SinoCom

SINOCOM SOFTWARE GROUP LIMITED
中訊軟件集團股份有限公司

(Incorporated in the Cayman Islands with limited liability)
Stock Code: 0299

2014 Annual Report

New Challenge
of better future

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Wang Zhiqiang *(Co-Chairman)*
Zuo Jian Zhong *(Co-Chairman)*
Tang Yau Sing (appointed on 17 December 2014)
Zhang Zhige (appointed on 1 April 2015)
Liu Wei (appointed on 1 April 2015)

Non-Executive Directors

Kotoi Hirofumi (re-designated on 31 July 2014)
Sasaki So (resigned on 19 December 2014)

Independent Non-Executive Directors

Chui Man Lung, Everett
Takei Akio (resigned on 17 December 2014)
Wu Hong
Han Chu (appointed on 17 December 2014)

COMPANY SECRETARY

Foo Man Yee, Carina

CHIEF FINANCIAL OFFICER

Tang Yau Sing

AUDIT COMMITTEE

Chui Man Lung, Everett*
Takei Akio (resigned on 17 December 2014)
Wu Hong
Han Chu (appointed on 17 December 2014)

NOMINATION COMMITTEE

Wang Zhiqiang*
Chui Man Lung, Everett
Takei Akio (resigned on 17 December 2014)
Wu Hong
Han Chu (appointed on 17 December 2014)

SALARY REVIEW COMMITTEE

Wu Hong*
Chui Man Lung, Everett
Takei Akio (resigned on 17 December 2014)
Wang Zhiqiang
Han Chu (appointed on 17 December 2014)

AUTHORISED REPRESENTATIVE

Wang Zhiqiang
Foo Man Yee, Carina

AUDITOR

RSM Nelson Wheeler
Certified Public Accountants

* *Chairman*

SOLICITORS

Baker & McKenzie
Jingtian & Gongcheng

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 2001, 20/F., Lippo Centre
Tower 2, No. 89 Queensway
Admiralty
Hong Kong

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN PRC

6/F., Guangyuan Building
No. 5 Guangyuanzha Road
Haidian District, Beijing
China
Postal Code: 100081

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Bank of Butterfield International
(Cayman) Limited
68 Fort Street, P. O. Box 705
George Town, Grand Cayman
Cayman Islands

REGISTERED OFFICE

Cricket Square Hutchins Drive
P.O. Box 2681, Grand Cayman KY1-1111
Cayman Islands

PRINCIPAL BANKERS

Bank of East Asia Limited
Bank of China
China Merchant Bank Co., Ltd.
Hong Kong and Shanghai Banking Corporation

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

STOCK CODE

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WEBSITE

http://www.sinocom.cn

FINANCIAL SUMMARY
For the year ended 31 December

CONSOLIDATED RESULTS

	Year ended 31 December				
	2014	2013	2012	2011	2010
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
TURNOVER	**582,892**	481,115	589,806	684,942	609,432
(LOSS)/PROFIT BEFORE TAX	**(45,989)**	(81,189)	15,675	223,562	92,847
INCOME TAX EXPENSE	**(10,921)**	(2,886)	(21,563)	(36,925)	(23,101)
(LOSS)/PROFIT FOR THE YEAR	**(56,910)**	(84,075)	(5,888)	186,637	69,746
(LOSS)/PROFIT ATTRIBUTABLE TO:					
OWNERS OF THE COMPANY	**(56,799)**	(83,518)	(6,663)	186,358	69,010
NON-CONTROLLING INTERESTS	**(111)**	(557)	775	279	736
	(56,910)	(84,075)	(5,888)	186,637	69,746
(LOSS)/EARNINGS PER SHARE					
Basic (cents)	**(5.03)**	(7.48)	(0.60)	16.73	6.18
Diluted (cents)	**(5.03)**	(7.48)	(0.60)	16.72	6.17

CONSOLIDATED ASSETS AND LIABILITIES

	As at 31 December				
	2014	2013	2012	2011	2010
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
TOTAL ASSETS	**799,406**	699,758	863,908	902,745	752,691
TOTAL LIABILITIES	**(155,942)**	(134,886)	(152,124)	(146,362)	(126,823)
	643,464	564,872	711,784	756,383	625,868
EQUITY ATTRIBUTABLE TO:					
OWNERS OF THE COMPANY	**637,364**	560,909	707,402	752,729	621,530
NON-CONTROLLING INTERESTS	**6,100**	3,963	4,382	3,654	4,338
	643,464	564,872	711,784	756,383	625,868

CHAIRMAN'S STATEMENT

INDUSTRY AND MARKET OVERVIEW

In 2014, the global economy was clouded by a number of uncertainties and imbalance, as well as the downside pressure of the economy of China. At the same time, there was accelerating investment in information platforms for the software development industry. In addition to the demand from the securities and financial sectors that heavily relied on the IT industry, the rapid development of e-commerce, smart phones, mobile internet and cloud computing resulted in a surge in demand for experts in the software development industry. In respect of software outsourcing services for the Japanese market, which is the Group's core market, along with the recovery of the Japanese economy, the shortage of software development experts in the IT industry in Japan was particularly prominent and the demand for overseas experts was ever-increasing. Japanese enterprises needed to pursuit of lower costs to strengthen their competitive edge, resulting in an increasing quantity of orders placed with overseas software outsourcing services providers. However, in light of the larger-than expected depreciation of Japanese Yen ("JPY") seen since the last quarter of 2014, the pressure on enterprises engaged in the provision of software outsourcing services for the Japanese market was increasing, thus impeding the business growth and development of these enterprises. The majority of Japanese enterprises noticed the impact of the further depreciation of JPY on overseas software outsourcing services providers, thereby coming up with upward adjustments of unit prices of services as requested. In addition, many enterprises engaged in the provision of software outsourcing services for the Japanese market opted for business localization so as to cut their development cost further for the purpose of improving the operating environment.

BUSINESS REVIEW

Software Outsourcing Development Business

The software development market in Japan was promising in 2014 when compared with that of 2013. Although the continuous depreciation of JPY seen in the second half of 2014, representing a decrease of over 15% when compared with that of early 2014, the growth of the software development market in Japan began accelerating throughout 2014. In addition, to cope with the ever increasing development costs mostly denominated in RMB, the Group has increased our unit prices of outsourcing software development services charged to Japanese customers by at least 9% since the beginning of 2014. With the devoted efforts of our management and staff and increase in our unit prices, the Group recorded an increase of 19.0% in revenue for the market in Japan for the year ended 31 December 2014 when compared with that of 2013. With the increasing development costs and the impact of the continued depreciation of JPY, the Group's gross profit for the Japanese market in 2014 only recorded a small increase of approximately HK$978,000, representing 1.8% increase, as compared with that of 2013. The gross profit margin decreased from 11.8% for the year ended 31 December 2013 to 10.1% for the year ended 31 December 2014.

To cope with shortage of IT human resource in China, the Group entered into an agreement with Shijiazhuang College (石家莊學院) on 5 March 2014 to provide training opportunities for the industry and create more IT job openings for IT students of tertiary institutions in China. According to the agreement, a vocational training center was established within the IT department of the college to strengthen the co-operation between the sector and various tertiary institutions so as to contribute to the future development of the industry. Finally, the Group would benefit from this co-operation by accessing the reliable source of IT human resource.

In 2014, the Group continued its effort to shift our development centers from cities with high cost of living, like Beijing and Shanghai to cities with lower cost of living, like Wuxi, Dalian and Jilin, so as to lower the Group's development costs in the PRC.

Mobile and Web-based Gaming Business

The Group is principally engaged in the provision of outsourcing software development services and technical support services. However, with an aim to develop and expand the business scope, the Group has been looking for acquisition opportunities with significant potential for enhanced long-term growth. Taking into account the potential of the mobile gaming industry, the Group announced on 10 December 2014 the acquisition of the entire issued share capital of Heroic Coronet Limited ("Heroic Coronet"), a wholly-owned subsidiary of Prime Castle Holdings Limited, at a consideration of HK$260 million. Upon completion of restructuring of all related companies, 北京開心就好科技有限公司 (Beijing Kaixin Jiuhao Technology Company Limited, "Kaixin Jiuhao") would become a 65% indirect subsidiary of Heroic Coronet. Kaixin Jiuhao is principally engaged in the design, development and operation of mobile and web games. The acquisition was completed on 30 January 2015.

In addition to the acquisition mentioned above, in order to further develop and expand the gaming business, the Company entered into a framework agreement on 18 December 2014 to acquire the 100% equity interest in 九合天下(北京)科技有限公司 (Kingworld (Beijing) Technology Co., Ltd.) ("Kingworld") at a consideration of HK$450 million. Kingworld is principally engaged in distributing, selling, developing and investing in internet and mobile interaction entertainment products, including online games, browser-based games and games on mobile platforms. A formal agreement in this regard is expected to be entered into on or before 31 March 2015.

SHARE CAPITAL AND MAJOR SHAREHOLDER

In order to broaden the shareholders' base and the capital base of the Company, the Company announced on 28 November 2014 a placing of 200,000,000 new shares (representing approximately 15.2% of the total issued share capital of the Company) to not less than six Placees at a price of HK$0.70 per placing share. Placees were not connected with any director, chief executive or substantial shareholder (if any) of the Company or its subsidiaries and their respective associates. The aggregate gross proceeds and the net proceeds (after deduction of applicable costs and expenses relating to the placing) from the placing were approximately HK$140.0 million and HK$136.5 million respectively, and would be used for future new business development opportunities in the mobile gaming industry. The Group is of the view that the placing can: (i) strengthen the financial position of the Group; (ii) raise further capital for future investment; and (iii) provide general working capital for the Group, and is in the interest of the Company and its shareholders as a whole.

SJI (Hong Kong) Limited ("SJI"), a wholly owned subsidiary of SJI Inc. that was incorporated in Japan and listed on Tokyo Stock Exchange and the controlling shareholder of the Company, sold 300,000,000 shares in the Company (representing approximately 22.8% of the issued share capital of the Company as at the date of the announcement) to Power View Group Limited at a consideration of US$19,346,550 on 18 December 2014.

SJI further announced on 11 March 2015 the disposal of (i) 221,000,000 shares in the Company (representing approximately 16.8% of the issued share capital of the Company as at the date of announcement) to Benefit Power Inc., a company duly incorporated in the British Virgin Islands, at the consideration of HK$170,170,000 and (ii) 65,000,000 shares in the Company (representing approximately 4.9% of the issued share capital of the Company as at the date of announcement) to Sunny Idea International Limited, a company incorporated in Hong Kong, at the consideration of HK$52,000,000. Following completion that is expected to take place on or before 8 April 2015, SJI will immediately cease to be the single largest shareholder and a substantial shareholder of the Company.

CHAIRMAN'S STATEMENT

OUTLOOK

Looking ahead, the movement of the exchange rate of JPY will continue to have direct impact on the Group's results and the performance of the software outsourcing services industry for the Japanese market. Along with the improvement of the Japanese economy witnessed in 2014, the Japanese software market will regain its growth momentum in 2015 in light of a series of large scale development projects being launched consecutively. However, we expect the severe shortage of experts in software development in Japan will be extended to 2016, which will bring about more business opportunities to the Group. Meanwhile, since the industry is experiencing an increase in the investment in information platforms, a booming demand for information consumption and a rapid change in the form of software services, it will probably generate an industry-wide business growth in spite of market adversities as a result. Furthermore, the software market in China has been well developing, and the growth rate is expected to be higher than that of 2014, thus benefiting the software outsourcing services industry.

In addition, the Group will explore new ideas and seek a new drive for business development, and will also broaden its clientele and enable sharing of human resources. The Group hopes to enhance our operation and accelerate our business development through merger and acquisitions. The Board believes that the management will be able to lead the way to strengthen a customer-oriented development system, thus capitalizing on new opportunities in the market on an ongoing basis.

In order to ensure a stable environment for business development, the Group will step up its efforts in implementing the strategy of business localization so as to cut our software development cost further. The Group will also take an active role to enlarge the scale of its upstream business according to the demand from clients, to increase the added-value of its services and to enhance the efficiency of product development for the purpose of generating more revenue for the Company.

APPRECIATION

Last but not least, we, on behalf of the Board of Directors, would like to extend our gratitude to all the staff of the Company for their dedicated efforts in the past year, and would like to thank all shareholders and business partners for their support and trust to the Group.

By Order of the Board
SinoCom Software Group Limited

Wang Zhiqiang	**Zuo Jian Zhong**
Co-Chairman	*Co-Chairman*

Hong Kong, 23 March 2015

MANAGEMENT DISCUSSION AND ANALYSIS

REVIEW OF RESULTS AND OPERATIONS

The Group's consolidated turnover for the year ended 31 December 2014 was approximately HK$582,892,000, representing an increase of approximately 21.2% when compared with HK$481,115,000 for 2013. The increase was mainly attributable to the increase in our service price at the beginning of 2014 and increase in customers' services orders for the Japanese market which accounted for 94.6% of total turnover for the year ended 31 December 2014. Turnover generated from Japan increased by approximately 19.0% from approximately HK$463,065,000 for 2013 to approximately HK$551,277,000 for the year ended 31 December 2014. In addition, turnover sourced from China increased by approximately 75.2% from approximately HK$18,050,000 for 2013 to approximately HK$31,615,000 for the year ended 31 December 2014. Turnover derived from outsourcing software development work increased by approximately 20.8% to approximately HK$579,771,000 from approximately HK$479,821,000 for 2013. Turnover from the provision of technical support services increased by approximately 141.2% to approximately HK$3,121,000 from approximately HK$1,294,000 for 2013. Turnover from outsourcing software development services and from technical support services accounted for approximately 99.5% and 0.5% of the total turnover for the year ended 31 December 2014 respectively. The largest single customer accounted for approximately 62.5% and 60.9% of the total turnover for the year ended 31 December 2014 and 2013 respectively.

With the sharp depreciation of JPY and the inflated direct labour cost in China, the Group's gross profit margin decreased from approximately 11.7% for 2013 to approximately 9.5% for 2014. The Group's performance was adversely affected by the exchange loss resulted from the continued depreciation of JPY. Accordingly, the Group recorded net loss of approximately HK$56,910,000 for the year ended 31 December 2014, when compared with the net loss of approximately HK$84,075,000 for 2013. The Group's net loss for the year ended 31 December 2014 mainly included the net foreign exchange loss of approximately HK$31,767,000 (2013: approximately HK$73,574,000) and loss on disposal of available-for-sale financial assets of approximately HK$1,362,000 (2013: gain of approximately HK$14,251,000).

