Board of the Company;

b. To develop and monitor the training and continuous professional development of directors and senior management;

c. To review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

d. To develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and directors; and

e. To review the Company's compliance with the code and disclosure in the 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 ("BM"), the Shareholders ("GM"), the Audit Committee ("ACM"), the Remuneration Committee ("RCM") and the Nomination Committee ("NCM") for the year ended 31 December 2013:

	Attendance/Number of Meetings				
Name of Director	**BM**	**GM**	**ACM**	**RCM**	**NCM**
Executive Directors					
Mr. YU Pun Hoi	12	1	N/A	N/A	2
Ms. CHEN Dan	12	1	N/A	N/A	2
Ms. LIU Rong	12	–	N/A	N/A	N/A
Non-executive Directors					
Mr. WANG Gang	12	–	N/A	N/A	N/A
Mr. LAM Bing Kwan	12	2	N/A	N/A	N/A
Independent Non-executive Directors					
Prof. JIANG Ping	12	–	2	2	2
Mr. HU Bin (appointment with effect from 27 September 2013)	3	N/A	–	–	–
Mr. FUNG Wing Lap	12	2	2	2	2
Mr. HUANG Yaowen (resignation with effect from 1 July 2013)	6	1	1	1	1
Number of meetings held during the year	12	2	2	2	2

CORPORATE GOVERNANCE REPORT

Number of Meetings and Directors' Attendance (Continued)

Code Provision A.6.7 stipulates that independent non-executive directors and non-executive directors should attend general meetings and develop a balanced understanding of the views of shareholders.

One independent non-executive director and one non-executive director of the Company were unable to attend the 2013 AGM and the extraordinary general meeting held on 10 June 2013 (the "2013 EGM") due to their personal engagement. In addition, one independent non-executive director of the Company was also unable to attend the 2013 EGM due to his personal engagement.

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

The Board of the Company is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, inside information 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 2013.

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 30 and 31.

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 2013 amounted to HK$2,872,000 and HK$285,000 respectively. An analysis of the remuneration paid to the external auditor of the Group is set out in note 8 to the financial statements.

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 and Audit Committee of the Company have conducted regular reviews of the effectiveness of the internal control procedures of the Group.

Company Secretary

Mr. Watt Ka Po James was appointed as Company Secretary of the Company. According to Rule 3.29 of the Listing Rules, Mr. Watt will take no less than 15 hours of relevant professional training.

CORPORATE GOVERNANCE REPORT

Shareholders' Rights

1. Procedures for shareholders to convene an Extraordinary General Meeting ("EGM")

As per Section 566 of the Companies Ordinance, Chapter 622 of the laws of Hong Kong ("New Companies Ordinance"), the directors of the Company are required to call a general meeting if the Company has received requests to do so from the shareholders of the Company representing at least 5% of the total voting rights of all the shareholders having a right to vote at general meetings.

The request:

(a) must state the general nature of the business to be dealt with at the EGM;

(b) may include the text of a resolution that may properly be moved and is intended to be moved at the EGM and may consist of several documents in like form;

(c) may be sent to the Company in hard copy form at 26/F., Siu On Centre, 188 Lockhart Road, Wanchai, Hong Kong, the registered office of the Company. Attention to: The Company Secretary or in electronic form by email at info@sino-i.com;

(d) must be authenticated by the person or persons making it; and

(e) must be verified with the share registrar of the Company, and upon the share registrar's confirmation that the request is proper and in order, the Company Secretary will notify the Board of the Company to convene an EGM by serving proper notice in accordance with the statutory requirements to all the registered shareholders of the Company. On the contrary, if the request has been verified as not in order, the requesting shareholders will be informed of this outcome and accordingly, an EGM will not be convened as requested.

If the Board of the Company does not within 21 days from the date of the deposit of the requests proceed duly to convene an EGM for a day not more than 28 days after the date on which the notice convening the EGM is given, the requesting shareholders, or any of them representing more than one half of the total voting rights of all of them, may themselves convene an EGM which shall be convened in the same manner, as nearly as possible, as that in which EGMs are to be convened by the Board of the Company, but any EGM so convened shall not be held after the expiration of 3 months from the said date.

CORPORATE GOVERNANCE REPORT

Shareholders' Rights (Continued)

2. Procedures for putting forward proposals at shareholders' meeting

Pursuant to Section 615(2) of the New Companies Ordinance, the Company must give notice of a resolution if it has received requests from the following number of shareholders:

(a) the shareholders of the Company representing at least 2.5% of the total voting rights of all the shareholders who have a right to vote on the resolution at the AGM to which the requests relate; or

(b) at least 50 shareholders who have a right to vote on the resolution at the AGM to which the requests relate.

The request (i) may be sent to the Company in hard copy form at the registered office of the Company, 26/F., Siu On Centre, 188 Lockhart Road, Wanchai, Hong Kong or in electronic form by email at info@sino-i.com; (ii) must identify the resolution of which notice is to be given; (iii) must be authenticated by the person or persons making it; and (iv) must be received by the Company not later than 6 weeks before AGM to which the requests relate; or if later, the time at which notice is given of that meeting.

In addition, the request will be verified with the share registrar of the Company, and upon the share registrar's confirmation that the request is proper and in order, the Company Secretary will notify the Board for including the resolution in the agenda for the AGM.

Pursuant to Section 616 of the New Companies Ordinance, the Company that is required under Section 615 to give notice of a resolution must send a copy of it at the Company's own expense to each shareholder of the Company entitled to receive notice of the AGM in the same manner as the notice of the meeting; and at the same time as, or as soon as reasonably practicable after, it gives notice of the meeting.

3. Shareholders' enquiries

Shareholders should direct their questions about their shareholdings to the share registrar of the Company. Shareholders may at any time send their enquiries and concerns to the Board of the Company in writing through the Company Secretary at the Company's registered office at 26/F., Siu On Centre, 188 Lockhart Road, Wanchai, Hong Kong, or to the Company by email at info@sino-i.com. Shareholders may also make enquiries with the Board at the general meetings of the Company.

The details of the rights of shareholders of the Company can be found in the Company's website at www.sino-i.com.

CORPORATE GOVERNANCE REPORT

Investor Relations

The Company is committed to safeguard shareholders' interests and believes that effective communication with shareholders and other stakeholders is essential for enhancing investor relations and investor understanding of the business performance and strategies of the Group.

The Board of the Company adopted a Shareholders Communication Policy which aims to set out the provisions with the objective of ensuring that the shareholders of the Company and potential investors are provided with ready, equal and timely access to balanced and understandable information about the Company, in order to enable shareholders of the Company to exercise their rights in an informed manner, and to allow shareholders of the Company and potential investors to engage actively with the Company.

The Company endeavours to disclose all material information about the Group to all interested parties on a timely basis. All such publications together with additional information of the Group are timely updated on the Company's website at www.sino-i.com.

Constitutional Documents

There are no significant changes in the Company's constitutional documents during the year.

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 32 to 117, which comprise the consolidated and company statements of financial position as at 31 December 2013, 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 2013, 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, 28 March 2014

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2013

	Notes	**2013 HK$'000**	2012 HK$'000
Revenue/Turnover	5(a)	**683,401**	659,106
Cost of sales and services provided		**(118,351)**	(162,950)
Gross profit		**565,050**	496,156
Other operating income	5(b)	**124,364**	93,797
Selling and marketing expenses		**(328,594)**	(291,674)
Administrative expenses		**(160,794)**	(197,902)
Other operating expenses		**(201,572)**	(153,086)
Finance costs	7	**(15,353)**	(19)
Share of results of an associate		**–**	–
Loss before income tax	8	**(16,899)**	(52,728)
Income tax expense	9	**(13,477)**	(11,220)
Loss for the year		**(30,376)**	(63,948)
Loss for the year attributable to:			
Owners of the Company	10	**(28,809)**	(59,912)
Non-controlling interests	32	**(1,567)**	(4,036)
		(30,376)	(63,948)
		HK cent	HK cent
Loss per share for loss attributable to the owners of the Company during the year	11		
— Basic		**(0.14)**	(0.30)
— Diluted		**N/A**	N/A

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2013

	2013 **HK$'000**	2012 HK$'000
Loss for the year	**(30,376)**	(63,948)
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of foreign operations	**15,185**	3,719
Total comprehensive income for the year	**(15,191)**	(60,229)
Total comprehensive income attributable to:		
Owners of the Company	**(15,021)**	(56,439)
Non-controlling interests	**(170)**	(3,790)
	(15,191)	(60,229)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2013

	Notes	2013 HK$'000	2012 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	13	**674,109**	474,447
Prepaid land lease payments under operating leases	14	**27,766**	27,510
Interest in an associate	17	**–**	–
Available-for-sale financial assets	15	**324**	324
Goodwill	18	**86,496**	53,720
Other intangible assets	19	**128,854**	107,057
Deposits and other receivables	20	**2,182**	135,205
Loan to ultimate holding company	25(c)	**1,367,219**	1,436,406
		2,286,950	2,234,669
Current assets			
Trade receivables	21	**11,843**	18,102
Deposits, prepayments and other receivables	20	**239,402**	327,117
Time deposits maturing over three months	22	**653**	–
Cash and cash equivalents	22	**65,762**	16,640
		317,660	361,859
Current liabilities			
Trade payables	23	**25,900**	45,068
Other payables and accruals	24	**243,873**	128,279
Deferred revenue		**17,643**	45,664
Provision for tax		**92,684**	77,845
Amount due to a director	25(a)	**3,574**	10,473
Amounts due to shareholders	25(b)	**5,006**	5,006
Amount due to an associate	25(d)	**5,501**	5,501
Bank borrowings, secured	26	**230,976**	247,512
Finance lease liabilities	27	**116**	110
		625,273	565,458
Net current liabilities		**(307,613)**	(203,599)
Total assets less current liabilities		**1,979,337**	2,031,070