Gross profit for the year ended 31 December 2014 decreased to approximately HK$55,220,000 or by 2.1%, when compared to the gross profit of approximately HK$56,430,000 for 2013.

Operating loss of approximately HK$45,648,000 was recorded for the year ended 31 December 2014 when compared with the operating loss of approximately HK$79,220,000 for 2013. The decrease in operating loss of approximately HK$33,572,000 was mainly attributable to the decrease in gross profit by approximately HK$1,210,000 and the decrease in net exchange loss of approximately HK$41,807,000 resulting from the depreciation of JPY offset by the inclusion of compensation gain for early termination of the lease on office premises of approximately HK$10,086,000 (2013: Nil).

Income tax expense for the year ended 31 December 2014 was approximately HK$10,921,000 as compared with that for 2013 of approximately HK$2,886,000.

Net loss attributable to owners of the Company was approximately HK$56,799,000 for the year ended 31 December 2014 whereas net loss attributable to owners of the Company was approximately HK$83,518,000 for 2013.

LIQUIDITY AND FINANCIAL RESOURCES

Since inception, the Group has no bank borrowing, and has funded its operations through equity funding and operating cash flow. The Group managed to maintain this strong cash generating capability during the year. In 2014, the Group financed its operations and acquisition activities with internally generated cash flows and the fund from placing of new shares in December 2014. As at 31 December 2014, the Company maintained a high level of cash and bank balances and term deposits with initial terms of over three months of approximately HK$196,826,000 and there was no bank borrowing as at that date.

SHARE CAPITAL

As at 31 December 2014, the number of shares in respect of which options had been granted but remained outstanding under the Company's share option scheme was 10,080,000 (31 December 2013: 13,580,000), representing 0.77% (31 December 2013: 1.21%) of total issued shares of the Company as at that date.

During the final quarter ended 31 December 2014, the Company completed a placing of 200,000,000 new shares (representing approximately 15.2% of the total issued share capital of the Company) to not less than six placees at a price of HK$0.70 per placing share and successfully raised the aggregate gross and net proceeds (after deduction of applicable costs and expenses relating to the placing) from the placing of approximately HK$140 million and HK$136.5 million respectively.

PLEDGE OF ASSETS

As at 31 December 2014, the Group had no pledged asset.

EMPLOYEE AND REMUNERATION POLICIES

The Group had 1,517 full time staff as at 31 December 2014 (2013: 1,585), representing a decrease of 4.3%. The decrease in head counts was mainly attributable to cost control in 2014. Most of our staff were engineers stationed in China. There were also 172 (2013: 160) employees in Japan, most of them were bridged system engineers working at customers' premises in Japan. Their remuneration, promotion and salary review were assessed based on their respective job responsibilities, work performance, professional experiences and the prevailing industry practice. The Group maintained social insurance schemes for retirement, unemployment, personal injury and hospitalisation for all of its employees in China and a housing provident fund system has also been implemented for its employees in China. Staff in Japan was enrolled under the pension fund and health scheme as required by Japanese law.

FOREIGN EXCHANGE AND CURRENCY RISKS

Since most of the Group's revenue was generated from software development outsourced from Japan, and was denominated in JPY while expenses were settled in Renminbi ("RMB"), any depreciation of JPY against RMB would reduce the Group's income measured in Hong Kong and have an adverse impact on the profitability of the Group. The management is of the view that there is no effective hedging tool suitable to reduce this exchange rate exposure in consideration of the monthly recurring nature of JPY revenue.

CONTINGENT LIABILITIES

As at 31 December 2014, the Group had no material contingent liability.

CAPITAL COMMITMENTS

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

	2014 HK$'000	2013 HK$'000
Contracted but not provided for:		
Acquisition of Heroic Coronet	**60,000**	–
Acquisition of Kingworld	**315,000**	–
Acquisition of Hangzhou Zhiwan Network Co., Ltd	**103,000**	–
	478,000	–

In respect of the acquisition of Heroic Coronet, HK$60,000,000 of the consideration will be settled by the Company's shares ("Consideration Shares"). The Company will issue the Consideration Shares under a specific mandate to be obtained at an extraordinary general meeting to be convened by the Company to consider and approve the specific mandate. The Consideration Shares shall, upon issuance, rank pari passu in all respects with the shares in issue.

DIRECTORS AND SENIOR MANAGEMENT PROFILES

EXECUTIVE DIRECTORS

Wang Zhiqiang

Mr. Wang Zhiqiang, aged 51, is the Co-chairman of the Board and the chief executive officer of the Group. He has been a member of the senior management since the establishment of Zhongxun Computer System (Beijing) Co., Ltd. (中訊計算機系統（北京）有限公司) since August 1995. Mr. Wang is responsible for the formulation of corporate strategies, and oversees financial and human resources management of the Group. He also holds directorship in certain subsidiaries of the Company. Mr. Wang has over thirty years' experience in the information technology industry. He graduated from the Northern Jiaotong University (北方交通大學) in 1984 and obtained a bachelor's degree in computer studies. Before founding the Group in 1995, he worked in Beijing Oracle Software Systems Co., Ltd. from 1990 to 1994 during which period he was engaged as sales representative, senior sales representative and business manager and was responsible for the sales and marketing of its products.

Zuo Jian Zhong

Mr. Zuo Jian Zhong, aged 46, was appointed as an executive Director of the Company on 18 July 2012. He was appointed as the Co-chairman of the Company on 1 March 2013. He also holds directorship in certain subsidiaries of the Company. He graduated from University of Science and Technology Beijing in 1992. Mr. Zuo is a director of Hua Shen Trading (International) Limited and Petrochemical Engineering Limited in Hong Kong, a director of Lian Di Petrochemical Technology Limited in the People's Republic of China, and a director and the chief executive officer of Lian Di Clean Technology Limited, a company whose shares are quoted on OTC Pink Sheet in the United States of America and approximately 54.55% of the entire issued share capital of which is owned by SJI Inc., a company whose shares are listed on the Tokyo Stock Exchange JASDAQ (Standard).

Tang Yau Sing

Mr. Tang Yau Sing, aged 52, was appointed as an executive Director of the Company on 17 December 2014. He has been the Chief Financial Officer of the Company since 15 November 2013 and the director of SinoCom Development Holdings Limited and SinoCom Software (Hong Kong) Limited that both are investment holding companies of the Group since 5 May 2014 and 28 February 2014 respectively. Mr. Tang has over 20 years' experience in business consulting, accounting and corporate finance. He is mainly responsible for the finance and accounting management of the Group. Prior to joining the Group, Mr. Tang has been the independent non-executive Director and chairman of audit committee of China North East Petroleum Holdings Limited (previously listed on New York Stock Exchange) since August 2010 and the founder and director of GCA Advisors Limited since June 2011. Mr. Tang was the chief financial officer and controller of China Agritech, Inc. (previously listed on NASDAQ) for the period from October 2008 to January 2012. Mr. Tang received his Bachelor of Social Science (Honour) degree from the University of Hong Kong in 1986. He is a fellow of the Association of Chartered Certified Accountants in the United Kingdom and the Hong Kong Institute of Certified Public Accountants in Hong Kong. He is also a member of the Institute of Chartered Accountants in England and Wales, the Taxation Institute of Hong Kong and the Hong Kong Institute of Directors. Mr. Tang has been the company secretary and authorized representative of China Environmental Technology Holdings Limited (Stock Code 646) since 26 May 2014. He was also appointed as the chairman and executive director of Greens Holdings Ltd (Stock code: 1318) in 30 December 2014.

DIRECTORS AND SENIOR MANAGEMENT PROFILES

Zhang Zhige

Mr. Zhang Zhige, aged 41, was appointed as an executive Director of the Company on 1 April 2015. He graduated from Guilin University of Electronic and Technology and majored in industrial design. Mr. Zhang joined the internet software and online advertisement industry since 2001, and has 14 years' experience in operation and management. In 2007, he became the Chief Financial Officer ("CFO") of ChinaNet Online Holdings, Inc. ("ChinaNet Online") and has eight (8) years working experience serving in the relevant financing field. He also led the listings of ChinaNet Online on NASDAQ (NASDAQ: CNET).

Mr. Zhang is familiar with the national policies and regulations relating to finance and taxation, with outstanding experience in financial management, and is experienced in budgeting, cost analysis, cost accounting, auditing, taxation and financing practices. He is a veteran in accounting, financing and managing investor relationship. He also has solid understanding of the financing and merger and acquisition issues, accounting standards and taxation policies regarding domestically-traded A shares, overseas-traded Hong Kong shares and the US share markets, and is well equipped with legal expertise.

From September 2006 to January 2015, Mr. Zhang was a director of Fujian Rongji Software Co., Ltd.* (福建榕基軟件股份有限公司) (002474.SZ), responsible for financing, listing and management of investor relationship. From August 2006 to March 2015, he was the CFO & one of the founders of ChinaNet Online. ChinaNet Online was successfully listed on NASDAQ on March 2010. He oversees strategic investment, investor relationship, finance management, operation and the establishment of sound internal control. From 2002 to 2006, he was the Chief Operation Officer of Beijing HSHZ Information System Engineering Co. Limited* (華深慧正公司). From 1997 to 2001, he was the General Manager and Chief Representative of Konka Group Beijing Branch* (康佳集團北京公司), responsible for daily operation and management.

Liu Wei

Mr. Liu Wei, aged 35, was appointed as an executive Director of the Company on 1 April 2015. Mr. Liu studied at the School of Optical and Electronic Information, Huazhong University of Science and Technology from 1997 to 2001. He is currently the General Manager and founder of Beijing Kaixin Jiuhao Technology Company Limited (北京開心就好科技有限公司). From 2011 to 2013, Mr. Liu was the founder and General Manager of Beijing Wanzhe Zhixin Technology Company Limited* (北京玩者之心科技有限公司). Prior to that, he was the General Manager of Beijing Sanxiren Technology Company Limited* (北京三樓人科技有限公司) from 2007 to 2011. From 2004 to 2007, he was the Chief Designer and Product Manager of Fangzhou Studio, Guangzhou NetEase, Inc. From 2001 to 2004, he was the Design Manager of Xishanju Studio, Zhuhai Kingsoft Office Software Co. Ltd* (珠海金山軟件股份有限公司).

* *Identification only*

DIRECTORS AND SENIOR MANAGEMENT PROFILES

NON-EXECUTIVE DIRECTOR

Kotoi Hirofumi

Mr. Kotoi Hirofumi, aged 52, was re-designated as a non-executive Director of the Company on 31 July 2014. He was an executive Director of the Company. He is also vice chairperson and a director of SJI Inc., a company whose shares are listed on Tokyo Stock Exchange JASDAQ (Standard) with stock code 2315. He is mainly responsible for the corporate management of the Group and the daily management of SJI Inc.. SJI Inc. is the ultimate holding company of SJI (Hong Kong) Limited. Mr. Kotoi obtained his master degree in information engineering in Kyoto University in Japan in 1987. Mr. Kotoi currently holds 579,500 shares of SJI Inc., representing approximately 0.70% of the total issued share capital of SJI Inc.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Chui Man Lung Everett

Mr. Chui Man Lung Everett, aged 50, was appointed as an independent non-executive Director of the Company on 10 September 2013. He is a fellow member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants and member of the Institute of Chartered Accountants in England and Wales. Mr. Chui qualified as a Professional Accountant with KPMG, Hong Kong in 1990 and left KPMG in 1993. Before his departure, he was in charge of audits of banks, fashion retailers and manufacturers listed on the Main Board of the Stock Exchange and initial public offering ("IPO") audit for a major national corporation, and also participated in the restructuring of two banking groups. Since then, Mr. Chui has been working on various IPOs and pre-IPO projects for various industries in China and Hong Kong before joining as the chief financial officer and company secretary of Yau Lee Holdings Limited (a company listed on the Main Board of the Stock Exchange).

Since 2008, Mr. Chui has been a founding partner of Cen-1 Partners Limited, a firm which provides professional advisory services on company restructuring, merger & acquisition, pre-IPO and fund raising exercises to its clients. Its portfolio of clients includes listed companies and private companies operating in China, Hong Kong, South East Asia and Europe. Mr. Chui was an independent non-executive Director of Cosmopolitan International Holdings Limited (a company listed on the Main Board of the Stock Exchange) from 2002 to 2003, an independent non-executive Director and chairman of the audit committee of Duoyuan Printing, Inc. (a company listed on the New York Stock Exchange) from October 2010 to March 2013, and is currently an independent non-executive Director and chairman of the audit committee of Taung Gold International Limited (a company listed on the Main Board of the Stock Exchange). Mr. Chui holds a Bachelor of Social Sciences (Hons) Degree in Business Economics & Accounting awarded by the University of Southampton in the United Kingdom.

Han Chu

Mr. Han Chu, aged 41, was appointed as an independent non-executive Director of the Company on 17 December 2014. He holds a bachelor's degree in Management Studies from Nanjing University and a master's degree in Economics from Peking University. Currently, Mr. Han is a director and deputy general manager of 華泰瑞聯基金管理有限公司. He served as an executive director in the investment banking division of 華泰聯合證券有限責任公司. Mr. Han has over ten years of experience in investment management and advisory.

Wu Hong

Mr. Wu Hong, aged 55, was appointed as an independent non-executive Director of the Company on 10 September 2013. He currently serves as vice president of Dagang Holdings Group Limited (大港控股集團有限公司). Mr. Wu served as a technological advisor of Peking University Resources Group (北京大學資源集團) from 2004 to 2008. During the same period, he was also the general manager of Xinjiang Peking University Science Park Company Limited (新疆北大科技園有限公司). Prior to this, Mr. Wu served as the general manager of the Japanese branch of U.S. based Netpilot LLC during 2002 to 2004. From 1994 to 2002, Mr. Wu was the division chief assistant, division chief, and department head assistant at Toyota Caelum Inc., a subsidiary of Toyota Motor Corporation. From 1988 to 1991, he served as an investment financial consultant of the Import Department of China Machinery Engineering Import and Export Corporation. Prior to this, Mr. Wu was an assistant researcher at the Research Institute of Automation Technology at the Chinese Academy of Sciences (中國科學院自動化技術研究所) from 1986 to 1988. Mr. Wu graduated from Peking University with a Bachelor Degree in 1983 and a Master's Degree in 1986, both in computer software engineering.