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

As at 31 December 2013

	Notes	2013 HK$'000	2012 HK$'000
Non-current liabilities			
Finance lease liabilities	27	**110**	226
Amount due to ultimate holding company	25(c)	**117,474**	164,139
Deferred tax liabilities	28	**10,239**	–
		127,823	164,365
Net assets		**1,851,514**	1,866,705
EQUITY			
Share capital	29	**199,145**	199,145
Reserves	31	**1,620,664**	1,635,685
Equity attributable to the Company's owners		**1,819,809**	1,834,830
Non-controlling interests	32	**31,705**	31,875
Total equity		**1,851,514**	1,866,705

Yu Pun Hoi
Director

Chen Dan
Director

STATEMENT OF FINANCIAL POSITION

As at 31 December 2013

	Notes	2013 HK$'000	2012 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	13	**1,688**	101
Interests in subsidiaries	16	**105,721**	105,721
Available-for-sale financial assets	15	**324**	324
Loan to ultimate holding company	25(c)	**323,124**	339,605
		430,857	445,751
Current assets			
Amounts due from subsidiaries	16	**1,464,014**	1,449,198
Amount due from an associate	25(d)	**–**	15,667
Deposits, prepayments and other receivables	20	**56,995**	58,062
Cash and cash equivalents	22	**88**	89
		1,521,097	1,523,016
Current liabilities			
Other payables and accruals	24	**3,845**	4,165
Provision for tax		**745**	211
Amounts due to subsidiaries	16	**405,063**	269,080
Amount due to a director	25(a)	**158,069**	158,148
Amounts due to shareholders	25(b)	**5,005**	5,005
		572,727	436,609
Net current assets		**948,370**	1,086,407
Total assets less current liabilities		**1,379,227**	1,532,158
Non-current liability			
Amount due to ultimate holding company	25(c)	**26,170**	168,601
Net assets		**1,353,057**	1,363,557
EQUITY			
Share capital	29	**199,145**	199,145
Reserves	31	**1,153,912**	1,164,412
Total equity		**1,353,057**	1,363,557

Yu Pun Hoi
Director

Chen Dan
Director

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2013

	Notes	2013 HK$'000	2012 HK$'000
Cash flows from operating activities			
Loss before income tax		**(16,899)**	(52,728)
Adjustments for:			
Depreciation of property, plant and equipment		**45,036**	31,297
Annual charges of prepaid operating lease payments		**560**	365
Amortisation of intangible assets		**49,589**	39,621
Gain on disposal of property, plant and equipment		**(58)**	–
Provision for impairment of available-for-sale financial assets		**–**	155
Provision for impairment of trade receivables		**8,141**	–
Provision for impairment of other receivables		**24,765**	–
Bad debt written off		**1,192**	–
Property, plant and equipment written off		**585**	509
Other intangible assets written off		**–**	905
Write-back of long outstanding other payables		**(19,027)**	–
Bank interest income		**(95)**	(101)
Other interest income		**(92,845)**	(83,577)
Finance costs		**15,353**	19
Operating profit/(loss) before working capital changes		**16,297**	(63,535)
Decrease in amount due to an associate		**–**	(1)
Decrease/(Increase) in trade receivables		**1,488**	(3,829)
Decrease in deposits, prepayments and other receivables		**86,643**	105,479
Increase in trade payables, other payables and accruals		**37,931**	12,251
(Decrease)/Increase in deferred revenue		**(28,974)**	1,002
Cash generated from operations		**113,385**	51,367
Net income tax paid		**(855)**	(1,196)
Net cash generated from operating activities		**112,530**	50,171
Cash flows from investing activities			
Deposit for construction in progress		**–**	(133,774)
Payments to acquire property, plant and equipment	34	**(86,582)**	(61,558)
Proceeds from disposal of property, plant and equipment		**374**	–
Net cash inflow arising from business combination	33	**4,897**	–
Payments to acquire other intangible assets		**(23,558)**	(38,554)
Increase in time deposits maturing over three months		**(653)**	–
Bank and other interest received		**3,897**	3,793
Repayment from ultimate holding company		**158,230**	–
Net cash generated from/(used in) investing activities		**56,605**	(230,093)

CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

For the year ended 31 December 2013

	2013 HK$'000	2012 HK$'000
Cash flows from financing activities		
Proceeds from bank borrowings	**278,227**	232,464
Repayments of bank borrowings	**(327,103)**	(121,093)
Repayments of finance lease liabilities	**(110)**	(105)
Decrease in amount due to a director	**(7,010)**	(1,321)
(Repayment to)/advanced from ultimate holding company	**(50,856)**	57,631
Interest paid	**(15,353)**	(11,260)
Net cash (used in)/generated from financing activities	**(122,205)**	156,316
Net increase/(decrease) in cash and cash equivalents	**46,930**	(23,606)
Cash and cash equivalents at 1 January	**16,640**	40,152
Effect of foreign exchange rate changes, on cash held	**2,192**	94
Cash and cash equivalents at 31 December	**65,762**	16,640
Analysis of the balances of cash and cash equivalents		
Cash at banks and in hand	**65,762**	16,640

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2013

	Equity attributable to the Company's owners									
	Share capital HK$'000	Share premium HK$'000	Capital redemption reserve HK$'000	Capital distribution reserve (note 31(a)) HK$'000	General reserve (note 31(b)) HK$'000	Exchange reserve HK$'000	Retained profits HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2012	199,145	39,194	2,258	52,622	8,756	73,701	1,515,586	1,891,262	35,672	1,926,934
Loss for the year	–	–	–	–	–	–	(59,912)	(59,912)	(4,036)	(63,948)
Other comprehensive income										
Items that may be reclassified subsequently to profit or loss:										
— Exchange differences on translation of financial statements of foreign operations	–	–	–	–	–	3,473	–	3,473	246	3,719
Total comprehensive income for the year	–	–	–	–	–	3,473	(59,912)	(56,439)	(3,790)	(60,229)
Reversal of general reserve	–	–	–	–	(2,182)	–	2,182	–	–	–
Released on deemed partial disposal of interest in a subsidiary	–	–	–	–	–	–	7	7	(7)	–
At 31 December 2012 and 1 January 2013	**199,145**	**39,194***	**2,258***	**52,622***	**6,574***	**77,174***	**1,457,863***	**1,834,830**	**31,875**	**1,866,705**
Loss for the year	**–**	**–**	**–**	**–**	**–**	**–**	**(28,809)**	**(28,809)**	**(1,567)**	**(30,376)**
Other comprehensive income										
Items that may be reclassified subsequently to profit or loss:										
— Exchange differences on translation of financial statements of foreign operations	**–**	**–**	**–**	**–**	**–**	**13,788**	**–**	**13,788**	**1,397**	**15,185**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**13,788**	**(28,809)**	**(15,021)**	**(170)**	**(15,191)**
At 31 December 2013	**199,145**	**39,194***	**2,258***	**52,622***	**6,574***	**90,962***	**1,429,054***	**1,819,809**	**31,705**	**1,851,514**

* These reserve accounts comprise the consolidated reserves of HK$1,620,664,000 (2012: HK$1,635,685,000) in the consolidated statement of financial position.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

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 26/F., Siu On Centre, 188 Lockhart Road, Wanchai, Hong Kong. The Company's shares are listed on The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange").

The ultimate parent company of the Company 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 principal activity of the Company is investment holding. Details of the principal activities of the Company's subsidiaries are set out in note 16.

On 15 November 2013, 新網華通信息技術有限公司 (Xinnet Technology Information Company Limited), a wholly-owned subsidiary of the Company, entered into various contractual agreements (the "Structured Agreements") with 北京中企華通信息科技有限公司 (Beijing Zhong Qi Hua Tong Information Technology Limited) ("ZQHT") and its ultimate beneficial owner to obtain an effective 100% control over 北京新網數碼信息技術有限公司 (Beijing Xinnet Cyber Information Company Limited) ("Beijing Xinnet"), a company incorporated in the People's Republic of China (the "PRC") and also a wholly-owned subsidiary of ZQHT (the "Acquisition"). Beijing Xinnet and its existing subsidiary (collectively as "Beijing Xinnet Group") are principally engaged in the provision of virtual server hosting and maintenance services, provision of email services and registration of domain names in the PRC. The Acquisition was completed on 15 November 2013 and further details about the Acquisition are disclosed in note 33.

2. Summary of significant accounting policies

2.1 Basis of preparation

The financial statements on pages 32 to 117 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 financial statements have been prepared on the historical cost basis except for certain financial instruments classified as available-for-sale which are stated at fair values. The measurement bases are fully described in the accounting policies below.

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 financial statements, if any, are disclosed in note 3.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

2. Summary of significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

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.

The financial statements have been prepared on the going concern basis which assumes the realisation of assets and satisfaction of liabilities in the ordinary course of business notwithstanding that the Group was making losses in consecutive years and had net current liabilities of HK$307,613,000. Having reviewed the cash flow projection of the Group for the next 12 months from the reporting date, the Board of Directors (the "Board") is of the opinion that the Group will have sufficient resources to satisfy its working capital and other financing requirement in the foreseeable future based on the followings: (i) the Board foresees that the Group is able to generate positive cash flows from operation in 2014; (ii) the Group has renewed certain of the existing credit facilities amounting to RMB110,000,000 (equivalent to approximately HK$141,000,000); and (iii) the Group has obtained new credit facilities from three PRC financial institutions amounting to RMB132,000,000 (equivalent to approximately HK$169,101,000).

In view of the above, the Board is of the opinion that the Group will have sufficient cash resources to satisfy its future working capital and other financing requirements. Accordingly, the financial statements have been prepared on a going concern basis.

2.2 Business combination and basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries (together referred to as the "Group") made up to 31 December each year.

Subsidiaries are consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases. The results of the subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition or up to the effective date of the disposal, as appropriate.

Intra-group transactions, balances and unrealised gains and losses on transactions between group companies are eliminated in preparing the consolidated financial statements. Where unrealised losses on intra-group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from the Group's perspective. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

2. Summary of significant accounting policies (Continued)

2.2 Business combination and basis of consolidation (Continued)

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.

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.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

2. Summary of significant accounting policies (Continued)

2.3 Subsidiaries

A subsidiary is an investee over which the Company is able to exercise control. The Company controls an investee if all three of the following elements are present: power over the investee, exposure, or rights, to variable returns from the investee, and the ability to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

In the Company's statement of financial position, investments in 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 joint arrangements. Significant influence is the power to participate in the financial and operating policy decisions of the investee but not control or joint control over these policies.

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 2013

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 2013

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 recognised in other comprehensive income and accumulated in equity as exchange reserve. 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 asset or where shorter, the terms 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

2. Summary of significant accounting policies (Continued)

2.6 Property, plant and equipment (Continued)

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 profit or loss 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.

The buildings comprise a portion that is held to earn rentals and the other portion that is held for administrative purpose. As the portion held to earn rentals cannot be sold separately and is insignificant, the building is classified as owner-occupied property rather than investment property.

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 2.14. 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 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 the fair value of the consideration transferred and the amount recognised for any non-controlling interest in the acquiree over the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities acquired.

Where the fair value of the identifiable assets, liabilities and contingent liabilities exceed the aggregate of the fair value of consideration paid and the amount recognised for any non-controlling interests, the excess is recognised immediately in profit or loss on the acquisition date, after re-assessment.

Goodwill is stated at cost less accumulated impairment losses (see note 2.20). Goodwill arising on a business combination is allocated to each of the relevant cash-generating units ("CGUs"), or groups of CGUs, that are expected to benefit from the synergies of the business combination. A CGU to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

2. Summary of significant accounting policies (Continued)

2.8 Goodwill (Continued)

For goodwill arising on an acquisition in a financial year, the CGU to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the CGU is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro-rata on the basis of the carrying amount to each asset in the unit. Any impairment loss for goodwill is recognised in profit or loss and is not reversed in subsequent periods.

Impairment losses for goodwill recognised in an interim period are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates.

On subsequent disposal of a subsidiary or CGU, any attributable amount of goodwill is included in the calculation of the gain or loss on disposal.

2.9 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
Licenses	10 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 2.20.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

2. Summary of significant accounting policies (Continued)

2.9 Other intangible assets and research and development costs (Continued)

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.

2.10 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:

— 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

2. Summary of significant accounting policies (Continued)

2.10 Financial assets (Continued)

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) *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.

(ii) *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 instruments, 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 2013

2. Summary of significant accounting policies (Continued)

2.10 Financial assets (Continued)

Impairment of financial assets

At each reporting date, financial assets 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

2. Summary of significant accounting policies (Continued)

2.10 Financial assets (Continued)

Impairment of financial assets (Continued)

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.

(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.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2013

2. Summary of significant accounting policies (Continued)

2.10 Financial assets (Continued)

Impairment of financial assets (Continued)

Financial assets other than 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.

2.11 Cash and cash equivalents

Cash and cash equivalents include cash at bank 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 changes 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.

2.12 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 2.22).

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

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

2. Summary of significant accounting policies (Continued)

2.12 Financial liabilities (Continued)

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method.

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

Trade and other payables

Trade and other payables are recognised initially at their fair value and subsequently measured at amortised cost, using the effective interest method.

Finance lease liabilities

Finance lease liabilities are measured at initial value less the capital element of lease repayments (see note 2.14).

2.13 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

2. Summary of significant accounting policies (Continued)

2.14 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 profit or loss 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.

(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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

2. Summary of significant accounting policies (Continued)

2.15 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.

2.16 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 2013

2. Summary of significant accounting policies (Continued)

2.17 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;

— Rental income under operating lease is recognised on a straight-line basis over the term of the relevant lease;

— 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.

2.18 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.

2.19 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

2. Summary of significant accounting policies (Continued)

2.20 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 and intangible assets that are not available for use are 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.

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 CGU). As a result, some assets are tested individually for impairment and some are tested at CGU level. Goodwill in particular is allocated to those CGUs 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 CGUs, 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 CGU, 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

2. Summary of significant accounting policies (Continued)

2.21 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 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 21% (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 2013

2. Summary of significant accounting policies (Continued)

2.21 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$1,250. There are no legal or constructive obligations to pay further contributions after payment of the fixed contribution.

Contributions to defined contribution retirement plans are recognised as an expense in profit or loss when the services are rendered by the employees. 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

2. Summary of significant accounting policies (Continued)

2.22 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 finance 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, finance costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are being undertaken. Capitalisation of finance costs ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

2.23 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 when 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

2. Summary of significant accounting policies (Continued)

2.24 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 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, other interest income, income tax expenses as well as corporate income and expenses which are not directly attributable to the business activities of the 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.

2.25 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

2. Summary of significant accounting policies (Continued)

2.25 Related parties (Continued)

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

3. Adoption of new/amended HKFRSs

3.1 New/amended HKFRSs which are effective during the year

In the current year, the Group has applied for the first time the following new/amended 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 2013:

HKFRSs (Amendments)	Annual Improvements 2009-2011 Cycle
Amendments to HKAS 1 (Revised)	Presentation of Items of Other Comprehensive Income
Amendments to HKFRS 7	Offsetting Financial Assets and Financial Liabilities
HKFRS 10	Consolidated Financial Statements
HKFRS 12	Disclosure of Interests in Other Entities
HKFRS 13	Fair Value Measurement
HKAS 27 (2011)	Separate Financial Statements
HKAS 28 (2011)	Investments in Associates and Joint Ventures

Except as explained below, the adoption of these new/amended HKFRSs has no material impact on the Group's financial statements.

HKFRSs (Amendments) — Annual Improvements 2009-2011 Cycle

HKAS 1 has been amended to clarify that an opening statement of financial position is required only when a retrospective application of an accounting policy, a retrospective restatement or reclassification has a material effect on the information presented in the opening position. Further, this opening statement of financial position does not have to be accompanied by comparative information in the related notes. This is consistent with the Group's existing accounting policy.

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 and those that may not. Tax on items of other comprehensive income is allocated and disclosed on the same basis.

The Group has adopted the amendments retrospectively for the financial year ended 31 December 2013. Items of other comprehensive income that may and may not be reclassified to profit and loss in the future have been presented separately in the consolidated statement of comprehensive income. The comparative information has been restated to comply with the amendments. As the amendments affect presentation only, there are no effects on the Group's financial position or performance.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

3. Adoption of new/amended HKFRSs (Continued)

3.1 New/amended HKFRSs which are effective during the year (Continued)

Amendments to HKFRS 7 — Offsetting Financial Assets and Financial Liabilities

HKFRS 7 is amended to introduce disclosures for all recognised financial instruments that are set off under HKAS 32 and those that are subject to an enforceable master netting agreement or similar arrangement, irrespective of whether they are set off under HKAS 32. The adoption of the amendments has no impact on these financial statements as the Group has not offset financial instruments, nor has it entered into a master netting agreement or a similar arrangement.

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 accounting requirements in HKAS 27 (2008) on other consolidation related matters are carried forward unchanged. The Group has changed its accounting policy in determining whether it has control of an investee and therefore is required to consolidate that interest (see note 2.3).

The Board made an assessment as at the date of initial application of HKFRS 10, it is concluded that the adoption does not change any of the control conclusion reached by the Group in respect of its involvement with other entities.

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.

HKFRS 12 disclosures are provided in notes 17 and 32 respectively. As the new standard affects only disclosure, there is no effect on the Group's financial position and performance.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

3. Adoption of new/amended HKFRSs (Continued)

3.1 New/amended HKFRSs which are effective during the year (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 is applied prospectively. HKFRS 13 did not materially affect any fair value measurements of the Group's assets and liabilities and therefore has no effect on the Group's financial position and performance.

3.2 New/amended HKFRSs early adopted

Amendments to HKAS 36 — Recoverable Amount Disclosures

The amendments limit the requirements to disclose the recoverable amount of an asset or CGU to those periods in which an impairment loss has been recognised or reversed, and expand the disclosures where the recoverable amount of impaired assets or CGUs has been determined based on fair value less costs of disposal. The amendments are effective for annual periods commencing on or after 1 January 2014. The Group has early adopted the amendments to HKAS 36 in the current period.

3.3 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.