REPORT OF THE DIRECTORS

The Directors have pleasure in presenting their annual report and the audited consolidated financial statements of the Group for the year ended 31 December 2014.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the Company's principal subsidiaries are set out in note 37 of the financial statements.

RESULTS AND APPROPRIATION

The results of the Group for the year ended 31 December 2014 are set out in the consolidated statement of profit or loss and other comprehensive income on page 36.

No interim dividend was declared (2013: Nil) and the Directors do not recommend the payment of any final dividend for the year ended 31 December 2014 (2013: special dividend of HK$0.07 per share).

SHARE CAPITAL

Details of movements of the share capital of the Company and its subsidiaries during the year ended 31 December 2014 are set out in note 27 to the financial statements.

PLANT AND EQUIPMENT

Details of movements in the Group's plant and equipment during the year ended 31 December 2014 are set out in note 16 to the financial statements.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets and liabilities of the Group for the last five financial years is set out on page 3. This summary does not form part of the audited consolidated financial statements.

RESERVES

Details of movements in the reserves of the Company and of the Group during the year ended 31 December 2014 are set out in note 36 to the financial statements.

DISTRIBUTABLE RESERVES

Under the Companies Law of the Cayman Islands, as at 31 December 2014, the contributed surplus and share premium accounts are distributable to the shareholders of the Company provided that immediately following the date on which any dividend is proposed to be distributed, the Company will be able to pay its debts as they fall due in the ordinary course of business.

Movements in the distributable reserves of the Company during the year ended 31 December 2014 are set out in note 36 to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, sales to the Group's five largest customers accounted for 81.6% of the total sales for the year and sales to the largest customer included therein amounted to 62.5%. Purchases from the Group's five largest suppliers accounted for 28.3% of the total purchases for the year and purchases from the largest supplier included therein amounted to 8.6%.

Nomura Research Institute which owns 6.71% of the Company's issued share capital is one of the Group's five largest customers.

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

DIRECTORS

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

Executive Directors

Mr. Wang Zhiqiang
Mr. Zuo Jian Zhong
Mr. Tang Yau Sing (appointed on 17 December 2014)

Non-Executive Director

Mr. Kotoi Hirofumi (re-designated as non-executive Director on 31 July 2014)
Mr. Shi Chongming (retired on 26 March 2014)
Mr. Wang Xubing (retired on 26 March 2014)
Mr. Li Jian (resigned on 31 July 2014)
Mr. Sasaki So (resigned on 19 December 2014)

Independent Non-Executive Directors

Mr. Chui Man Lung, Everett
Mr. Wu Hong
Mr. Han Chu (appointed on 17 December 2014)
Mr. Yamamoto Yoshimasa (resigned on 31 July 2014)
Mr. Takei Akio (resigned on 17 December 2014)

Pursuant to Article 87 of the Company's Articles of Association, Mr. Wang Zhiqiang, Mr. Zuo Jian Zhong and Mr. Wu Hong will retire from office by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

Pursuant to Article 86(3) of the Company's Articles of Association, Mr. Tang Yau Sing and Mr. Han Chu will retire from office and, being eligible, offer themselves for re-election at the forthcoming annual general meeting. Mr. Zhang Zhige and Mr. Liu Wei, who were appointed as executive Directors on 1 April 2015, will also retire from office and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

INDEPENDENT NON-EXECUTIVE DIRECTORS' CONFIRMATION

The Company has received from each of the independent non-executive Directors an annual confirmation of his independence to Rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rule") and as at the date of this report still considers that all of the independent non-executive Directors to be independent.

DIRECTORS' SERVICE CONTRACTS

As at 31 December 2014, none of the Directors proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

EMOLUMENT POLICY

The emolument policy of the employees of the Group is set up by Salary Review Committee on the basis of their merit, qualifications and competence.

The emolument of directors of the Company are decided by Salary Review Committee, having regard to the Company's operating results, individual performance and comparable market statistics.

The Company has adopted a share option scheme as an incentive to directors and eligible employees, details of the scheme is set out in note 28 to the consolidated financial statements.

EMOLUMENTS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

Details of the emoluments of the Directors of the Company and the five highest paid individuals of the Group during the year ended 31 December 2014 are set out in note 12 to the financial statements.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES OF THE COMPANY (THE "SHARES"), UNDERLYING SHARES AND DEBENTURES

As at 31 December 2014, the interests and short positions of the Directors and chief executive of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were required (a) to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (b) to be recorded in the register required to be kept under section 352 of the SFO or (c) to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules (the "Model Code"), were as follows:

(a) Interests and short positions in Shares and underlying Shares in the Company

Name of Director	Capacity/Nature of interests	Number of shares	Note	Approximate percentage of issued share capital of the Company as at 31.12.2014
Wang Zhiqiang	Corporate interests	50,000,000 (L)	1	3.79%

Notes:

1. These shares are beneficially owned by China Way International Limited ("China Way"). By virtue of his 49% shareholding interests in China Way, Mr. Wang Zhiqiang is deemed or taken to be interested in the 50,000,000 shares of the Company owned by China Way for the purpose of SFO.

2. As at 31 December 2014, the total issued share capital of the Company amounted to 1,315,835,128 shares.

   Abbreviations: "L" stands for long position

(b) Interests in shares of associated corporation of the Company

Name of associated corporation	Name of Director	Capacity/Nature of interest	No. of ordinary shares (US$1.00 each)	Percentage of shareholding as at 31.12.2014
China Way	Wang Zhiqiang	Corporate interest	49 (L)	49%

Save as disclosed above, as at 31 December 2014, none of the Directors and the chief executive of the Company had any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (b) to be recorded in the register required to be kept under section 352 of the SFO; or (c) to be notified to the Company and the Stock Exchange pursuant to the Model Code.

SHARE OPTION SCHEMES

Old Share Option Scheme

The old share option scheme was adopted on 2 April 2004 and unless otherwise cancelled or amended, will remain in force for 10 years (the "Old Share Option Scheme"). The Old Share Option Scheme was terminated with effect from the conclusion of the annual general meeting held on 26 March 2014. No further options could thereafter be offered under the Old Share Option Scheme but the provision of the Old Share Option Scheme would remain in force and effect. Options granted under Old Share Option Scheme prior to its termination shall continue to be valid and exercisable in accordance with their terms of issue after the termination of the Old Share Option Scheme.

The total number of shares of the Company which may be issued upon exercise of all outstanding share options granted under the Old Share Option Scheme is 10,080,000 which represents approximately 0.77% of the issued share capital of the Company as at the date of this report. The exercise prices range from HK$1.36 to HK$1.3875.

Details of the movements of the share options outstanding under the Old Share Option Scheme are set out in note 28 of the consolidated financial statements.

New Share Option Scheme

On 26 March 2014, the Company adopted a new share option scheme (the "New Share Option Scheme") and the major terms of the New Share Option Scheme were summarized as follows:

(a) Purpose of the New Share Option Scheme

The Company adopted the New Share Option Scheme on 26 March 2014. The purpose of the New Share Option Scheme is to enable the Board to provide incentives and awards the eligible persons for their contribution or potential contribution to the Group.

(b) Participants of the New Share Option Scheme

Pursuant to the New Share Option Scheme, the Company may at its absolute discretion grant options to any employee, consultant, service provider, agent, customer, partner or joint-venture partner of the Company or its subsidiaries (including any director, whether executive or non-executive and whether independent or not, of the Company or its subsidiaries) who is in full-time or part-time employment with the Company or its subsidiaries at the time when an option is granted to such employee, or any person who, in the sole discretion of the Board, have contributed or may contribute to the Group.

(c) Total number of shares available for issue under the New Share Option Scheme

The total number of shares available for issue under the New Share Option Scheme is 131,583,512 shares.

The maximum number of shares of the Company which may be issued upon exercise of all outstanding options granted and yet to be exercised under the New Share Option Scheme and any other schemes of the Company shall not exceed 30% of the total number of shares of the Company in issue from time to time.

(d) Maximum entitlement of each participant

The total number of shares issued and to be issued upon exercise of the options granted to each participant (including both exercised and outstanding options) in any 12-month period must not exceed 1% of the total number of shares of the Company in issue, unless approved by the shareholders of the Company in the manner as stipulated in the New Share Option Scheme.

(e) Time of exercise of options

An option may be exercised in accordance with the terms of the New Share Option Scheme at any time during a period to be determined and notified by the Directors to each grantee, which period may commence on the date on which the offer for the grant of options is made but shall end in any event not later than 10 years from the date of grant of the option subject to the provisions for early termination thereof. No minimum period for which the option must be held before it can be exercised is specified in the New Share Option Scheme.

(f) The subscription price per share

The subscription price per share in respect of an option granted under the New Share Option Scheme is such price as determined by the Board of the Company at the time of the grant of the options, but in any case the subscription price shall not be lower than the higher of:

- the closing price of the shares of the Company as stated in the daily quotation sheets issued by the Stock Exchange on the date on which the options are offered, which must be a business day;
- the price being the average closing price of the shares of the Company as stated in the daily quotation sheets issued by the Stock Exchange for the five business days immediately preceding the date of offer of the options; and
- the nominal value of a share of the Company on the date of offer.

(g) Payment on acceptance of option

A non-refundable sum of HK$10.00 or other amount as determined by the board of the Company by way of consideration for the grant of an option is required to be paid by each of the grantee upon acceptance of the granted option.

(h) Duration of the New Share Option Scheme

The New Share Option Scheme will remain in force for a period of 10 years from its adoption date (i.e. 26 March 2014). The New Share Option Scheme will terminate or expire (as the case may be) on the earlier (i) the approval of the shareholders in a general meeting, and (ii) at the close of business on the day immediately preceding the tenth anniversary of the adoption date (Scheme Period).

After the Scheme Period, the Company cannot grant new options but for so long as there are options granted but not yet exercised, outstanding vested or unvested options, the New Share Option Scheme will remain in full force and effect of such outstanding vested or unvested options or otherwise as may be required in accordance with the New Share Option Scheme.

As at the date of this report, no option had been granted by the Company under the New Share Option Scheme.

INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE SUBSTANTIAL SHAREHOLDERS

As at 31 December 2014, so far as is known to the Directors of the Company, the following, not being a Director or the Chief Executive of the Company, have an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provision of Divisions 2 and 3 of Part XV of the SFO and are recorded in the register kept by the Company under section 336 of the SFO:

Long positions in the Shares and Underlying Shares

Name	Capacity	Number of Ordinary Shares	Approximate percentage of total interests in issued capital as at 31.12.2014	Notes
SJI Inc.	Corporate Interest	336,688,918 (L)	25.58%	1
SJ Asia Pacific Limited	Corporate Interest	336,688,918 (L)	25.58%	1
SJI Hong Kong Limited	Beneficial Owner	336,688,918 (L)	25.58%	1
NEC Capital Solutions Limited	Corporate Interest	268,000,000 (L)	20.36%	2&7
NEC Corporation	Corporate Interest	268,000,000 (L)	20.36%	2&7
Risa Partners Inc.	Security Interest	268,000,000 (L)	20.36%	2&7
Power View Group Limited	Beneficial Owner	300,000,000 (L)	22.79%	3
Feng Yuming	Corporate Interest	300,000,000 (L)	22.79%	3
Ting Pang Wan, Raymond	Corporate Interest	66,000,000 (L)	5.02%	4
Nomura Holdings Inc.	Corporate Interest	88,356,100 (L)	6.71%	5
Nomura Research Institute Ltd.	Beneficial Owner	88,356,100 (L)	6.71%	5

Notes:

1. SJI Inc. is the ultimate holding company of SJI (Hong Kong) Limited. SJI (Hong Kong) Limited is a wholly owned subsidiary of SJ Asia Pacific Limited. SJ Asia Pacific Limited is wholly owned by SJI Inc. By virtue of the SFO, SJI Inc., SJI (Hong Kong) Limited and SJ Asia Pacific Limited are deemed to be interested in the same parcel of Shares.

2. Risa Partners Inc. ("Risa Partners") is a wholly owned subsidiary of NEC Capital Solutions Limited ("NEC Capital") which is a controlled corporation of NEC Corporation. By virtue of SFO, Risa Partners, NEC Capital and NEC Corporation are deemed to be interested in the same parcel of Shares. Risa Partners holds the Shares as a pledgee only because SJI Inc. pledged the Shares to Risa Partners in consideration for a loan advanced to SJI Inc.

3. Power View Group Limited is a company wholly owned by Mr. Feng Yuming. Accordingly, Mr. Feng Yuming is deemed to be interested in the shares of the Company by virtue of SFO.

4. 16,000,000 shares are beneficially owned by Plan Marvel Investment Limited ("Plan Marvel"), 48,000,000 shares are beneficially owned by Kaiser Capital Holdings Limited ("Kaiser") and 2,000,000 shares are beneficially owned by CVP Capital Limited ("CVP"). Each of Plan Marvel, Kaiser and CVP is a company wholly owned by Mr. Ting Pang Wan, Raymond. By virtue of his shareholding interests in each of Plan Marvel, Kaiser and CVP. Mr. Ting Pang Wan, Raymond is deemed to be interested in shares of the Company by virtue of SFO.

5. Nomura Holdings Inc, is the ultimate holding company of Nomura Research Institute Ltd. By virtue of the SFO, Nomura Holdings Inc. and Nomura Research Institute Ltd. are deemed to be interested in the same parcel of Shares.

6. As at 31 December 2014, the issued share capital of the Company is 1,315,835,128 shares.

7. Pursuant to Section 336 of the SFO, the shareholders of the Company are required to file disclosure of interests forms (the "DI Forms") when certain criteria are fulfilled and the full details of the requirements are available on the Stock Exchange's official website. When a shareholder's shareholdings in the Company changes, it is not necessary to notify the Company and the Stock Exchange unless certain criteria are fulfilled. Therefore, substantial shareholders' latest shareholdings in the Company may be different to the shareholdings filed with the Company and the Stock Exchange. The above statements of substantial shareholders' interests are prepared based on the information in the relevant DI Forms received by the Company as of 31 December 2014. The Company may not have sufficient information on the breakdown of the relevant interests and cannot verify the accuracy of information on the DI Forms.

   Abbreviations: "L" stands for long position

Save as disclosed above, as at 31 December 2014, the Directors and the chief executives of the Company were not aware of any person who has an interest or short position in the Shares, or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was recorded in the register kept by the Company under section 336 of the SFO.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed above, at no time during the year was the Company, any of its holding companies, subsidiaries or fellow subsidiaries a party to any arrangements to enable the directors or the chief executives of the Company or any of their respective spouses or children under 18 years of age to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' INTEREST IN CONTRACTS

No contract of significance, to which the Company, any of its subsidiaries or fellow subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of or at any time during the year ended 31 December 2014, nor had there been any contract of significance entered into between the Group, or any of its subsidiaries during the year ended 31 December 2014.