HKFRSs (Amendments)	Annual Improvements 2010-2012 Cycle[3]
HKFRSs (Amendments)	Annual Improvements 2011-2013 Cycle[2]
HKAS 32 (Amendments)	Offsetting Financial Assets and Financial Liabilities[1]
HKFRS 9	Financial Instruments
HK(IFRIC) 21	Levies[1]

1 Effective for annual periods beginning on or after 1 January 2014
2 Effective for annual periods beginning on or after 1 July 2014
3 Effective for annual periods beginning, or transactions occurring, on or after 1 July 2014

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

3. Adoption of new/amended HKFRSs (Continued)

3.3 New/amended HKFRSs which are issued but not yet effective (Continued)

Amendments to HKAS 32 — Offsetting Financial Assets and Financial Liabilities

The amendments clarify the offsetting requirements by adding appliance guidance to HKAS 32 which clarifies when an entity "currently has a legally enforceable right to set off" and when a gross settlement mechanism is considered equivalent to net settlement.

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. The mandatory effective date is not specified in HKFRS 9 but will be determined when the outstanding phases are finalised. However, application of HKFRS 9 is permitted.

HK(IFRIC) 21–Levies

HK(IFRIC) 21 clarifies that an entity recognises a liability to pay a levy imposed by government when the activity that triggers payment, as identified by the relevant legislation, occurs.

Save as the main changes described above, the Group is in the process of making an assessment of the potential impact of these new/amended HKFRSs and the Board is not yet in a position to quantity the effects on the Group's financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

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, 5% to 33-1/3% per annum and 10% 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.

Impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in note 2.20. The recoverable amounts of CGUs 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 CGUs containing goodwill are disclosed in note 18.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

4. Critical accounting estimates and judgements (Continued)

4.1 Critical accounting estimates and assumptions (Continued)

Impairment of non-financial assets

The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. 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.

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.

4.2 Critical judgements in applying the Group's accounting policies

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.

Control through Structured Agreements

Notwithstanding the lack of equity ownership in Beijing Xinnet Group as set out in note 1, the Group is able to control, recognise and receive all the economic benefits of the business of Beijing Xinnet Group as the Group (1) shall have all requisite power and unrestricted rights, acting as a principal, to control and manage all aspects, at its sole decision and its own benefit, over Beijing Xinnet Group by virtue of the power of attorney; and (2) shall have right to assume all profits of Beijing Xinnet Group under the management and technology services agreement. In view of the foregoing reasons, the Group has determined that it has the practical ability to unilaterally direct the relevant activities of the Beijing Xinnet Group and significant benefits derived from Beijing Xinnet Group and therefore has consolidated the Beijing Xinnet Group as wholly-owned subsidiaries.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

5. Revenue/Turnover and other operating income

(a) The Group's turnover represents revenue from corporate IT application services.

(b) Other operating income:

	2013 HK$'000	2012 HK$'000
Bank interest income	95	101
Other interest income	92,845	83,577
Gain on disposal of property, plant and equipment	58	–
Government grants (note)	321	–
Rental income	8,415	8,191
Write-back of long outstanding payables	19,027	–
Sundry income	3,603	1,928
	124,364	93,797

Note: Government grant were granted during the year ended 31 December 2013 to subsidise software development projects of the Group in the PRC, of which the prescribed conditions in relation to the grant had been fulfilled.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

6. Segment information

The Board has identified the corporate IT application services as the only business component in internal reporting for their decisions about resources allocation and performance review.

	2013 HK$'000	2012 HK$'000
Reportable segment revenue	**683,401**	659,106
Reportable segment results	**(96,050)**	(122,058)
Bank interest income	**3**	5
Other interest income	**92,845**	83,577
Depreciation and amortisation	**(111)**	(64)
Unallocated corporate expenses	**(13,586)**	(14,188)
Loss before income tax	**(16,899)**	(52,728)
Reportable segment assets	**1,151,332**	1,080,592
Loan to ultimate holding company	**1,367,219**	1,436,406
Cash and cash equivalents	**10,145**	1,315
Available-for-sale financial assets	**324**	324
Other financial and corporate assets	**75,590**	77,891
Group assets	**2,604,610**	2,596,528
Reportable segment liabilities	**513,059**	424,052
Amount due to ultimate holding company	**117,474**	164,139
Amount due to a director	**3,574**	10,473
Amounts due to shareholders	**5,006**	5,006
Amount due to an associate	**5,501**	5,501
Provision for tax	**92,684**	77,845
Deferred tax liabilities	**10,239**	–
Other corporate liabilities	**5,559**	42,807
Group liabilities	**753,096**	729,823
Bank interest income	**92**	96
Finance costs	**(15,353)**	(19)
Depreciation and amortisation of non-financial assets	**(95,074)**	(71,219)
Additions to non-current assets during the year	**328,850**	111,259

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

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		Specified non-current assets	
	2013	2012	**2013**	2012
	HK$'000	HK$'000	**HK$'000**	HK$'000
Mainland China (domicile)	**683,265**	659,106	**919,106**	797,607
Hong Kong	**136**	–	**301**	332
	683,401	659,106	**919,407**	797,939

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 specified 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

	2013	2012
	HK$'000	HK$'000
Interest on bank loans wholly repayable within five years	**15,340**	11,241
Interest on finance leases	**13**	19
Total finance costs on financial liabilities not at fair value through profit or loss	**15,353**	11,260
Less: Amount capitalised into construction in progress*	**–**	(11,241)
Amount recognised in profit or loss	**15,353**	19

* For the year ended 31 December 2012, the finance costs were capitalised at a rate of 9.71% per annum.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

8. Loss before income tax

The Group's loss before income tax is arrived at after charging:

	2013 HK$'000	2012 HK$'000
Auditors' remuneration	**2,872**	3,368
Net foreign exchange loss*	**–**	1
Gross depreciation of property, plant and equipment — owned assets	**44,863**	31,124
Less: Amounts included in research and development expenses	**–**	(574)
Amounts included in cost of sales and services provided	**(96)**	–
Net depreciation of owned assets*	**44,767**	30,550
Depreciation of leased assets*	**173**	173
Operating lease charges on land and buildings	**37,536**	43,634
Annual charges of prepaid operating lease payments*	**560**	365
Gross retirement benefit contributions	**58,912**	60,057
Less: Amounts included in research and development expenses	**(10,330)**	(9,846)
Amounts included in cost of sales and services provided	**(10,551)**	(9,759)
Amounts capitalised in intangible assets	**(82)**	(1,366)
Net retirement benefit contributions	**37,949**	39,086
Cost of sales and services provided	**118,351**	162,950
Provision for impairment of available-for-sale financial assets*	**–**	155
Amortisation of intangible assets other than goodwill*	**49,589**	39,621
Property, plant and equipment written off*	**585**	509
Other intangible assets written off*	**–**	905
Research and development expenses*	**62,793**	52,244
Provision for impairment of trade receivables*	**8,141**	–
Provision for impairment of other receivables*	**24,765**	–
Bad debt written off*	**1,192**	–

* included in other operating expenses

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

9. Income tax expense

	2013	2012
	HK$'000	HK$'000
Hong Kong Profits Tax		
— tax charge for the year	**10,557**	9,369
— (Over)/Under-provision in respect of prior years	**(268)**	67
	10,289	9,436
PRC Enterprise Income Tax		
— tax charge for the year	**3,188**	1,784
	13,477	11,220

For the years ended 31 December 2013 and 2012, 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% (2012: 25%), unless preferential rates are applicable in the cities where the subsidiaries are located.

A subsidiary of the Group is a wholly-owned foreign enterprise in accordance with the Income Tax Law of the PRC for Enterprise with Foreign Investment and Foreign Enterprises and is 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% (2012: 15%).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

9. Income tax expense (Continued)

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

	2013 **HK$'000**	2012 HK$'000
Loss before income tax	**(16,899)**	(52,728)
Tax on loss before taxation, calculated at the rates applicable to profits in the tax jurisdictions concerned	**(3,422)**	(10,754)
Tax effect of non-deductible expenses	**4,394**	4,416
Tax effect of non-taxable income	**(5,009)**	(1,997)
Tax effect of unused tax losses not recognised	**17,782**	19,556
Utilisation of tax losses previously not recognised	**–**	(56)
Effect on tax deduction of profits tax	**–**	(12)
(Over)/Under–provision in respect of prior years	**(268)**	67
Income tax expense	**13,477**	11,220

10. 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$28,809,000 (2012: HK$59,912,000), a loss of HK$10,500,000 (2012: HK$14,923,000) has been dealt with in the financial statements of the Company.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

11. Loss per share

The calculation of basic loss per share is based on loss attributable to owners of the Company of HK$28,809,000 (2012: HK$59,912,000) and on 19,914,504,877 (2012: 19,914,504,877) ordinary shares in issue during the year.

Diluted loss per share for both years was not presented as there was no potential dilutive ordinary share in issue during the years.

12. Employee benefit expenses (including directors' emoluments)

	2013 **HK$'000**	2012 HK$'000
Directors' fee (note 36(a))	**563**	578
Wages and salaries	**406,025**	447,955
Pension costs — defined contribution plans	**58,912**	60,057
Staff welfare	**13,187**	20,608
	478,687	529,198
Less: Amounts capitalised in intangible assets	**(1,953)**	(35,836)
Total employee benefit expenses	**476,734**	493,362

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

13. 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 2012					
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
Year ended 31 December 2012					
Opening net carrying amount	5,067	360,455	62,547	1,745	429,814
Additions	–	63,701	8,842	256	72,799
Re-classification	186,909	(186,909)	–	–	–
Write-off	–	–	(509)	–	(509)
Depreciation	(3,067)	–	(27,401)	(829)	(31,297)
Net exchange differences	2,007	1,506	125	2	3,640
Closing net carrying amount	190,916	238,753	43,604	1,174	474,447
At 31 December 2012 and 1 January 2013					
Cost	194,116	238,753	225,827	3,508	662,204
Accumulated depreciation	(3,200)	–	(182,223)	(2,334)	(187,757)
Net carrying amount	190,916	238,753	43,604	1,174	474,447
Year ended 31 December 2013					
Opening net carrying amount	**190,916**	**238,753**	**43,604**	**1,174**	**474,447**
Additions	**–**	**213,230**	**5,822**	**2,667**	**221,719**
Re-classification	**451,983**	**(451,983)**	**–**	**–**	**–**
Acquisition of subsidiaries (note 33)	**–**	**–**	**7,619**	**–**	**7,619**
Write-off	**–**	**–**	**(529)**	**(56)**	**(585)**
Disposal	**–**	**–**	**(316)**	**–**	**(316)**
Depreciation	**(22,816)**	**–**	**(21,122)**	**(1,098)**	**(45,036)**
Net exchange differences	**15,613**	**–**	**635**	**13**	**16,261**
Closing net carrying amount	**635,696**	**–**	**35,713**	**2,700**	**674,109**
At 31 December 2013					
Cost	**662,135**	**–**	**235,791**	**4,264**	**902,190**
Accumulated depreciation	**(26,439)**	**–**	**(200,078)**	**(1,564)**	**(228,081)**
Net carrying amount	**635,696**	**–**	**35,713**	**2,700**	**674,109**

As at 31 December 2013 and 2012, certain buildings of the Group amounting to HK$635,567,000 (2012: certain buildings and construction in progress of the Group amounting to HK$424,827,000) were charged to secure banking facilities as detailed in note 39.

The carrying amount of the Group's motor vehicles included an amount of HK$58,000 (2012: HK$231,000) in respect of assets acquired under finance lease.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

13. Property, plant and equipment (Continued)

Company

	Leasehold improvements, furniture, fixtures and equipment HK$'000
At 1 January 2012	
Cost	582
Accumulated depreciation	(511)
Net carrying amount	71
Year ended 31 December 2012	
Opening net carrying amount	71
Additions	94
Depreciation	(64)
Closing net carrying amount	101
At 31 December 2012 and 1 January 2013	
Cost	676
Accumulated depreciation	(575)
Net carrying amount	101
Year ended 31 December 2013	
Opening net carrying amount	**101**
Additions	**1,955**
Depreciation	**(368)**
Closing net carrying amount	**1,688**
At 31 December 2013	
Cost	**2,631**
Accumulated depreciation	**(943)**
Net carrying amount	**1,688**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

14. 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	
	2013	2012
	HK$'000	HK$'000
Outside Hong Kong, held on land with:		
Unexpired terms of leases of between 10 to 50 years	**14,383**	14,085
Unexpired terms of leases over 50 years	**13,383**	13,425
	27,766	27,510
Opening net carrying amount	**27,510**	27,662
Annual charges of prepaid operating lease payments	**(560)**	(365)
Net exchange differences	**816**	213
Closing net carrying amount	**27,766**	27,510

As at 31 December 2013 and 2012, certain prepaid land lease payments under operating leases amounting to HK$27,537,000 (2012: HK$14,085,000) were charged to secure banking facilities as detailed in note 39.

15. Available-for-sale financial assets

	Group		Company	
	2013	2012	**2013**	2012
	HK$'000	HK$'000	**HK$'000**	HK$'000
Unlisted investment				
— Club debenture	**324**	324	**324**	324
— Other investment	**155**	155	**–**	–
	479	479	**324**	324
Less: Provision for impairment	**(155)**	(155)	**–**	–
	324	324	**324**	324

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

16. Interests in subsidiaries

	Company 2013 HK$'000	2012 HK$'000
Unlisted shares, at cost	**290,977**	290,977
Less: Provision for impairment	**(185,256)**	(185,256)
	105,721	105,721
Amounts due from subsidiaries	**2,073,924**	2,058,507
Less: Provision for impairment of receivables	**(609,910)**	(609,309)
	1,464,014	1,449,198
Amounts due to subsidiaries	**(405,063)**	(269,080)

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

Particulars of the principal subsidiaries at 31 December 2013 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	Indirectly	Principal activities
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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

16. Interests in subsidiaries (Continued)

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
Hongkong New Media Interactive Advertising Co., Limited (formerly known as CE Dongli Advertising (HK) Company Limited)	Hong Kong	100 ordinary shares of HK$1 each	–	100	Investment holding and information technology business
Robina Profits Limited	British Virgin Islands	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	RMB242,369,720	–	99.68	Information technology business
數碼慧谷置業管理股份有限公司 (formerly known as CE Dongli Technology Group Company Limited) (note a)	PRC	RMB689,171,334	–	92.36	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
北京新網數碼信息技術有限公司 (note b)	PRC	RMB30,000,000	–	100*	Information technology business
北京共創開源軟件有限公司 (note b)	PRC	RMB12,240,000	–	51.69	Information technology business

* controlled through Structured Agreements

The above table lists out the subsidiaries of the Company as at 31 December 2013 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. These subsidiaries are registered as joint stock limited company under the law of PRC.

b. These subsidiaries are registered as limited liability company under the law of PRC.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

17. Interest in an associate

	Group 2013 HK$'000	Group 2012 HK$'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:

	Group 2013 HK$'000	Group 2012 HK$'000
Share of net assets	**–**	–
Goodwill	**–**	–
Balance at 31 December	**–**	–

Particulars of the associate as at 31 December 2013 and 2012 are as follows:

Name	**Place of incorporation**	**Particulars of issued capital**	**Percentage of interest held by the Group 2013**	**Percentage of interest held by the Group 2012**	**Nature of business**
Genius Reward Company Limited**	Hong Kong	2 ordinary shares of HK$100 each	**50%**	50%	Inactive

** unlisted limited liability company

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17. Interest in an associate (Continued)

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

	2013	2012
	HK$'000	HK$'000
Assets	**25,702**	25,702
Liabilities	**(37,323)**	(36,537)
Revenue	**–**	–
Loss from continuing operations	**(786)**	(788)
Post-tax profit or loss from discontinued operations	**–**	–
Other comprehensive income	**–**	–
Total comprehensive income	**(786)**	(788)

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$393,000 (2012: HK$394,000) and HK$5,810,000 (2012: HK$5,417,000) respectively.

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18. Goodwill

	Group 2013 HK$'000	2012 HK$'000
At 1 January		
Gross carrying amount	**61,588**	61,282
Accumulated impairment	**(7,868)**	(7,825)
Net carrying amount	**53,720**	53,457
Year ended 31 December		
Opening net carrying amount	**53,720**	53,457
Acquisition of subsidiaries (note 33)	**31,535**	–
Net exchange differences	**1,241**	263
Closing net carrying amount	**86,496**	53,720
At 31 December		
Gross carrying amount	**94,527**	61,588
Accumulated impairment	**(8,031)**	(7,868)
Net carrying amount	**86,496**	53,720

NOTES TO THE FINANCIAL STATEMENTS

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18. 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 CGUs under corporate IT application services:

	2013	2012
	HK$'000	HK$'000
CE ASP	**54,735**	53,720
Beijing Xinnet Group	**31,761**	–

The recoverable amounts for the CGUs given above were determined based on value-in-use calculations, covering a detailed five-year financial budget using the key assumptions stated below. The growth rate does not exceed the long-term average growth rate for the business in which the CGUs operate.

The key assumptions used for value-in-use calculations for CE ASP for the years are as follows:

	2013	2012
Discount rates	**15.00%**	15.00%
Growth rates used to extrapolate cashflows beyond the budget period	**0.00%**	0.00%

The key assumptions used for value-in-use calculations for Beijing Xinnet Group for the years are as follows:

	2013	2012
Discount rates	**27.00%**	N/A
Growth rates used to extrapolate cashflows beyond the budget period	**3.00%**	N/A

The budgeted gross margin and net profit margin were determined by the management for the CGUs based on past performance and its expectations for market development.

The growth rates used for the above CGUs are determined by reference to the average growth rate for the corresponding industry to which the CGUs belong.

The discount rates used are pre-tax and reflect specific risks relating to the segment. Apart from the considerations described in determining the value-in-use of the CGUs above, the Group's management is not currently aware of any other probable changes that would necessitate changes in its key estimates.