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

None of the Company or any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2014.

COMPETING INTERESTS

As at 31 December 2014, in so far as the Directors were aware, none of the Directors or their respective associates had any interest in a business that competed or was likely to compete with the business of the Group.

CHANGE IN INFORMATION OF DIRECTORS PURSUANT TO RULE 13.51B(1) OF THE LISTING RULES

Pursuant to rule 13.51B(1) of the Listing Rules, change in the information of Directors of the Company since the date of the 2014 Interim Report of the Company required to be disclosed in this report is as follows:

1. Mr. Tang Yau Sing was appointed as an executive Director of the Company on 17 December 2014.

2. Mr. Takei Akio resigned as an independent non-executive Director, a member of Audit Committee, Nomination Committee and Salary Review Committee of the Company on 17 December 2014.

3. Mr. Han Chu was appointed as an independent non-executive Director, a member of Audit Committee, Nomination Committee and Salary Review Committee of the Company on 17 December 2014.

4. Mr. Sasaki So resigned as a non-executive Director of the Company on 19 December 2014.

5. Mr. Zhang Zhige and Mr. Liu Wei were appointed as executive Directors of the Company on 1 April 2015.

PRE-EMPTIVE RIGHTS

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

PUBLIC FLOAT

Based on the information that was publicly available to the Company and within the knowledge of its Directors, as at the date of this report, there was sufficient public float of not less than 25% of the Company's issued shares as required under the Listing Rules.

AUDIT COMMITTEE

The Company has established an audit committee in compliance with the Listing Rules. The current audit committee comprises Mr. Chui Man Lung, Everett (chairman), Mr. Wu Hong and Mr. Han Chu (appointed on 17 December 2014) all of whom are independent non-executive Directors.

The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group, and to review the Company's annual report and half-yearly reports and to provide advices and comments thereon to the Board.

The audit committee has reviewed the Group's annual results for the year ended 31 December 2014, including the accounting principles and practices adopted by the Group.

CORPORATE GOVERNANCE

The Company is committed to adopt corporate governance practices. The Company's corporate governance practices are set out in the Corporate Governance Report on pages 24 to 33 of this annual report.

AUDITORS

The financial statements for the year ended 31 December 2014 have been audited by RSM Nelson Wheeler who will retire and being eligible, offer themselves for re-appointment at the forthcoming annual general meeting of the Company. A resolution will be submitted to the forthcoming annual general meeting of the Company for the re-appointment of RSM Nelson Wheeler as auditor of the Company.

On behalf of the Board

Zuo Jian Zhong
Co-Chairman

Hong Kong
23 March 2015

CORPORATE GOVERNANCE REPORT

The Company emphasizes on corporate governance and is committed to maintaining high standard of corporate governance which is reviewed and strengthened from time to time.

CORPORATE GOVERNANCE PRACTICES

During the year under review (i.e. from 1 January 2014 to 31 December 2014) ("Reporting Period"), the Company has applied and complied with most of the applicable provisions as set out Corporate Governance Code contained in Appendix 14 (the "CG Code") of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), except the deviation disclosed herein.

	Code Provision	Deviation	Considered Reason for deviation
A.2.1	The role of chairman and chief executive should be separate.	Mr. Wang Zhiqiang has been both the chairman and the chief executive officer ("CEO").	The Board considered that vesting the roles of chairman and CEO in the same person facilitates the execution of the Group business strategies and maximizes effectiveness of its operation. Further, as Mr. Zuo Jian Zhong has served as co-chairman of the Board since 1 March 2013, the Board considered that there is a sufficient balance and division of responsibilities and authority.

COMPLIANCE WITH THE MODEL CODE

The Company has adopted a code of conduct for securities transactions and dealing (the "Code of Conduct") by Directors on terms no less exacting than the required standard set out in Appendix 10 to Listing Rule (the "Model Code"). The Company has made specific enquiry with all Directors, all the Directors have confirmed that they have complied with the required standards set out in the Model Code and the Code of Conduct during the Reporting Period.

BOARD OF DIRECTORS

During the Reporting Period, the Board consists of three executive Directors namely, Mr. Wang Zhiqiang (Co-Chairman), Mr. Zuo Jian Zhong (Co-Chairman) and Mr. Tang Yau Sing, one non-executive Director namely Mr. Kotoi Hirofumi, and three independent non-executive Directors namely Mr. Chui Man Lung, Everett, Mr. Han Chu and Mr. Wu Hong. On 1 April 2015, Mr. Zhang Zhige and Mr. Liu Wei were appointed as executive Directors. None of the Directors has any family relationship with any of other Directors.

The Company considers that the Board has the necessary skills and experience appropriate for discharging their duties as directors in the best interest of the Company and that the current board size as adequate for its present operations. Detailed biographies outlining each director's range of specialist experience and suitability for the successful long-term management of the Group can be found in the Section of "Directors' Profile".

During the Reporting Period, the Chairman met with the independent non-executive Directors without the executive Directors present.

Board Diversity

In compliance with the requirement set out in code provision A.5.6 of the CG Code, the Company adopted a board diversity policy (the "Board Diversity Policy") on 1 April 2014 which set out its approach to achieve diversity on the Board with a view to achieving a sustainable and balanced development of the Company.

The Company seeks to achieve Board diversity through the consideration of a number of factors, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills knowledge and length of service. The Company will also take into account factors based on its own business model and specific needs from time to time. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

Chairman and Chief Executive Officer

The Code provision A.2.1 stipulated that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and CEO should be clearly established and set out in writing.

Mr. Wang Zhiqiang currently assumes the role of both Chairman and Chief Executive Officer (the "CEO") of the Company. The Company considers that the chairman is responsible for the operation of the Board and the CEO is responsible for managing the operations of the Group, and the responsibilities are clearly set out in writing and approved by the Board. Mr. Wang Zhiqiang has been both the Chairman and CEO of the Company, which deviated from the provisions set out in the CG Code. Given the Group's current stage of development, the Board considers that vesting the roles of chairman and CEO in the same person facilitates the execution of the Group's business strategies and maximizes effectiveness of its operations. The Board shall nevertheless review the structure from time to time and shall consider the appropriate adjustment should suitable circumstance arise.

Role and function of the Board and the management

The principal functions of the Board are to make decision on the objectives, strategic plans, budgets and management structure of the Company; to oversee the management of the business and affairs of the Group; to supervise the management of the business and affairs with the objective of enhancing the Company and shareholders' value with the proper delegation of the power to the management for its day-to-day operation of the Company, implementation of the budgets and strategic plans and development of the organization of the Company for implementing the Board's decision. The composition and functions of each Board committee and their major roles and functions are described below. The final decision still rests with the Board unless otherwise provided for in the terms of reference of the relevant committees.

Non-executive Directors

All non-executive Directors including independent non-executive Directors are subject to retirement by rotation and re-election in accordance with the Company's Articles of Association at each annual general meeting.

Independent non-executive Directors are responsible to scrutinize the Company's performance in achieving agreed corporate goals and objectives; and ensuring that the exercise of the board authority is within the powers conferred to the Board under is Articles of Association, applicable laws, rules and regulations.

CONFIRMATION OF INDEPENDENCE

The Company has received annual confirmations of independence from each of the independent non-executive Directors in accordance with Rule 3.13 of the Listing Rules. The Directors consider that all the independent non-executive Directors remain independent.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

Each of Mr. Wang Zhiqiang, Mr. Zuo Jian Zhong and Mr. Kotoi Hirofumi have renewed their service contracts with the Company for a term of three years commencing from 26 March 2014 and subject to termination by giving not less than 3 months' prior written notice.

Mr. Tang Yau Sing was appointed as an executive Director on 17 December 2014. He has entered into a service contract on 17 December 2014 for a term of three years and subject to termination by giving not less than 3 months' prior written notice.

Each of Mr. Chui Man Lung, Everett and Mr. Wu Hong have entered into formal appointment letters for appointing them as independent non-executives Director for a term of three years commencing from 10 September 2013 and subject to termination by giving not less than one month's prior written notice.

Mr. Han Chu has entered into a formal appointment letter with the Company for appointing him as an independent non-executive Director commencing on 17 December 2014 for a term of three years and subject to termination by giving not less than one month's prior written notice.

BOARD MEETINGS

The Board holds at least four meetings a year. The Board convenes meetings on a regular basis and on an ad hoc basis, as required by business needs. All Directors are invited to attend the Board meetings in person or by telephone conference.

Sufficient notices for regular board meetings and reasonable notices for non-regular board meetings were given to all Directors so as to ensure that each of them had an opportunity to attend the meetings. Board papers will be given to the Board before the date of the Board meeting by the Company Secretary.

If a substantial shareholder or a Director has a conflict of interest in a matter, the matter will be dealt by a physical Board meeting rather than a written resolution.

During the Reporting Period, the Board held a total of 11 Board meetings.

Details of Directors' attendance record in 2014 are as follows:

Directors	No. of meetings attended/ No. of meetings held
Executive Directors	
Wang Zhiqiang	7/11
Zuo Jian Zhong	11/11
Tang Yau Sing (appointed on 17 December 2014)	3/3
Non-Executive Directors	
Shi Chongming (retired on 26 March 2014)	1/2
Wang Xubing (retired on 26 March 2014)	1/2
Li Jian (resigned on 31 July 2014)	4/4
Kotoi Hirofumi (re-designated on 31 July 2014)	9/11
Sasaki So (resigned on 19 December 2014)	4/4
Independent Non-Executive Directors	
Chui Man Lung, Everett	10/11
Han Chu (appointed on 17 December 2014)	3/3
Wu Hong	11/11
Yamamoto Yoshimasa (resigned on 31 July 2014)	1/2
Takei Akio (resigned on 17 December 2014)	4/4

COMPANY SECRETARY

During the Reporting Period, the Company Secretary was responsible for advising the Board on compliance and corporate governance matters. The Company Secretary also prepared detailed minutes of each meeting. The minutes would be sent to the members of the Board for comments as soon as practicable after conclusion of the meetings. The Company Secretary reports to the Chairman. All Directors also have access to the advice and services of the Company Secretary to ensure that all applicable laws, rules and regulations are followed.

The Company Secretary has confirmed that she has taken no less 15 hours of relevant professional training during the year 2014 as required by Listing Rule 3.29.

ACCESS TO INFORMATION

All Directors are kept informed of major changes of the Group's business from time to time. They have unrestricted access to the advices from the company secretary who are responsible to provide the Board papers and related materials.

Minutes of Board Meeting and Board Committee meetings are kept by the Company Secretary and are open for inspection by any Director. The Directors including independent non-executive Directors may seek for legal advices at the Company's expenses to discharge their duties.

DIRECTORS' AND OFFICERS' LIABILITY

Appropriate insurance cover on directors' and officers' liabilities has been in force to protect the Directors and officers of the Group from their risk exposure arising from the businesses of the Group.

DIRECTORS' TRAINING AND PROFESSIONAL DEVELOPMENT

A comprehensive, formal and tailored induction training will be given to every newly appointed Directors. Directors will be provided with materials relevant to the Company's business and director's duties and responsibilities. In addition, in order to allow the Directors to understand the latest development of regulatory and compliance issues, they are also provided with market news and regulatory updates. A summary of their records of continuous development training ("CPD") is as follows:

Directors	Types of CPD	Subject of CPD
Executive Directors		
Wang Zhiqiang	1,2	A,B
Zuo Jian Zhong	2	A,B
Tang Yau Sing (appointed on 17 December 2014)	1,2	A,B
Non-Executive Directors		
Shi Chongming (retired on 26 March 2014)	2	A,B
Wang Xubing (retired on 26 March 2014)	2	A,B
Li Jian (resigned on 31 July 2014)	2	A,B
Kotoi Hirofumi (re-designated on 31 July 2014)	1,2	A,B
Sasaki So (resigned on 19 December 2014)	1,2	A,B
Independent Non-Executive Directors		
Chui Man Lung, Everett	1,2	A,B
Han Chu (appointed on 17 December 2014)	1,2	A,B
Wu Hong	1,2	A,B
Yamamoto Yoshimasa (resigned on 31 July 2014)	2	A,B
Takei Akio (resigned on 17 December 2014)	1,2	A,B

Note 1:

1. Attending in-house training or seminars
2. Reading newspapers, journals and updated legal and regulatory news

Note 2:

A. The Company's business
B. Laws, rules and regulations, accounting standards

BOARD COMMITTEES

The Board has established three committees with specific written terms of reference to oversee particular aspects of the Company's affairs.

Audit Committee

During the Reporting Period, Audit Committee consists of all independent non-executive Directors namely Mr. Chui Man Lung, Everett (the Chairman), Mr. Han Chu (appointed on 17 December 2014) and Mr. Wu Hong.

The primary duties of the Audit Committee include, inter alia, to review and monitor financial reporting and the judgments contained therein; and to review financial and internal controls half-yearly and annually, accounting policies and to provide recommendations and advices to the Board on the appointment, re-appointment and removal of external auditor as well as their terms of appointment.

The Audit Committee reviewed and discussed with the management the accounting principles and practice adopted by the Group and auditing, internal controls and financial reporting matters. The audited financial statements of the Group for the financial year ended 31 December 2014 have been reviewed by the current Audit Committee.

Attendance of the Audit Committee members during the relevant period is set out below:

Members	No. of meetings attended/ No. of meeting held
Chui Man Lung, Everett	3/3
Wu Hong	3/3
Yamamoto Yoshimasa (resigned on 31 July 2014)	0/2
Takei Akio (resigned on 17 December 2014)	1/1
Han Chu (appointed on 17 December 2014)	N/A

Nomination Committee

A Nomination Committee comprising four members, namely Mr. Wang Zhiqiang (executive Director and the Chairman), and independent non-executive Directors Mr. Chui Man Lung, Everett, Mr. Han Chu (appointed on 17 December 2014) and Mr. Wu Hong.

The major functions of the Nomination Committee are to review the structure and composition of the Board, to review and provide recommendations to the shareholders of the Company on individuals suitably qualified to become Board members and the terms of Director's service contract, and to assess the independence of the independent non-executive Directors and to review the Board Diversity Policy.