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For the year ended 31 December 2013

19. Other intangible assets

Group

	Computer software HK$'000	Development cost HK$'000	Licenses HK$'000	Others HK$'000	Total HK$'000
At 1 January 2012					
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
Year ended 31 December 2012					
Opening net carrying amount	65,278	42,893	–	31	108,202
Additions	1,202	37,352	–	–	38,554
Write-off	–	(905)	–	–	(905)
Amortisation charge for the year	(33,070)	(6,520)	–	(31)	(39,621)
Net exchange differences	171	656	–	–	827
Closing net carrying amount	33,581	73,476	–	–	107,057
At 31 December 2012 and 1 January 2013					
Cost	298,354	81,953	–	737	381,044
Accumulated amortisation	(264,773)	(8,477)	–	(737)	(273,987)
Net carrying amount	33,581	73,476	–	–	107,057
Year ended 31 December 2013					
Opening net carrying amount	**33,581**	**73,476**	**–**	**–**	**107,057**
Additions	**40**	**23,518**	**–**	**–**	**23,558**
Acquisition of subsidiaries (note 33)	**55**	**3,953**	**40,665**	**–**	**44,673**
Amortisation charge for the year	**(31,611)**	**(17,642)**	**(336)**	**–**	**(49,589)**
Net exchange differences	**553**	**2,315**	**287**	**–**	**3,155**
Closing net carrying amount	**2,618**	**85,620**	**40,616**	**–**	**128,854**
At 31 December 2013					
Cost	**307,393**	**112,247**	**40,957**	**759**	**461,356**
Accumulated amortisation	**(304,775)**	**(26,627)**	**(341)**	**(759)**	**(332,502)**
Net carrying amount	**2,618**	**85,620**	**40,616**	**–**	**128,854**

As at 31 December 2013, certain intangible assets amounting to HK$31,500,000 (2012: Nil) were charged to secure banking facilities as detailed in note 39.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

20. Deposits, prepayments and other receivables

	Group		Company	
	2013	2012	**2013**	2012
	HK$'000	HK$'000	**HK$'000**	HK$'000
Deposits and prepayments	**58,028**	167,098	**204**	285
Outstanding consideration receivable arising from the disposal of a subsidiary (note)	**–**	27,336	**–**	–
Amount due from a former subsidiary	**86,537**	57,820	**56,868**	57,777
Others	**147,055**	236,375	**3,588**	3,665
	291,620	488,629	**60,660**	61,727
Less: Provision for impairment of other receivables	**(50,036)**	(26,307)	**(3,665)**	(3,665)
	241,584	462,322	**56,995**	58,062
Less non-current portion:				
Deposits for construction in progress	**(2,182)**	(135,205)	**–**	–
	239,402	327,117	**56,995**	58,062

Note:

The outstanding consideration receivable arising from the disposal of a subsidiary was unsecured, bore interest at the rate of 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 repayment period of the receivable, 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 repayment period of the receivable, which bore interest at rate of 5.00% per annum and will be repayable on 31 August 2012.

The repayment period of the receivable was further extended again to 30 June 2013 after another supplemental agreement was signed on 31 August 2012.

As at 31 December 2013, the balance was fully settled during the year.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

20. 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	
	2013	2012	**2013**	2012
	HK$'000	HK$'000	**HK$'000**	HK$'000
At the beginning of the year	**26,307**	26,131	**3,665**	15,559
Provision for impairment	**24,765**	–	**–**	108
Write-back during the year	**–**	–	**–**	(12,002)
Amount written off as uncollectable	**(2,040)**	–	**–**	–
Net exchange differences	**1,004**	176	**–**	–
At the end of the year	**50,036**	26,307	**3,665**	3,665

At each of the reporting date, the Group's other receivables were individually assessed for impairment. The Group encountered difficulties in collection of certain other receivables and appropriate provision for impairment had been made against these other receivables. The individually impaired receivables are recognised based on the credit history of these debtors, their financial positions and record of delinquency in payments, and current market conditions. Consequently, specific impairment provision was recognised. 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

21. Trade receivables

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

	Group 2013 HK$'000	2012 HK$'000
0–90 days	**1,530**	12,739
91–180 days	**10,441**	3,812
181–270 days	**2,836**	2,855
271–360 days	**1,078**	2,097
Over 360 days	**15,199**	7,198
Trade receivables, gross	**31,084**	28,701
Less: Provision for impairment of receivables	**(19,241)**	(10,599)
Trade receivables, net	**11,843**	18,102

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 2013 HK$'000	2012 HK$'000
At the beginning of the year	**10,599**	10,516
Provision for impairment	**8,141**	–
Exchange differences	**501**	83
At the end of the year	**19,241**	10,599

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 had been made against these trade receivables. The individually impaired receivables are recognised based on the credit history of these customers, their financial positions and record of delinquency in payments, and current market conditions. As at 31 December 2012, the Group's trade receivables of HK$16,016,000 were charged to secure banking facilities which has been released in current year. The Group does not hold any collateral over these balances.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

21. Trade receivables (Continued)

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

	Group	
	2013	2012
	HK$'000	HK$'000
0–90 days past due	**1,212**	12,739
91–180 days past due	**8,753**	3,812
181–270 days past due	**828**	1,290
271–360 days past due	**69**	62
Overdue for more than 360 days	**981**	199
	11,843	18,102

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.

22. Cash and cash equivalents

	Group		Company	
	2013	2012	**2013**	2012
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and bank balances	**66,415**	16,640	**88**	89
Less: Time deposits maturing over three months	**(653)**	–	**–**	–
Cash and cash equivalents	**65,762**	16,640	**88**	89

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

22. Cash and cash equivalents (Continued)

Deposits with banks earn interest at floating rates based on daily bank deposit rates. Time deposits were made for a period over three months depending on the immediate cash requirement of the Group and earned fixed-rate interest ranging from 2.85% to 4.87% per annum.

Included in bank and cash balance of the Group is an aggregate amount of approximately HK$65,357,000 (2012: HK$15,896,000), 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 2013 and 2012.

23. Trade payables

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

	Group	
	2013	2012
	HK$'000	HK$'000
0–90 days	**2,279**	8,833
91–180 days	**2,459**	2,464
181–270 days	**630**	229
271–360 days	**9,740**	2,101
Over 360 days	**10,792**	31,441
	25,900	45,068

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.

24. Other payables and accruals

Included in the Group's other payables and accruals at 31 December 2013 is HK$16,718,000 (2012: HK$4,057,000) 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 2013

25. 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 to ultimate holding company

	Group		Company	
	2013	2012	**2013**	2012
	HK$'000	HK$'000	**HK$'000**	HK$'000
Non-current assets				
Loan to ultimate holding company	**1,367,219**	1,436,406	**323,124**	339,605
Non-current liabilities				
Amount due to ultimate holding company	**(117,474)**	(164,139)	**(26,170)**	(168,601)

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 a share mortgage.

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 principal amount under the loan agreement on or before 29 June 2011. It was agreed that the repayment date for the outstanding principal to be extended for two years to 29 June 2013 and the loan was secured by a share mortgage.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

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

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

Loan to ultimate holding company (Continued)

Group and Company (Continued)

On 9 May 2013, 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 principal amount under the loan agreement on or before 29 June 2013. It was agreed that the repayment date for the outstanding principal to be extended for two years to 29 June 2015 and the loan was secured by share mortgage of a fellow subsidiary. The rate of interest applicable to the outstanding principal amount of the loan during the extension period is 7.50% per annum.

As at 31 December 2013, included in the balances of the Company and the Group, approximately HK$311,291,000 and HK$1,317,149,000 (2012: HK$311,291,000 and HK$1,317,149,000) respectively was interest bearing at 7.50% (2012: 6.00%) per annum, and the remaining balance was interest-free.

Amount due to ultimate holding company

The amount due to ultimate holding company is unsecured, interest-free and repayable after one year (2012: repayable after one year).

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

	Group		Company	
	2013	2012	**2013**	2012
	HK$'000	HK$'000	**HK$'000**	HK$'000
Amount due from an associate	**–**	–	**20,202**	20,202
Less: Provision for impairment of receivables	**–**	–	**(20,202)**	(4,535)
	–	–	**–**	15,667
Amount due to an associate	**(5,501)**	(5,501)	**–**	–

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 2013

26. Bank borrowings, secured

At 31 December 2013, the bank borrowings, which are denominated in RMB, are repayable as follows:

	Group	
	2013	2012
	HK$'000	HK$'000
Within one year	**230,976**	247,512

At 31 December 2013, the bank borrowings' interest rate profiles are as follows:

	Group	
	2013	2012
	HK$'000	HK$'000
Floating rates — 6.00% (2012: 5.60% to 8.70%) per annum	**148,604**	211,442
Fixed rates — ranging from 6.90% to 7.80% (2012: 8.53%) per annum	**82,372**	36,070

The carrying amounts of the borrowings approximate their fair value.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

27. Finance lease liabilities

(a) Total minimum lease payments is as follows:

	Group	
	2013	2012
	HK$'000	HK$'000
Due within one year	**123**	123
Due in the second to fifth years	**113**	236
	236	359
Future finance charges on finance lease	**(10)**	(23)
Present value of finance lease liabilities	**226**	336

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

	Group	
	2013	2012
	HK$'000	HK$'000
Due within one year, included under current liabilities	**116**	110
Due in the second to fifth years, included under non-current liabilities	**110**	226
	226	336

The Group has entered into finance leases for item of a motor vehicle (2012: a motor vehicle) with remaining lease terms of two years (2012: three years). Interest rate under the leases is fixed at 2.50% (2012: 2.50%) 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 approximates their fair values.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

28. Deferred tax liabilities

At 31 December 2013, the movement on the deferred tax liabilities are as follows:

	Group	
	2013	2012
	HK$'000	HK$'000
At the beginning of the year	**–**	–
Acquisition of subsidiaries (note 33)	**10,166**	–
Exchange differences	**73**	–
At the end of the year	**10,239**	–

At 31 December 2013, 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$255,830,000 (2012: HK$6,085,000 and HK$274,235,000) respectively. The amount of unrecognised deferred tax assets are as follows:

	Group		Company	
	2013	2012	**2013**	2012
	HK$'000	HK$'000	**HK$'000**	HK$'000
Tax effect of:				
— unused tax losses	**64,961**	69,563	**–**	–

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.

29. Share capital

	Group and Company	
	Number of ordinary shares of HK$0.01 each	**HK$'000**
Authorised:		
At 1 January 2012, 31 December 2012 and **31 December 2013**	**30,000,000,000**	**300,000**
Issued and fully paid:		
At 1 January 2012, 31 December 2012 and **31 December 2013**	**19,914,504,877**	**199,145**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

30. 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.

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 have been granted since 31 December 2009.

Under the ordinary resolution passed at the annual general meeting on 28 May 2012, the Company adopted a new share option scheme and simultaneously terminated the share option scheme adopted on 29 August 2002. Under the new share option 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.

No share options have been granted by the Company since the adoption of the new share option scheme.

There was no share-based compensation expense included in profit or loss for the years ended 31 December 2013 and 2012.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

31. 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 39 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 HK$'000 (note a)	Retained profits HK$'000 (note b)	Total HK$'000
At 1 January 2012	39,194	2,258	79,579	1,058,304	1,179,335
Loss for the year	–	–	–	(14,923)	(14,923)
At 31 December 2012 and 1 January 2013	**39,194**	**2,258**	**79,579**	**1,043,381**	**1,164,412**
Loss for the year	**–**	**–**	**–**	**(10,500)**	**(10,500)**
At 31 December 2013	**39,194**	**2,258**	**79,579**	**1,032,881**	**1,153,912**

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$68,572,000 (2012: approximately HK$76,688,000) 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 2013

32. Non-controlling interests

	2013 HK$'000	2012 HK$'000
At 1 January	**31,875**	35,672
Loss for the year	**(1,567)**	(4,036)
Released on deemed disposal of a subsidiary	**–**	(7)
Net exchange differences	**1,397**	246
As at 31 December	**31,705**	31,875

Details of the Group's subsidiaries that have material non-controlling interests are set out below:

	2013	2012
Percentage of equity interest held by non-controlling interests:		
數碼慧谷置業管理股份有限公司	**7.64%**	7.64%
北京共創開源軟件有限公司	**48.31%**	48.31%

	2013 HK$'000	2012 HK$'000
(Loss)/Profit for the year allocated to non-controlling interests:		
數碼慧谷置業管理股份有限公司	**(9,491)**	(3,139)
北京共創開源軟件有限公司	**8,014**	(867)
Accumulated balances of non-controlling interests at the reporting date:		
數碼慧谷置業管理股份有限公司	**28,321**	36,295
北京共創開源軟件有限公司	**2,828**	(5,040)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

32. Non-controlling interests (Continued)

The following tables illustrate the summarised financial information of the above subsidiaries. The amounts disclosed are before any inter-company eliminations:

數碼慧谷置業管理股份有限公司	**2013** **HK$'000**	2012 HK$'000
Revenue/Turnover	**293**	17,494
Loss for the year	**(124,234)**	(41,083)
Total comprehensive income for the year	**(104,373)**	(38,058)

北京共創開源軟件有限公司	**2013** **HK$'000**	2012 HK$'000
Revenue/Turnover	**–**	1,551
Profit/(Loss) for the year	**16,590**	(1,874)
Total comprehensive income for the year	**16,288**	(2,019)

The assets and liabilities of above subsidiaries attributable to its non-controlling interests and cash flows attributable to the non-controlling interests are not material to the Group.

The non-controlling interests of all other subsidiaries that are not 100% owned by the Group are considered to be immaterial.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

33. Business combination

As mentioned in note 1, the Group completed the acquisition of 100% effective control over Beijing Xinnet Group on 15 November 2013 (the "Acquisition Date"). The fair values of the identifiable assets and liabilities of Beijing Xinnet Group as at the Acquisition Date and the corresponding carrying amounts immediately prior to the Acquisition are as follows:

	Carrying amount HK$'000	Fair value adjustments HK$'000	Fair value HK$'000
Property, plant and equipment	7,639	(20)	7,619
Other intangible assets	4,008	40,665	44,673
Trade and other receivables, prepayments and deposits (note (c))	19,381	–	19,381
Cash and cash equivalents	6,805	–	6,805
Trade and other payables	(71,302)	–	(71,302)
Provision for tax	(1,198)	–	(1,198)
Bank borrowings, secured	(25,439)	–	(25,439)
Deferred tax liabilities (note 28)	–	(10,166)	(10,166)
Total identifiable net liabilities at fair value	(60,106)	30,479	(29,627)
Goodwill (note (b))			31,535
Fair value of the Consideration (note (a))			1,908

	HK$'000
Purchase consideration settled in cash	(1,908)
Less: Cash and cash equivalents in subsidiaries acquired	6,805
Net cash inflows	4,897

Notes:

(a) Pursuant to the Structured Agreements, the consideration for the Acquisition is a cash of RMB1,500,000 (equivalent to approximately HK$1,908,000) (the "Consideration").

(b) The goodwill arising from the acquisition of Beijing Xinnet Group represents the synergetic effect by enabling the Group to provide virtual server hosting and maintenance services to its clients in the PRC in a more efficient and cost-effective manner by taking the advantages of Beijing Xinnet Group's current virtual server hosting facilities, client base and the valid licence for providing internet content services in the PRC.

(c) The fair value and the gross amount of trade receivables amounted to HK$2,924,000 and other receivables, prepayment and deposits amounted to HK$16,457,000. None of these receivables was impaired and it was expected that the full contractual amounts could be collected.

(d) The Group incurred transaction cost of HK$129,000 for the Acquisition which have been expensed and recognised as administrative expense in the profit or loss for the year.

(e) Beijing Xinnet Group has contributed revenue of HK$19,180,000 and net loss of HK$6,337,000 to the Group since the Acquisition Date to 31 December 2013. Had the Acquisition occurred on 1 January 2013, consolidated revenue and consolidated loss for the year would have been HK$818,732,000 and HK$33,085,000 respectively.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

34. Notes to the consolidated statement of cash flows

Major non-cash transactions

During the year ended 31 December 2013, the Group's non-current deposits and other receivables of HK$135,137,000 (2012: Nil) were transferred to property, plant and equipments.

35. 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 amounting to HK$58,912,000 (2012: HK$60,057,000) represent contributions payable to the schemes by the Group at the rates specified in the rules of the schemes.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

36. Directors' remuneration and five highest paid individuals

(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$'000	Total HK$'000
2013				
Executive directors				
YU Pun Hoi	–	120	6	126
CHEN Dan	–	451	–	451
LIU Rong	–	–	–	–
Non-executive directors				
WANG Gang	120	–	–	120
LAM Bing Kwan	60	–	–	60
Independent non-executive directors				
Prof. JIANG Ping	150	–	–	150
HU Bin**	38	–	–	38
FUNG Wing Lap	120	–	–	120
HUANG Yaowen#	75	–	–	75
	563	571	6	1,140

Resigned as independent non-executive director with effect from 1 July 2013

** Appointed as independent non-executive director with effect from 27 September 2013

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

36. Directors' remuneration and five highest paid individuals (Continued)

(a) Directors' emoluments (Continued)

	Fees HK$'000	Basic salaries, housing, other allowances and benefits in kind HK$'000	Pension scheme contributions HK$'000	Total HK$'000
2012				
Executive directors				
YU Pun Hoi	–	120	6	126
CHEN Dan	–	440	–	440
LIU Rong	–	–	–	–
Non-executive directors				
WANG Gang+	70	–	–	70
QIN Tian Xiang*	30	–	–	30
LAM Bing Kwan	60	–	–	60
Independent non-executive directors				
HUANG Yaowen	147	–	–	147
Prof. JIANG Ping	151	–	–	151
FUNG Wing Lap	120	–	–	120
	578	560	6	1,144

+ Re-designated from an executive director to a non-executive director of the Company with effect from 28 May 2012.

* Deceased on 30 March 2012.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

36. Directors' remuneration and five highest paid individuals (Continued)

(b) Five highest paid individuals

The five highest paid individuals of the Group for the year included one (2012: Nil) director, details of whose emoluments are set out above. The emoluments of the remaining four (2012: five) employees are as follows:

	2013 HK$'000	2012 HK$'000
Basic salaries, other allowances and benefits in kind	**2,288**	2,749
Pension contributions	**244**	317
	2,532	3,066

The emoluments of the five highest paid individuals, other than the director (2012: Nil), fell within the following band:

Emolument band	Number of individuals 2013	2012
Nil — HK$1,000,000	**4**	5

During the years ended 31 December 2013 and 2012, 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 2013 and 2012.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

37. Commitments

(a) Capital commitments

At 31 December 2013, the Group had outstanding capital commitments as follows:

	Group	
	2013	2012
	HK$'000	HK$'000
Contracted but not provided for in respect of:		
— construction in progress	**120,560**	151,486

At 31 December 2013 and 2012, the Company did not have any significant capital commitments.

(b) Operating lease commitments

At 31 December 2013, total future minimum lease payments in respect of land and buildings under non-cancellable operating leases are payable as follows:

	Group	
	2013	2012
	HK$'000	HK$'000
Within one year	**30,928**	30,264
In the second to fifth years	**16,533**	17,031
	47,461	47,295

The Group leases a number of properties under operating leases. The leases of the Group run for an initial period of one to five years (2012: one to four 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.