The Nomination Committee has been provided with sufficient resources to perform its duties and may seek independent professional advice at the Company's expenses, to perform its responsibilities if it considers necessary.

Attendance of the Nomination Committee members during the relevant period is set out below:

Members	No. of meetings attended/ No. of meeting held
Wang Zhiquang	4/4
Yamamoto Yoshimasa (resigned on 31 July 2014)	0/2
Chui Man Lung, Everett	4/4
Wu Hong	4/4
Takei Akio (resigned on 17 December 2014)	1/1
Han Chu (appointed on 17 December 2014)	N/A

Salary Review Committee

The Salary Review Committee of the Company comprising four members with a majority of independent non-executive Directors namely Mr. Wang Zhiqiang, Mr. Chui Man Lung, Everett, Mr. Wu Hong (the Chairman) and Mr. Han Chu (appointed on 17 December 2014).

The primary objectives of Salary Review Committee is, inter alia, to formulate the remuneration policy based on the responsibilities, qualifications and working performance of senior management and directors; review and recommend the Board's annual remuneration policy. The major objective of the remuneration policy is to ensure that the Company is able to attract, retain, and motivate a high-calibre team which is essential to the success of the Company.

During the Reporting Period, the Salary Review Committee held 5 meetings. It reviewed the remuneration package of Directors and considered the terms of appointment of the newly appointed Directors.

Attendance of the Salary Review Committee members during the relevant period is set out below:

Members	No. of meetings attended/ No. of meeting held
Wang Zhiqiang	5/5
Chui Man Lung, Everett	4/5
Wu Hong	5/5
Yamamoto Yoshimasa (resigned on 31 July 2014)	1/3
Takei Akio (resigned on 17 December 2014)	1/1
Han Chu (appointed on 17 December 2014)	N/A

Details of remuneration paid to Directors and senior management for the year are set out in note 12 to the consolidated financial statements.

CORPORATE GOVERNANCE FUNCTION

During the Reporting Period, the Board responsible for performing the corporate governance duties as follows:

- developing and reviewing the Company's policies and practices on corporate governance and making recommendation to the Board;

- reviewing and monitoring the training and continuous professional development of Directors and senior management;

- reviewing and monitoring the Company's policies and practices on compliance with legal and regulatory requirements;

- developing, reviewing and monitoring the code of conduct and compliance manual (if any) applicable to the Group's employees and Directors; and

- reviewing the Company's compliance with the CG Code and disclosure in the corporate governance policies.

ACCOUNTABILITY AND AUDIT

The Directors acknowledge their responsibility for preparing the financial statements of the Group for the Reporting Period. The Directors consider that the financial statements have been prepared in conformity with the generally accepted accounting standards in Hong Kong. Having made appropriate enquiries, the Directors are not aware of any material uncertainties relating to events or conditions which may cast significant doubt upon the Company's ability to continue as a going concern.

The financial statements of the Company for the year ended 31 December 2014 have been reviewed by the current audit committee of the Company (the "Audit Committee") and audited by the external auditors, Messrs. RSM Nelson Wheeler.

For the year ended 31 December 2014, the remuneration paid/payable to RSM Nelson Wheeler, the auditors of the Company, is set out as follows:

Services	**Fee (HK$)**
Audit Fee	$2,930,000
Non-audit Fees	$1,206,000

INTERNAL CONTROL

The Board has overall responsibilities for maintaining sound and effective internal control system of the Group. The Board delegated to the management the implementation of such systems of internal controls as well as the annual review of relevant financial, operational and compliance controls and risk management procedures.

During the year under review, the Board, through the internal audit department, has performed internal control review on major operations of the Group. The Board, in conjunction with the Audit Committee, annually assessed and reviewed the effectiveness of the internal control systems and procedures and considered the adequacy of resources, financial reporting function. The Audit Committee has reviewed reports from internal audit department with their findings and recommendations for improving the internal control system of the Group and is satisfied that there is an ongoing process in place for identifying, evaluating and managing the significant risks faced by the Group.

SHAREHOLDERS' RIGHTS

Pursuant to Article 58 of the Company's Articles of Association, any one or more Shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Company Secretary, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself or themselves may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company. The requisition in writing should be sent to the Company's office at Unit 2001, 20/F., Lippo Centre, Tower 2, No. 89 Queensway, Admiralty, Hong Kong.

The same procedure also applies to any proposal to be tabled at shareholders' meetings for adoption. The Board will review shareholders' enquires on a regular basis. Specific enquiries and suggestions by shareholders can be sent in writing to the Board or the Company Secretary at the above address.

In case of shareholding enquires, shareholders should direct their enquiries to the Company's Hong Kong branch share registrar, Tricor Investor Services Limited, via its online holding enquiry at www.tricoris.com, or by email to is-enquiries@hk.tricorglobal.com or dial its hotline at (852) 2980 1333 or go in person at its public counter at Level 22, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

COMMUNICATION WITH SHAREHOLDERS

During the Reporting Period, the Board has adopted the shareholders' communication policy, which is posted on the Company's website.

The Company provides extensive information in its annual and interim reports and announcements. All shareholders' communications are also available on the Company's website.

The annual general meeting of the Company provides a useful forum for shareholders to exchange views with the Board. All Directors will make an effort to attend. External auditor is also available at the annual general meeting to address shareholders' queries. In case of any general meeting to approve a connected transaction or any other transaction that is subject to independent shareholders' approval, members of the independent Board committee will also make an effort to attend to address shareholders' queries.

Details of the Directors' attendances at the 2014 general meeting are as follows:

Directors	No. of general meetings attended/No. of general meetings held
Executive Directors	
Wang Zhiqiang	2/2
Zuo Jian Zhong	2/2
*Tang Yau Sing (appointed on 17 December 2014)	–
Non-Executive Directors	
Kotoi Hirofumi (re-designated on 31 July 2014)	1/2
Shi Chongming (retired on 26 March 2014)	0/1
Wang Xubing (retired on 26 March 2014)	0/1
Li Jian (resigned on 31 July 2014)	0/2
*Sasaki So (resigned on 19 December 2014)	–
Independent Non-Executive Directors	
Chui Man Lung, Everett	2/2
Wu Hong	2/2
*Han Chu (appointed on 17 December 2014)	–
Yamamoto Yoshimasa (resigned on 31 July 2014)	0/2
*Takei Akio (resigned on 17 December 2014)	–

CONSTITUTIONAL DOCUMENTS

The Company does not have any changes in the constitutional document during the year under review.

* No general meeting was held after Mr. Tang Yau Sing, Mr. Han Chu, Mr. Sasaki So and Mr. Takei Akio were appointed as Directors in 2014.

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF SINOCOM SOFTWARE GROUP LIMITED

(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of SinoCom Software Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 36 to 96, which comprise the consolidated statement of financial position as at 31 December 2014, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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 the 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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2014, and of the Group's results and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

RSM Nelson Wheeler
Certified Public Accountants
Hong Kong

23 March 2015

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2014

	Note	**2014 HK$'000**	2013 HK$'000
Revenue	7	**582,892**	481,115
Cost of services		**(527,672)**	(424,685)
Gross profit		**55,220**	56,430
Administrative expenses		**(92,685)**	(92,274)
Other income, gains/(losses)	8	**(8,183)**	(43,376)
Loss from operations		**(45,648)**	(79,220)
Share of result of an associate	18	**(341)**	(1,969)
Loss before tax		**(45,989)**	(81,189)
Income tax expense	10	**(10,921)**	(2,886)
Loss for the year	11	**(56,910)**	(84,075)
Other comprehensive income, net of tax:			
Items that may be reclassified to profit or loss:			
Exchange differences arising on translating foreign operations		**(2,091)**	15,271
Exchange differences reclassified to profit or loss on disposal of a subsidiary		**(1,165)**	–
Other comprehensive income for the year, net of tax		**(3,256)**	15,271
Total comprehensive income for the year		**(60,166)**	(68,804)
Loss for the year attributable to:			
Owners of the Company		**(56,799)**	(83,518)
Non-controlling interests		**(111)**	(557)
		(56,910)	(84,075)
Total comprehensive income for the year attributable to:			
Owners of the Company		**(60,045)**	(68,385)
Non-controlling interests		**(121)**	(419)
		(60,166)	(68,804)
Loss per share			
— Basic	15	**HK5.03 cents**	HK7.48 cents
— Diluted	15	**HK5.03 cents**	HK7.48 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2014

	Note	**2014** **HK$'000**	2013 HK$'000
Non-current assets			
Plant and equipment	16	**13,433**	19,057
Goodwill	17	**7,308**	7,333
Investment in an associate	18	**2,730**	3,124
Available-for-sale financial assets	19	**–**	14,690
Deposits paid for acquisitions of subsidiaries	20	**385,000**	–
Other deposits	21	**1,610**	425
Deferred tax assets	26	**2,215**	989
		412,296	45,618
Current assets			
Trade and other receivables	22	**74,661**	92,514
Investment receivables	23	**102,459**	–
Amount due from a fellow subsidiary	33	**–**	1,272
Amount due from a related company	33	**11,422**	–
Current tax assets		**1,742**	–
Term deposits with initial terms of over three months	24	**20,184**	25,180
Bank balances and cash	24	**176,642**	535,174
		387,110	654,140
Current liabilities			
Trade and other payables	25	**132,351**	111,628
Current tax liabilities		**22,811**	21,077
		155,162	132,705
Net current assets		**231,948**	521,435
Total assets less current liabilities		**644,244**	567,053
Non-current liabilities			
Deferred tax liabilities	26	**780**	2,181
NET ASSETS		**643,464**	564,872

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2014

	Note	2014 HK$'000	2013 HK$'000
Capital and reserves			
Share capital	27	**32,896**	27,896
Reserves	36(a)	**604,468**	533,013
Equity attributable to owners of the Company		**637,364**	560,909
Non-controlling interests		**6,100**	3,963
TOTAL EQUITY		**643,464**	564,872

Approved by the Board of Directors on 23 March 2015.

Zuo Jian Zhong	**Tang Yau Sing**
Director	*Director*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2014

	Attributable to owners of the Company												
	Share capital	Share premium	Share redemption reserve	Capital reserve	Other reserve	General reserve fund	Shareholder's contribution	Translation reserve	Share options reserve	Retained earnings	Total	Non-controlling interests	Total equity
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
		(Note 36(c)(i))	(Note 36(c)(ii))	(Note a)	(Note b)	(Note c)	(Note d and 36(c)(iv))	(Note e)	(Note 36(c)(v))				
At 1 January 2013	27,896	166,189	2,269	10,657	5,078	28,639	4,118	98,534	10,104	353,918	707,402	4,382	711,784
Total comprehensive income for the year	–	–	–	–	–	–	–	15,133	–	(83,518)	(68,385)	(419)	(68,804)
Transfer of share options reserve upon forfeiture of share options	–	–	–	–	–	–	–	–	(1,678)	1,678	–	–	–
Dividends recognised as distribution (Note 14)	–	(55,000)	–	–	–	–	–	–	–	(23,108)	(78,108)	–	(78,108)
Changes in equity for the year	–	(55,000)	–	–	–	–	–	15,133	(1,678)	(104,948)	(146,493)	(419)	(146,912)
Balance at 31 December 2013	27,896	111,189	2,269	10,657	5,078	28,639	4,118	113,667	8,426	248,970	560,909	3,963	564,872
At 1 January 2014	27,896	111,189	2,269	10,657	5,078	28,639	4,118	113,667	8,426	248,970	560,909	3,963	564,872
Total comprehensive income for the year	–	–	–	–	–	–	–	(3,246)	–	(56,799)	(60,045)	(121)	(60,166)
Disposal of a subsidiary (Note 29)	–	–	–	–	–	–	–	–	–	–	–	2,258	2,258
Transfer of share options reserve upon forfeiture of share options	–	–	–	–	–	–	–	–	(2,007)	2,007	–	–	–
Issue of shares on placement (Note 27)	5,000	131,500	–	–	–	–	–	–	–	–	136,500	–	136,500
Changes in equity for the year	5,000	131,500	–	–	–	–	–	(3,246)	(2,007)	(54,792)	76,455	2,137	78,592
Balance at 31 December 2014	32,896	242,689	2,269	10,657	5,078	28,639	4,118	110,421	6,419	194,178	637,364	6,100	643,464

Note a: The capital reserve of the Group represents the difference between the paid-in capital of the subsidiaries acquired pursuant to a group reorganisation and the nominal value of the Company's shares issued in exchange thereof.

Note b: The other reserve of the Group represents the capitalisation of general reserve fund and enterprise expansion fund in SinoCom Computer System (Beijing) Co., Ltd. ("SinoCom Beijing") as share capital of SinoCom Beijing in year 2003.

Note c: In accordance with the law and regulations in the People's Republic of China (the "PRC") on foreign enterprises, PRC subsidiaries of the Company are required to set aside 10% of their net profits, prepared in accordance with generally accepted accounting principles in the PRC, to the general reserve funds until the funds aggregate to 50% of their registered capital. In accordance with their articles of association, PRC subsidiaries of the Company may transfer such amount of profits (after taxation) as determined by their board of directors of the PRC subsidiaries to the general reserve fund before distribution to their shareholders. The general reserve fund is non-distributable and can be used to increase the capital of the PRC subsidiaries. The general reserve fund can also be used to make good future losses.

Note d: The shareholder's contribution of the Group represents waiver of an amount due to a shareholder of the Company in 2001.

Note e: The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 3(d) to the financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2014

	Note	**2014** **HK$'000**	2013 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		**(45,989)**	(81,189)
Adjustments for:			
Depreciation of plant and equipment	16	**12,686**	12,642
Exchange loss		**8,332**	65,801
Loss/(gain) on disposal of available-for-sale financial assets	8	**1,362**	(14,251)
Loss on disposal of a subsidiary	29	**2,055**	–
Interest income	8	**(8,029)**	(10,269)
Loss on disposal of plant and equipment		**246**	66
Compensation for early termination of the lease on office premises	8	**(10,086)**	–
Share of result of an associate	18	**341**	1,969
Allowance for doubtful debts	22	**326**	1,492
Operating loss before working capital changes		**(38,756)**	(23,739)
Decrease in trade and other receivables		**20,875**	5,730
Decrease in amount due to ultimate holding company		**–**	(454)
Increase/(decrease) in trade and other payables		**37,469**	(7,871)
Cash generated from/(used in) operations		**19,588**	(26,334)
Income tax paid		**(13,188)**	(6,052)
Interest received		**1,246**	3,885
Net cash generated from/(used in) operating activities		**7,646**	(28,501)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2014

	Note	2014 HK$'000	2013 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of short term investments		**(1,866,181)**	(1,651,475)
Loan granted to related companies		**–**	(150,367)
Loan granted to the Seller	22	**(19,014)**	–
Decrease of term deposits		**4,889**	161,955
Purchases of available-for-sale financial assets		**–**	(15,711)
Purchases of plant and equipment		**(9,369)**	(12,698)
Deposits paid for acquisitions of subsidiaries		**(385,000)**	–
Proceeds from disposal of short term investments		**1,763,722**	1,651,475
Loan repayment from related companies		**–**	230,659
Interest received for short term investments		**5,043**	4,626
Proceeds from disposal of available-for-sale financial assets		**13,451**	28,432
Net cash outflow from disposal of a subsidiary	29	**(904)**	–
Interest received for loan receivables		**–**	2,975
Proceeds from disposal of plant and equipment		**978**	32
Net cash (used in)/generated from investing activities		**(492,385)**	249,903
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividend paid		**–**	(78,108)
Proceeds from issue of shares on placement	27	**136,500**	–
Net cash generated from/(used in) financing activities		**136,500**	(78,108)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(348,239)**	143,294
CASH AND CASH EQUIVALENTS AT 1 JANUARY		**535,174**	437,786
Effect of foreign exchange rate changes		**(10,293)**	(45,906)
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		**176,642**	535,174
ANALYSIS OF CASH AND CASH EQUIVALENTS			
Bank balances and cash		**176,642**	535,174

1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands with limited liability. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The address of its principal place of business in Hong Kong is Unit 2001, 20/F., Lippo Centre, Tower 2, No. 89 Queensway, Admiralty, Hong Kong. The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 37 to the consolidated financial statements.

In the opinion of the directors of the Company, as at 31 December 2013, SJI (Hong Kong) Limited ("SJI"), a company incorporated in Hong Kong, was the immediate holding company; SJI Inc., a company incorporated in Japan, was the ultimate holding company. In December 2014, SJI entered into a sale and purchase agreement to sell 300,000,000 shares in the Company (representing approximately 22.80% of the issued share capital of the Company). Following the completion, SJI ceased to be the controlling shareholder but remained as the single largest holder of the issued shares in the Company as at 31 December 2014.

2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS AND REQUIREMENTS

In the current year, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") that are relevant to its operations and effective for its accounting year beginning on 1 January 2014. HKFRSs comprise Hong Kong Financial Reporting Standards ("HKFRS"); Hong Kong Accounting Standards ("HKAS"); and Interpretations.

(a) Application of new and revised HKFRSs

The following standards have been adopted by the Group for the first time for the financial year beginning 1 January 2014:

Amendment to HKAS 32, Offsetting financial assets and financial liabilities

This amendment clarifies that the right of set-off must not be contingent on a future event. It must also be legally enforceable for all counterparties in the normal course of business, as well as in the event of default, insolvency or bankruptcy. The amendment also considers settlement mechanisms. The amendment did not have a significant effect on the Group financial statements.

2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS AND REQUIREMENTS (Continued)

(a) Application of new and revised HKFRSs (Continued)

Amendment to HKAS 36, Recoverable amount disclosures for non-financial assets

The amendments reduce the circumstances in which the recoverable amount of assets or cash-generating units is required to be disclosed, clarify the disclosures required, and introduce an explicit requirement to disclose the discount rate used in determining impairment (or reversals) where recoverable amount based on fair value less costs of disposal is determined using a present value technique. The amendments do not have an impact on these consolidated financial statements as the recoverable amounts of assets or cash-generating units have been determined on the basis of their value in use.

Amendments to HKFRS 2 (Annual Improvements to HKFRSs 2010–2012 Cycle)

This amendment clarifies the definitions of "vesting condition" and "market condition" and adds definitions for "performance condition" and "service condition". The amendment is applicable prospectively to share-based payment transactions for which the grant date is on or after 1 July 2014 and had no effect on the Group's consolidated financial statements.

Amendments to HKFRS 3 (Annual Improvements to HKFRSs 2010–2012 Cycle)

This amendment, applicable prospectively to business combinations for which the acquisition date is on or after 1 July 2014, requires any contingent consideration that is classified as an asset or a liability (i.e. non-equity) to be measured at fair value at each reporting date with changes in fair value recognised in profit or loss. It had no effect on the Group's consolidated financial statements.

Amendments to HKFRS 13 (Annual Improvements to HKFRSs 2010–2012 Cycle)

This amendment to the standard's basis for conclusions only clarifies that the ability to measure certain short-term receivables and payables on an undiscounted basis is retained.

2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS AND REQUIREMENTS (Continued)

(b) New and revised HKFRSs in issue but not yet effective

The Group has not early applied new and revised HKFRSs that have been issued but are not yet effective for the financial year beginning 1 January 2014. The directors anticipate that the new and revised HKFRSs will be adopted in the Group's consolidated financial statements when they become effective. The Group is in the process of assessing, where applicable, the potential effect of all new and revised HKFRSs that will be effective in future periods but is not yet in a position to state whether these new and revised HKFRSs would have a material impact on its results of operations and financial position. These include the following which may be relevant to the Group.

HKFRS 9	Financial Instruments[1]
HKFRS 15	Revenue from Contracts with Customers[2]
Amendments to HKAS 27	Equity Method in Separate Financial Statements[3]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2010–2012 Cycle[4]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2011–2013 Cycle[5]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012–2014 Cycle[3]

1 Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.
2 Effective for annual periods beginning on or after 1 January 2017, with earlier application permitted.
3 Effective for annual periods beginning on or after 1 January 2016, with earlier application permitted.
4 Effective for annual periods beginning on or after 1 July 2014, with limited exceptions. Earlier application is permitted.
5 Effective for annual periods beginning on or after 1 July 2014, with earlier application permitted.

3. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with all applicable HKFRSs issued by the HKICPA and accounting principles generally accepted in Hong Kong. These consolidated financial statements also comply with the applicable disclosure requirements of the Hong Kong Companies Ordinance, which for this financial year and the comparative period continue to be those of the predecessor Hong Kong Companies Ordinance (Cap. 32), in accordance with transitional and saving arrangements for Part 9 of the new Hong Kong Companies Ordinance (Cap. 622), "Accounts and Audit", which are set out in sections 76 to 87 of Schedule 11 to that Ordinance. These consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange.

These consolidated financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 4.

The significant accounting policies applied in the preparation of these financial statements are set out below.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December. Subsidiaries are entities over which the Group has control. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group has power over an entity when the Group has existing rights that give it the current ability to direct the relevant activities, i.e. activities that significantly affect the entity's returns.

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Business combination and goodwill

The acquisition method is used to account for the acquisition of a subsidiary in a business combination. The consideration transferred in a business combination is measured at the acquisition-date fair value of the assets given, equity instruments issued, liabilities incurred and contingent consideration. Acquisition-related costs are recognised as expenses in the periods in which the costs are incurred and the services are received. Identifiable assets and liabilities of the subsidiary in the acquisition are measured at their acquisition-date fair values.

The excess of the sum of consideration transferred over the Company's share of the net fair value of the subsidiary's identifiable assets and liabilities is recorded as goodwill. Any excess of the Company's share of the net fair value of the identifiable assets and liabilities over the sum of the consideration transferred is recognised in consolidated profit or loss as a gain on bargain purchase which is attributed to the Company.

In a business combination achieved in stages, the previously held equity interest in the subsidiary is remeasured at its acquisition-date fair value and the resulting gain or loss is recognised in consolidated profit or loss. The fair value is added to the sum of the consideration transferred in business combination to calculate the goodwill.

The non-controlling interests in the subsidiary are initially measured at the non-controlling shareholders' proportionate share of the net fair value of the subsidiary's identifiable assets and liabilities at the acquisition date.

After initial recognition, goodwill is measured at cost less accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs") or groups of CGUs that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the Group at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level. Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU containing the goodwill is compared to its recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Associates

Associates are entities over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policies of an entity but is not control or joint control over those policies. The existence and effect of potential voting rights that are currently exercisable or convertible, including potential voting rights held by other entities, are considered when assessing whether the Group has significant influence. In assessing whether a potential voting right contributes to significant influence, the holder's intention and financial ability to exercise or convert that right is not considered.

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

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

The gain or loss on the disposal of an associate that results in a loss of significant influence represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that associate and (ii) the Group's entire carrying amount of that associate (including goodwill) and any related accumulated foreign currency translation reserve. If an investment in an associate becomes an investment in a joint venture, the Group continues to apply the equity method and does not remeasure the retained interest.

Unrealised profits on transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Hong Kong dollars ("HK$"), which is the Company's presentation currency. The functional currency of the principal operating subsidiaries of the Group is Renminbi ("RMB"). The directors consider that choosing HK$ as the presentation currency best suits the needs of the shareholders and investors.

(ii) Transactions and balances in each entity's financial statements

Transactions in foreign currencies are translated into the functional currency on initial recognition using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the exchange rates at the end of each reporting period. Gains and losses resulting from this translation policy are recognised in profit or loss.

Non-monetary items that are measured at fair value in foreign currencies are translated using the exchange rates at the dates when the fair values are determined.

When a gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss is recognised in other comprehensive income. When a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

(iii) Translation on consolidation

The results and financial position of all the Group entities that have a functional currency different from the Company's presentation currency are translated into the Company's presentation currency as follows:

— Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

— Income and expenses are translated at average exchange rates for the period (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the exchange rates on the transaction dates); and

— All resulting exchange differences are recognised in other comprehensive income and accumulated in the translation reserve.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Foreign currency translation (Continued)

(iii) Translation on consolidation (Continued)

On consolidation, exchange differences arising from the translation of monetary items that form part of the net investment in foreign entities and of borrowings are recognised in other comprehensive income and accumulated in the translation reserve. When a foreign operation is sold, such exchange differences are reclassified to consolidated profit or loss as part of the gain or loss on disposal.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(e) Plant and equipment

Plant and equipment are stated in the consolidated statement of financial position at cost, less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

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 repairs and maintenance are recognised in profit or loss during the period in which they are incurred.

Depreciation of plant and equipment is calculated at rates sufficient to write off their cost less their residual values over the estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Office equipment	10%–$33^1/_3$%
Motor vehicles	20%–25%
Leasehold improvements	Over the lease term

The residual values, useful lives and depreciation methods are reviewed and adjusted, if appropriate, at the end of each reporting period.

The gain or loss on disposal of plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in profit or loss.

(f) Operating leases

Leases that do not substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as operating leases. Lease payments (net of any incentives received from the lessor) are recognised as an expense on a straight-line basis over the lease term.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Recognition and derecognition of financial instruments

Financial assets and financial liabilities are recognised in the statement of financial position when the Group becomes a party to the contractual provisions of the instruments.

Financial assets are derecognised when the contractual rights to receive cash flows from the assets expire; the Group transfers substantially all the risks and rewards of ownership of the assets; or the Group neither transfers nor retains substantially all the risks and rewards of ownership of the assets but has not retained control on the assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in profit or loss.

(h) Investments

Investments are recognised and derecognised on a trade date basis where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, plus directly attributable transaction costs except in the case of financial assets at fair value through profit or loss.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are not classified as loans and other receivables (including investment receivables), held-to-maturity investments or financial assets at fair value through profit or loss. Available-for-sale financial assets are subsequently measured at fair value. Gains or losses arising from changes in fair value of these investments are recognised in other comprehensive income and accumulated in the investment revaluation reserve, until the investments are disposed of or there is objective evidence that the investments are impaired, at which time the cumulative gains or losses previously recognised in other comprehensive income are reclassified from equity to profit or loss. Interest calculated using the effective interest method and dividends on available-for-sale equity investments are recognised are profit or loss.

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, are measured at cost less impairment losses.

Impairment losses recognised in profit or loss for equity investments classified as available-for-sale financial assets are not subsequently reversed through profit or loss. Impairment losses recognised in profit or loss for debt instruments classified as available-for-sale financial assets are subsequently reversed and recognised in profit or loss if an increase in the fair value of the instruments can be objectively related to an event occurring after the recognition of the impairment loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Trade and other receivables

Trade and other receivables (including investment receivables) are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment. An allowance for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the allowance is the difference between the receivables' carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate computed at initial recognition. The amount of the allowance is recognised in profit or loss.

Impairment losses are reversed in subsequent periods and recognised in profit or loss when an increase in the receivables' recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the receivables at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

(j) Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents represent cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of change in value. Bank overdrafts which are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents.

(k) Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument under HKFRSs. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

(l) Borrowings

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

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

(m) Trade and other payables

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Equity instruments

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

(o) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably.

Revenue from provision of outsourcing software development services and technical support services is recognised when the services are provided in the normal course of business, net of discounts and sales related taxes.

Interest income is recognised on a time-proportion basis using the effective interest method.

(p) Employee benefits

(i) Employee leave entitlements

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

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(ii) Pension obligations

The Group contributes to defined contribution retirement schemes which are available to all employees. Contributions to the schemes by the Group and employees are calculated as a percentage of employees' basic salaries. The retirement benefit scheme cost charged to profit or loss represents contributions payable by the Group to the funds.

(iii) Termination benefits

Termination benefits are recognised at the earlier of the dates when the Group can no longer withdraw the offer of those benefits and when the Group recognises restructuring costs and involves the payment of termination benefits.

(q) Share-based payments

The Group issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at the fair value (excluding the effect of non-market based vesting conditions) of the equity instruments at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non-market based vesting conditions.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(r) Borrowing costs

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

To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation is determined by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate is the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(s) Government grants

A government grant is recognised when there is reasonable assurance that the Group will comply with the conditions attaching to it and that the grant will be received.

Government grants relating to income are deferred and recognised in profit or loss over the period to match them with the costs they are intended to compensate.

Government grants that become receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

(t) Taxation

Income tax represents the sum of the current tax and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit recognised in profit or loss because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences, unused tax losses or unused tax credits can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(t) Taxation (Continued)

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

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates that have been enacted or substantively enacted by the end of the reporting period. Deferred tax is recognised in profit or loss, except when it relates to items recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity.

The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(u) Related parties

A related party is a person or entity that is related to the Group.

(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 the key management personnel of the Company or of a parent of the Company.