As at 31 December 2013 and 2012, the Company did not have any significant operating lease commitments.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

38. Contingent liabilities

Guarantees given in connection with credit facilities granted to:

	Group and Company	
	2013	2012
	HK$'000	HK$'000
An associate (note)	**16,341**	15,555
Third parties (note)	**54,513**	62,629
	70,854	78,184

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 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 40(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.

39. Credit facilities

As at 31 December 2013 and 2012, the Group's credit facilities were secured by the following:

(a) charge over interest in certain leasehold land (note 14) with a net carrying value of approximately HK$27,537,000 (2012: HK$14,085,000);

(b) charge over certain buildings (note 13) with a net carrying value of approximately HK$635,567,000 (2012: certain buildings and construction in progress of HK$424,827,000);

(c) charge over certain intangible assets (note 19) with net carrying value of approximately HK$31,500,000 (2012: Nil);

(d) charge over certain properties held under development and completed properties held for sale provided by a fellow subsidiary with carrying value of approximately HK$41,487,000 as at 31 December 2012, which has been released in current year;

(e) charge over trade receivables (note 21) with carrying value of approximately HK$16,016,000 as at 31 December 2012, which has been released in current year.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

40. 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 (now known as 數碼慧谷置業管理股份有限公司), 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 under High Court Number HCA2892 of 2004, 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. 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.

41. Related party transactions

Remuneration for key management personnel which represents amounts paid to the Company's directors as disclosed in note 36.

Included in other interest income of HK$92,845,000 (2012: HK$83,577,000) and in rental income of HK$8,415,000 (2012: HK$8,191,000), amount of HK$89,043,000 (2012: HK$79,029,000) and HK$1,086,000 (2012: HK$2,558,000) were interest income from ultimate holding company and rental income from fellow subsidiaries respectively.

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 2013

42. 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 and interest 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.

42.1 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	
	2013	2012	**2013**	2012
	HK$'000	HK$'000	**HK$'000**	HK$'000
Financial assets				
Available-for-sale financial assets	**324**	324	**324**	324
Loans and receivables:				
— Loan to ultimate holding company	**1,367,219**	1,436,406	**323,124**	339,605
— Trade receivables	**11,843**	18,102	**–**	–
— Other receivables	**208,979**	303,003	**56,977**	57,915
— Amounts due from subsidiaries	**–**	–	**1,464,014**	1,449,198
— Amount due from an associate	**–**	–	**–**	15,667
— Time deposits maturing over three months	**653**	–	**–**	–
Cash and cash equivalents	**65,762**	16,640	**88**	89
	1,654,780	1,774,475	**1,844,527**	1,862,798

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

42. Financial risk management and fair value measurements (Continued)

42.1 Categories of financial assets and liabilities (Continued)

	Group		Company	
	2013	2012	**2013**	2012
	HK$'000	HK$'000	**HK$'000**	HK$'000
Financial liabilities				
Financial liabilities measured at amortised cost:				
— Trade payables	**25,900**	45,068	**–**	–
— Other payables and accruals	**243,873**	128,279	**3,845**	4,165
— Amount due to ultimate holding company	**117,474**	164,139	**26,170**	168,601
— Amount due to a director	**3,574**	10,473	**158,069**	158,148
— Amounts due to subsidiaries	**–**	–	**405,063**	269,080
— Amounts due to shareholders	**5,006**	5,006	**5,005**	5,005
— Amount due to an associate	**5,501**	5,501	**–**	–
— Bank borrowings	**230,976**	247,512	**–**	–
— Finance lease liabilities	**226**	336	**–**	–
	632,530	606,314	**598,152**	604,999

42.2 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 2013

42. Financial risk management and fair value measurements (Continued)

42.3 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 26 and 22 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 change exposure should the need arise.

Cash flow interest rate risk sensitivity

At 31 December 2013, 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 for the year and retained earnings to a change in interest rates of +50 basis points and -50 basis points (2012: +50 basis points and -50 basis points), with effect from the beginning of the year. The calculations are based on the Group's bank borrowings and bank balance held at each reporting date. All other variables are held constant.

	Group	
	2013	2012
	HK$'000	HK$'000
If interest rates were 50 basis points (2012: 50 basis points) higher		
Increase in loss for the year	**(437)**	(966)
If interest rates were 50 basis points (2012: 50 basis points) lower		
Decrease in loss for the year	**437**	966

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 2013

42. Financial risk management and fair value measurements (Continued)

42.4 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 2013, 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 38.

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 21 and 20 respectively.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

42. Financial risk management and fair value measurements (Continued)

42.5 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 Board, the Group should have adequate resources to meet its obligations in the forthcoming year on the basis as set out in note 2.1 to these financial statements.

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 2013					
Trade payables	25,900	25,900	25,900	–	–
Other payables and accruals	243,873	243,873	243,873	–	–
Amount due to ultimate holding company	117,474	117,474	–	117,474	–
Amount due to a director	3,574	3,574	3,574	–	–
Amounts due to shareholders	5,006	5,006	5,006	–	–
Amount due to an associate	5,501	5,501	5,501	–	–
Bank borrowings	230,976	238,055	238,055	–	–
Finance lease liabilities	226	236	123	113	–
	632,530	639,619	522,032	117,587	–
Financial guarantee issued Maximum amount guaranteed	–	70,854	70,854	–	–

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

42. Financial risk management and fair value measurements (Continued)

42.5 Liquidity risk (Continued)

	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 2012					
Trade payables	45,068	45,068	45,068	–	–
Other payables and accruals	128,279	128,279	128,279	–	–
Amount due to ultimate holding company	164,139	164,139	–	164,139	–
Amount due to a director	10,473	10,473	10,473	–	–
Amounts due to shareholders	5,006	5,006	5,006	–	–
Amount due to an associate	5,501	5,501	5,501	–	–
Bank borrowings	247,512	250,941	250,941	–	–
Finance lease liabilities	336	359	123	123	113
	606,314	609,766	445,391	164,262	113
Financial guarantee issued					
Maximum amount guaranteed	–	78,184	78,184	–	–

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

42. Financial risk management and fair value measurements (Continued)

42.5 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 2013				
Other payables and accruals	**3,845**	**3,845**	**3,845**	**–**
Amount due to ultimate holding company	**26,170**	**26,170**	**–**	**26,170**
Amounts due to subsidiaries	**405,063**	**405,063**	**405,063**	**–**
Amount due to a director	**158,069**	**158,069**	**158,069**	**–**
Amounts due to shareholders	**5,005**	**5,005**	**5,005**	**–**
	598,152	**598,152**	**571,982**	**26,170**
Financial guarantee issued				
Maximum amount guaranteed	**–**	**70,854**	**70,854**	**–**

	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 2012				
Other payables and accruals	4,165	4,165	4,165	–
Amount due to ultimate holding company	168,601	168,601	–	168,601
Amounts due to subsidiaries	269,080	269,080	269,080	–
Amount due to a director	158,148	158,148	158,148	–
Amounts due to shareholders	5,005	5,005	5,005	–
	604,999	604,999	436,398	168,601
Financial guarantee issued				
Maximum amount guaranteed	–	78,184	78,184	–

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2013

42. Financial risk management and fair value measurements (Continued)

42.6 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, time deposits maturing over three months, 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 26 to the financial statements.

The fair value of available-for-sale financial assets with standard terms and conditions and trade on active liquid markets are determined with reference to quoted market prices.

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 and Company			
	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
As at 31 December 2013				
Asset				
Available-for-sale financial assets	–	**324**	–	**324**
Total fair values	–	**324**	–	**324**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

42. Financial risk management and fair value measurements (Continued)

42.6 Fair value (Continued)

	Group and Company			
	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
As at 31 December 2012				
Asset				
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.

43. 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 2013

43. 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 the sum of cash and cash equivalents and time deposits maturing over three months 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**	
	2013	2012	**2013**	2012
	HK$'000	HK$'000	**HK$'000**	HK$'000
Bank borrowings	**230,976**	247,512	**–**	–
Finance lease liabilities	**226**	336	**–**	–
Total debt	**231,202**	247,848	**–**	–
Less: Cash and cash equivalents	**(65,762)**	(16,640)	**(88)**	(89)
Time deposits maturing over three months	**(653)**	–	**–**	–
Net debt	**164,787**	231,208	**(88)**	(89)
Total equity	**1,851,514**	1,866,705	**1,353,057**	1,363,557
Total equity plus net debt	**2,016,301**	2,097,913	**1,352,969**	1,363,468
Gearing ratio	**8.17%**	11.02%	**N/A**	N/A

44. Approval of financial statements

The financial statements for the year ended 31 December 2013 were approved and authorised for issue by the Board on 28 March 2014.

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:

	2013	2012	2011	2010	2009
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Revenue/Turnover (continuing and discontinued operations)	**683,401**	659,106	824,350	742,744	427,004
Loss for the year	**(30,376)**	(63,948)	(183,462)	(90,575)	(151,491)
Non-controlling interests	**1,567**	4,036	26,091	10,718	9,009
Loss attributable to the owners of the Company	**(28,809)**	(59,912)	(157,371)	(79,857)	(142,482)
Total assets	**2,604,610**	2,596,528	2,464,118	2,772,509	2,697,658
Total liabilities	**(753,096)**	(729,823)	(537,184)	(697,124)	(538,828)
	1,851,514	1,866,705	1,926,934	2,075,385	2,158,830

中国数码

Sino-i Technology Limited

Stock Code：250　股份代號：250

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