(B) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Company 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 employees of either the Group or an entity related to the Group.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(v) Impairment of assets

At the end of each reporting period, the Group reviews the carrying amounts of its assets, except goodwill, investments, receivables and deferred tax assets, of which the impairment policies are set out in notes 3(b), 3(h), 3(i), and 3(t) respectively, to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs of disposal 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 assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

(w) Provisions and contingent liabilities

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

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

(x) Events after the reporting period

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

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

The key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, 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.

Income taxes

The Group is subject to income taxes in the PRC and Japan. Significant estimates are required in determining the provision for income taxes. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Allowances for doubtful debts

The Group makes allowances for doubtful debts based on an assessment of the recoverability of trade receivables. Allowances are applied to trade receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of doubtful debts requires the use of judgment and estimates. Where the expectation is different from the original estimate, such difference will impact carrying amounts of trade receivables and doubtful debts expenses in the year in which such estimate is changed. As at 31 December 2014, the carrying amount of trade receivables was approximately HK$37,045,000 (2013: HK$75,739,000, net of allowance for doubtful debts of HK$1,500,000).

5. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: foreign currency risk, credit risk, liquidity risk and interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Foreign currency risk

The Group has certain exposure to foreign currency risk as most of its business transactions, assets and liabilities are principally denominated in United States dollar ("US$"), Japanese Yen ("JPY") and HK$, and the functional currency of the principal operating entities of the Group is RMB. The Group currently does not have a foreign currency hedging policy in respect of foreign currency transactions, assets and liabilities. The Group monitors its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

5. FINANCIAL RISK MANAGEMENT (Continued)

(a) Foreign currency risk (Continued)

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

	Liabilities		Assets	
	2014	2013	**2014**	2013
	HK$'000	HK$'000	**HK$'000**	HK$'000
US$	**–**	–	**662**	3,277
JPY	**42,896**	26,028	**144,929**	310,219
HK$	**5,091**	9,884	**395,081**	24,560

The sensitivity analysis has been determined based on the exposure to a 5% (2013: 5%) increase and decrease in the functional currency against the relevant foreign currencies. 5% (2013: 5%) is the sensitivity rate used and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes outstanding amounts of relevant subsidiaries' foreign currency denominated monetary items and adjusts their translation at the period end for a 5% (2013: 5%) change in foreign currency rates.

For a 5% (2013: 5%) strengthening/weakening of functional currency against US$, the consolidated loss for the year would have been HK$28,000 higher/lower (2013: HK$137,000 higher/lower). For a 5% (2013: 5%) strengthening/weakening of functional currency against JPY, the consolidated loss for the year would have been HK$3,817,000 higher/lower (2013: HK$9,572,000 higher/lower). For a 5% (2013: 5%) strengthening/weakening of functional currency against HK$, the consolidated loss for the year would be HK$16,282,000 higher/lower (2013: HK$593,000 higher/lower).

(b) Credit risk

The carrying amount of the bank balances and cash, term deposits with initial terms of over three months, trade and other receivables (including investment receivables) included in the consolidated statement of financial position represents the Group's maximum exposure to credit risk in relation to the Group's financial assets.

It has policies in place to ensure that sales are made to customers with an appropriate credit history. Amounts due from related companies are closely monitored by the directors.

The credit risk on bank balances and cash and term deposits with initial terms of over three months is limited because the counterparties are banks with high credit-ratings.

The Group's concentration of credit risk on trade receivables by geographical locations is mainly in the PRC and Japan.

The Group has concentration of credit risk as 40.2% (2013: 47.3%) and 72.4% (2013: 83.0%) of the total trade receivables was due from the Group's largest customer and the five largest customers respectively.

5. FINANCIAL RISK MANAGEMENT (Continued)

(c) Liquidity risk

Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate bank balances and cash and continuously monitoring forecast and actual cash flows.

The following table details the Group's remaining contractual maturity for its financial liabilities. The table reflects the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay in accordance with agreed repayment terms. The table includes principal cash flows.

The maturity analysis of the Group's financial liabilities is as follows:

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 31 December 2014					
Trade payables	**17,993**	**–**	**–**	**–**	**17,993**
Wages and salaries payables and other payables	**95,402**	**–**	**–**	**–**	**95,402**
At 31 December 2013					
Trade payables	16,861	–	–	–	16,861
Wages and salaries payables and other payables	87,404	–	–	–	87,404

(d) Interest rate risk

Cash flow interest rate risk in relation to bank balances and deposits is considered insignificant. Hence, no sensitivity analysis is presented. The Group is exposed to fair value interest rate risk in relation to fixed-rate bank deposits.

The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of prevailing interest rate announced by the People's Bank of China.

5. FINANCIAL RISK MANAGEMENT (Continued)

(e) Categories of financial instruments at 31 December

	2014 HK$'000	2013 HK$'000
Financial assets:		
Loans and receivables (including cash and cash equivalents)	**354,948**	616,686
Term deposits with initial terms of over three months	**20,184**	25,180
Available-for-sale financial assets	**–**	14,690
Financial liabilities:		
Financial liabilities measured at amortised cost	**113,395**	104,265

6. FAIR VALUE

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

7. REVENUE

	2014 HK$'000	2013 HK$'000
Outsourcing software development services	**579,771**	479,821
Technical support services	**3,121**	1,294
	582,892	481,115

Revenue from outsourcing software development services and technical support services are net of business tax and local government levies of approximately HK$174,000 (2013: HK$111,000).

8. OTHER INCOME, GAINS/(LOSSES)

Other income, gains/(losses) include the following:

	2014 HK$'000	2013 HK$'000
Interest income from short term investments	**5,043**	4,626
Interest income from loan receivables	**1,740**	1,758
Interest income from bank balances	**1,246**	3,885
Government subsidies	**9,524**	7,219
Compensation for early termination of the lease on office premises (Note 33)	**10,086**	–
Net foreign exchange loss (Note)	**(31,767)**	(73,574)
Allowance for doubtful debts	**(326)**	(1,492)
(Loss)/gain on disposal of available-for-sale financial assets	**(1,362)**	14,251
Loss on disposal of a subsidiary (Note 29)	**(2,055)**	–
Others	**(312)**	(49)
	(8,183)	(43,376)

Note: The foreign exchange loss is mainly attributable to bank balances and cash, and trade receivables denominated in JPY arising from the depreciation in JPY against the functional currency of each of the Group's entities.

Government subsidies include subsidies from local government for the employment of new university graduates of approximately HK$2,149,000 (2013: HK$3,518,000) and for its exports of outsourcing software development services of approximately HK$7,327,000 (2013: HK$3,555,000). The Group recognises the government subsidies when it fulfills all the conditions specified in the subsidy notice or relevant law and regulations.

9. SEGMENT INFORMATION

The operating segments of the Group, based on information reported to the chief operating decision maker (i.e. Chief Executive Officer) for the purposes of resources allocation and assessment of performance are analysed on the basis of the location of the customers' headquarters.

The Group has carried on a single business of the outsourcing software development services in two geographical locations — the PRC and Japan. All the assets of the Group are principally located in the PRC and Japan. Accordingly, there are two reportable segments of the Group which are regularly reviewed by the chief operating decision maker.

9. SEGMENT INFORMATION (Continued)

Segment revenue and results

The following is an analysis of revenue and results by operating segment of the Group:

Year ended 31 December 2014

	PRC HK$'000	Japan HK$'000	Total HK$'000
Revenue	31,615	551,277	582,892
Cost of services	(32,066)	(495,606)	(527,672)
Gross (loss)/profit	(451)	55,671	55,220
Administrative expenses	(2,263)	(58,673)	(60,936)
Segment results	(2,714)	(3,002)	(5,716)
Share of result of an associate			(341)
Other income, gains/(losses)			(8,183)
Unallocated corporate expenses			(31,749)
Loss before tax			(45,989)

Year ended 31 December 2013

	PRC HK$'000	Japan HK$'000	Total HK$'000
Revenue	18,050	463,065	481,115
Cost of services	(16,313)	(408,372)	(424,685)
Gross profit	1,737	54,693	56,430
Administrative expenses	(2,325)	(64,306)	(66,631)
Segment results	(588)	(9,613)	(10,201)
Share of result of an associate			(1,969)
Other income, gains/(losses)			(43,376)
Unallocated corporate expenses			(25,643)
Loss before tax			(81,189)

9. SEGMENT INFORMATION (Continued)

Segment revenue and results (Continued)

Revenue reported above represents revenue generated from external customers. There were no inter-segment sales in both years.

The accounting policies of the operating segments are the same as the accounting policies of the Group described in note 3.

Segment results represent the profit or loss of each segment without allocation of share of result of an associate, (loss)/gain on disposal of available-for-sale financial assets, other income, gains/(losses), central administration cost and directors' emoluments. This is the measure reported to the chief operating decision maker for the purpose of resource allocation and performance assessment.

Segment assets and liabilities

The following is an analysis of the assets and liabilities by operating segment of the Group:

At 31 December 2014

	PRC HK$'000	Japan HK$'000	Total HK$'000
Segment assets	160,676	123,576	284,252
Unallocated assets			515,154
Consolidated total			799,406
Segment liabilities	21,350	128,720	150,070
Unallocated liabilities			5,872
Consolidated total			155,942

9. SEGMENT INFORMATION (Continued)

Segment assets and liabilities (Continued)

At 31 December 2013

	PRC HK$'000	Japan HK$'000	Total HK$'000
Segment assets	392,054	251,820	643,874
Unallocated assets			55,884
Consolidated total			699,758
Segment liabilities	29,375	93,446	122,821
Unallocated liabilities			12,065
Consolidated total			134,886

For the purposes of monitoring segment performances and allocating resources between segments:

- all assets are allocated to operating segments other than unallocated bank balances and cash, goodwill, deposits paid for acquisitions of subsidiaries, deferred tax assets, available-for-sale financial assets, investment in an associate and assets used jointly by operating segments.

- term deposits with initial terms of over three months and bank balances and cash are allocated to operating segments based on the location of the term deposits with initial terms of over three months and bank balances and cash.

- all liabilities are allocated to operating segments other than deferred tax liabilities and liabilities for which operating segments are jointly liable.

- liabilities payable to the government department such as tax bureau and social security department are allocated to operating segments based on the location of the tax bureau and social security department.

9. SEGMENT INFORMATION (Continued)

Other segment information

Year ended 31 December 2014

Amounts included in the measure of segment results or segment assets:

	PRC HK$'000	**Japan HK$'000**	**Total HK$'000**
Additions to non-current assets (Note)	**9,323**	**46**	**9,369**
Depreciation	**12,446**	**240**	**12,686**
Loss on disposal of plant and equipment	**246**	**–**	**246**
Allowance for doubtful debts	**326**	**–**	**326**

Year ended 31 December 2013

Amounts included in the measure of segment results or segment assets:

	PRC HK$'000	Japan HK$'000	Total HK$'000
Additions to non-current assets (Note)	17,679	836	18,515
Depreciation	12,468	174	12,642
Loss/(gain) on disposal of plant and equipment	84	(18)	66
Allowance for doubtful debts	1,492	–	1,492

Note: Non-current assets excluded goodwill, investment in an associate, available-for-sale financial assets, deposits paid for acquisitions of subsidiaries, other deposits and deferred tax assets.

9. SEGMENT INFORMATION (Continued)

Geographical information

The operations of the Group are located in the PRC and Japan.

The information of the Group about its plant and equipment by geographical location of the assets is detailed below:

	2014 **HK$'000**	2013 HK$'000
PRC	**12,945**	18,315
Japan	**488**	742
	13,433	19,057

Information about major customers

Revenue from customers contributing over 10% of the total revenue of the Group is as follows:

	Year ended 31 December	
	2014 **HK$'000**	2013 HK$'000
Customer A	**364,099**	293,088

10. INCOME TAX EXPENSE

	2014 HK$'000	2013 HK$'000
Current tax:		
PRC Enterprise Income Tax	**3,634**	64
Japan income tax	**10,074**	9,225
	13,708	9,289
Under/(over)-provision in prior years:		
PRC Enterprise Income Tax	**662**	(3,831)
Japan income tax	**(831)**	(888)
	(169)	(4,719)
Deferred tax (Note 26):		
Current year	**(2,618)**	(1,684)
	10,921	2,886

Under the Law of PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards except as described below.

Pursuant to the EIT Law, a subsidiary, SinoCom Beijing is recognised as a high and new technology enterprise by the relevant PRC government authorities and SinoCom Beijing was entitled to enjoy a concessionary Enterprise Income Tax rate of 10% (2013: 15%) as compared to the unified tax rate of 25% in 2014.

10. INCOME TAX EXPENSE (Continued)

No provision for Hong Kong Profits Tax has been made in the consolidated financial statements as the Group had no assessable profits in Hong Kong for both years.

Taxation arising in Japan comprises corporate tax, special corporate tax for reconstruction, corporate enterprise tax, special local corporate tax and corporate inhabitant tax. Corporate tax is calculated at a progressive statutory rate of 15% (2013: 15%) on the portion of taxable income not exceeding JPY8,000,000 (equivalent to approximately HK$521,000 (2013: HK$588,000)) and 25.5% (2013: 25.5%) on the portion of taxable income in excess of JPY8,000,000. Special corporate tax for reconstruction is calculated at a fixed tax rate of 10% of corporate tax starting from 1 January 2013 to 31 March 2014. Corporate enterprise tax is calculated at a progressive statutory rate of 2.95% (2013: 2.95%) on the portion of taxable income not exceeding JPY4,000,000 (equivalent to approximately HK$260,000 (2013: HK$294,000)), 4.365% (2013: 4.365%) on the portion of taxable income in excess of JPY4,000,000 but not exceeding JPY8,000,000 and 5.78% (2013: 5.78%) on the portion of taxable income in excess of JPY8,000,000. Special local corporate tax is calculated at a fixed tax rate of 81% or 148% of corporate enterprise tax, depending on the amount of paid-in capital. Corporate inhabitant tax is calculated at a fixed tax rate of 17.3% or 20.7% of the corporate tax, depending on the amount of the corporate tax per annum, also with a fixed yearly amount from JPY70,000 (equivalent to approximately HK$5,000 (2013: HK$5,000)) to JPY200,000 (equivalent to approximately HK$13,000 (2013: HK$15,000)), depending on the headcount and capital of the entities.

The income tax expense for the year can be reconciled to the loss before tax per the consolidated statement of profit or loss and other comprehensive income as follows:

	2014	2013
	HK$'000	HK$'000
Loss before tax	**(45,989)**	(81,189)
Taxation at the applicable PRC Enterprise Income Tax rate of 25% (2013: 25%)	**(11,497)**	(20,297)
Tax effect of share of result of an associate	**85**	492
Tax effect of income not taxable in determining taxable profit	**(593)**	(3,552)
Tax effect of expenses not deductible in determining taxable profit	**13,254**	11,903
Tax effect of temporary differences not recognised	**(1,453)**	3,816
Effect of tax exemption and concessions granted to PRC subsidiaries	**(363)**	(55)
Withholding tax on the profits of PRC subsidiaries	**(1,169)**	(5,492)
Tax effect of tax losses not recognised	**8,197**	13,127
Tax effect of utilisation of tax losses not previously recognised	**(2,026)**	–
Overprovision in prior years	**(169)**	(4,719)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**6,655**	7,663
Income tax expense	**10,921**	2,886

11. LOSS FOR THE YEAR

Loss for the year has been arrived at after charging:

	2014	2013
	HK$'000	HK$'000
Auditors' remuneration	**2,930**	2,880
Depreciation of plant and equipment	**12,686**	12,642
Loss on disposal of plant and equipment	**246**	66
Minimum lease payments paid under operating leases during the year in respect of office premises	**27,822**	24,273
Allowance for doubtful debts	**326**	1,492
Staff costs:		
Directors' emoluments (Note 12)	**8,104**	9,780
Other staff costs		
— Salaries and other benefits	**328,872**	305,508
— Retirement benefits schemes contributions	**51,471**	30,328
	388,447	345,616

12. DIRECTORS', CHIEF EXECUTIVES' AND EMPLOYEES' EMOLUMENTS

The emoluments of each director were as follows:

	Fees	Salaries and allowances	Discretionary bonus (Note a)	Retirement benefit scheme contributions	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Executive Directors					
Mr. Wang Zhiqiang (Note (b))	–	2,264	–	48	2,312
Mr. Kotoi Hirofumi (Note (h))	–	700	–	–	700
Mr. Zuo Jian Zhong	–	1,140	–	16	1,156
Mr. Tang Yau Sing (Note (l))	–	78	–	1	79
Non-executive Directors					
Mr. Wang Xubing (Note (g))	–	564	–	11	575
Dr. Shi Chongming (Note (g))	–	449	–	12	461
Mr. Li Jian (Note (i))	–	550	–	–	550
Mr. Kotoi Hirofumi (Note (h))	–	500	–	–	500
Mr. Sasaki So (Note (k))	–	126	–	–	126
Independent Non-executive Directors					
Mr. Chui Man Lung, Everett	210	–	500	11	721
Mr. Wu Hong	210	–	500	–	710
Mr. Yamamoto Yoshimasa (Note (j))	122	–	–	–	122
Mr. Takei Akio (Note (k))	88	–	–	4	92
Mr. Han Chu (Note (m))	–	–	–	–	–
Total for the year ended 31 December 2014	**630**	**6,371**	**1,000**	**103**	**8,104**

12. DIRECTORS', CHIEF EXECUTIVES' AND EMPLOYEES' EMOLUMENTS (Continued)

The emoluments of each director were as follows:

	Fees	Salaries and allowances	Discretionary bonus (Note a)	Retirement benefit scheme contributions	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Executive Directors					
Mr. Wang Zhiqiang (Note (b))	–	2,252	–	46	2,298
Mr. Kotoi Hirofumi (Note (f))	–	1,200	–	–	1,200
Mr. Zuo Jian Zhong	–	480	–	–	480
Non-executive Directors					
Mr. Wang Xubing (Note (g))	–	2,252	–	46	2,298
Dr. Shi Chongming (Note (g))	–	1,748	–	45	1,793
Mr. Li Jian (Note (e))	–	1,050	–	–	1,050
Independent Non-executive Directors					
Mr. Chui Man Lung, Everett (Note (d))	65	–	–	–	65
Mr. Wu Hong (Note (d))	65	–	–	–	65
Mr. Yamamoto Yoshimasa	210	–	–	–	210
Professor Liang Neng (Note (c))	193	–	–	–	193
Mr. Lee Kit Wah (Note (c))	128	–	–	–	128
Total for the year ended 31 December 2013	661	8,982	–	137	9,780

12. DIRECTORS', CHIEF EXECUTIVES' AND EMPLOYEES' EMOLUMENTS (Continued)

Notes:

(a) Bonus is determined by the Salary Review Committee with reference to the performance of the Group.

(b) Mr. Wang Zhiqiang is chief executive officer of the Company during the years ended 31 December 2013 and 2014.

(c) Professor Liang Neng and Mr. Lee Kit Wah resigned on 10 September 2013.

(d) Mr. Wu Hong and Mr. Chui Man Lung, Everett, were appointed on 10 September 2013.

(e) Mr. Li Jian was re-designated from an executive director to a non-executive director on 30 September 2013.

(f) Mr. Kotoi Hirofumi was appointed as chief financial officer of the Company on 1 March 2013 and resigned from this position on 15 November 2013.

(g) Mr. Wang Xubing and Dr. Shi Chongming retired on 26 March 2014.

(h) Mr. Kotoi Hirofumi was re-designated from an executive director to a non-executive director on 31 July 2014.

(i) Mr. Li Jian resigned on 31 July 2014.

(j) Mr. Yamamoto Yoshimasa resigned on 31 July 2014.

(k) Mr. Sasaki So and Mr. Takei Akio were appointed on 31 July 2014. Mr. Sasaki So resigned on 19 December 2014. Mr. Takei Akio resigned on 17 December 2014.

(l) Mr. Tang Yau Sing was appointed on 17 December 2014.

(m) Mr. Han Chu was appointed on 17 December 2014.

Neither the chief executive nor any of the directors waived any emoluments during the year (2013: Nil).

The five highest paid individuals in the Group during the year included three directors (2013: three directors) whose emoluments are reflected in the analysis presented above. The emoluments of the remaining two individuals, one of them was retired from the position as an non-executive director on 26 March 2014 and became key management of the Group since then, and one of them was appointed as an executive director on 17 December 2014, (2013: two) are set out below:

	2014	2013
	HK$'000	HK$'000
Salaries and other benefits	**4,052**	2,145
Retirement benefits schemes contributions	**65**	91
	4,117	2,236

12. DIRECTORS', CHIEF EXECUTIVES' AND EMPLOYEES' EMOLUMENTS (Continued)

The emoluments fell within the following band:

	Number of individuals	
	2014	2013
HK$1,000,001 to HK$1,500,000	**–**	2
HK$1,500,001 to HK$2,000,000	**1**	–
HK$2,000,001 to HK$2,500,000	**1**	–
	2	2

13. RETIREMENT BENEFIT SCHEMES

The Group operates a mandatory provident fund scheme (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for all qualifying employees in Hong Kong. The Group's contributions to the MPF Scheme are calculated at 5% of the salaries and wages subject to a monthly maximum amount of contribution of HK$1,500 (before 1 June 2014: HK$1,250) per employee and vest fully with employees when contributed into the MPF Scheme.

The employees of the Group's subsidiaries established in the PRC are members of a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute certain percentage of the employees' basic salaries and wages to the central pension scheme to fund the retirement benefits. The local municipal government undertakes to assume the retirement benefits obligations of all existing and future retired employees of these subsidiaries. The only obligation of these subsidiaries with respect to the central pension scheme is to meet the required contributions under the scheme.

The employees of the Group's subsidiary registered in Japan are members of the pension scheme operated by the Japan local government. The subsidiary in Japan is required to contribute certain pre-fixed amounts of contribution, according to the level of income for each employee to the pension scheme to fund the benefits. The only obligation of the Group in respect of the pension scheme is the required contributions under the pension scheme.

14. DIVIDENDS

During the year ended 31 December 2013, a special dividend of HK7 cents per ordinary share (total dividend of approximately HK$78,108,000) was declared on 9 October 2013 by the directors of the Company and was duly approved by the shareholders of the Company at an extraordinary general meeting on 11 November 2013 by way of reduction of the share premium account and the retained earnings account and was paid to the shareholders of the Company during the year ended 31 December 2013.

The directors of the Company did not recommend payment of any final dividend for the year ended 31 December 2014 (2013: Nil).

15. LOSS PER SHARE

The calculation of the basic loss per share attributable to the owners of the Company is based on the following data:

	2014	2013
	HK$'000	HK$'000
Loss:		
Loss for the purposes of calculating basic loss per share	**(56,799)**	(83,518)

	2014	2013
	'000	'000
Number of shares:		
Weighted average number of ordinary shares for the purpose of calculating basic loss per share	**1,128,985**	1,115,835

The effects of all potential ordinary shares are anti-dilutive for the years ended 31 December 2013 and 2014.

16. PLANT AND EQUIPMENT

	Office equipment HK$'000	Motor vehicles HK$'000	Leasehold improvements HK$'000	Total HK$'000
Cost				
At 1 January 2013	25,294	9,270	3,443	38,007
Exchange differences	604	155	213	972
Additions	3,641	1,208	13,666	18,515
Disposals	(736)	(534)	(2,078)	(3,348)
At 31 December 2013 and 1 January 2014	28,803	10,099	15,244	54,146
Exchange differences	(222)	(109)	(108)	(439)
Additions	3,938	286	5,145	9,369
Disposals	(2,106)	(2,099)	–	(4,205)
Disposal of a subsidiary (Note 29)	(4,750)	–	(275)	(5,025)
Written-off	–	–	(11,898)	(11,898)
At 31 December 2014	25,663	8,177	8,108	41,948
Accumulated depreciation				
At 1 January 2013	17,683	4,961	2,537	25,181
Exchange differences	405	69	42	516
Charge for the year	4,234	1,054	7,354	12,642
Disposals	(645)	(527)	(2,078)	(3,250)
At 31 December 2013 and 1 January 2014	21,677	5,557	7,855	35,089
Exchange differences	(183)	(53)	(62)	(298)
Charge for the year	3,627	1,193	7,866	12,686
Disposals	(1,783)	(1,198)	–	(2,981)
Disposal of a subsidiary (Note 29)	(4,013)	–	(70)	(4,083)
Written-off	–	–	(11,898)	(11,898)
At 31 December 2014	19,325	5,499	3,691	28,515
Carrying amount				
At 31 December 2014	6,338	2,678	4,417	13,433
At 31 December 2013	7,126	4,542	7,389	19,057

17. GOODWILL

	HK$'000
Cost	
At 1 January 2013	9,859
Exchange differences	308
At 31 December 2013 and 1 January 2014	10,167
Disposal of a subsidiary	(2,825)
Exchange differences	(34)
At 31 December 2014	7,308
Accumulated impairment	
At 1 January 2013	2,749
Exchange differences	85
31 December 2013 and 1 January 2014	2,834
Disposal of a subsidiary	(2,825)
Exchange differences	(9)
At 31 December 2014	–
Carrying amount	
At 31 December 2014	7,308
At 31 December 2013	7,333

Goodwill acquired in a business combination is allocated, at acquisition, to the CGUs that are expected to benefit from that business combination. The carrying amount of goodwill (net of accumulated impairment losses) had been allocated as follows:

	2014	2013
	HK$'000	HK$'000
Outsourcing software development services		
SinoCom Shensoft Holdings (BVI) Limited ("SinoCom Shensoft")	**7,308**	7,333

17. GOODWILL (Continued)

The basis of the recoverable amount of the CGU of SinoCom Shensoft and its major underlying assumptions are summarised below:

The recoverable amount of the CGU of SinoCom Shensoft has been determined based on value in use calculations using discounted cash flow method. These calculations use cash flow projections based on financial budgets approved by management covering a one-year period, and a discount rate of 17% (2013: 17%). Cash flows beyond one-year period are extrapolated using a growth rate of 8% (2013: 8%) for SinoCom Shensoft, over the projected period of five years for impairment assessment purpose. These growth rates are based on the relevant industry growth forecasts and do not exceed the average long-term growth rates for the relevant industries. Other key assumptions for the value in use calculation are the budgeted gross margins, which are determined based on the CGU's past performance and management expectations for the market development.

18. INVESTMENT IN AN ASSOCIATE

	2014	2013
	HK$'000	HK$'000
Unlisted investment	**24,605**	24,605
Share of post-acquisition losses	**(5,752)**	(5,411)
Impairment loss on investment	**(15,854)**	(15,854)
Exchange differences	**(269)**	(216)
	2,730	3,124

Details of the Group's associate at 31 December 2014 are as follows:

Name	Country of incorporation	Principal place of operation	Issued and paid up capital	Proportion of nominal value of issued capital held by the Group		Proportion of voting power held		Principal Activity
				2014	2013	**2014**	2013	
Gotoura Limited	British Virgin Islands	PRC	75,188 ordinary shares of US$1 each	**33.5%**	33.5%	**33.5%**	33.5%	Provision of travelling information services

18. INVESTMENT IN AN ASSOCIATE (Continued)

The following table shows information of the associate that is material to the Group. The associate is accounted for in the consolidated financial statements using the equity method. The summarised financial information presented is based on the HKFRS financial statements of the associate.

	2014	2013
	HK$'000	HK$'000
At 31 December:		
Current assets	**8,211**	9,659
Current liabilities	**(62)**	(334)
Net assets	**8,149**	9,325
Share of net assets of an associate of the Group	**2,730**	3,124

	2014	2013
	HK$'000	HK$'000
Year ended 31 December:		
Revenue	**–**	2,196
Loss for the year	**(1,017)**	(5,879)
Other comprehensive income	**(159)**	(718)
Total comprehensive income	**(1,176)**	(6,597)
Share of loss of an associate of the Group for the year	**(341)**	(1,969)

As at 31 December 2014, the bank balances and cash of the Group's associate in the PRC denominated in RMB amounted to approximately HK$3,051,000 (2013: approximately HK$4,571,000). Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

19. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2014	2013
	HK$'000	HK$'000
Unlisted equity securities in Japan, at cost	–	14,690

Unlisted equity securities were carried at cost less impairment loss as they do not have a quoted market price in an active market and their fair value cannot be reliably measured.

All available-for-sale financial assets are denominated in JPY.

20. DEPOSITS PAID FOR ACQUISITIONS OF SUBSIDIARIES

(a) On 10 December 2014, a subsidiary of the Company and an independent third party (the "Seller") entered into a share purchase agreement in relation to the acquisition of the entire issued share capital of Heroic Coronet Limited (the "Acquisition 1") for a consideration of HK$260,000,000, of which HK$200,000,000 will be settled in cash and HK$60,000,000 will be settled by the Company's shares. Heroic Coronet Limited, through one of its subsidiaries, is principally engaged in the design, development and operation of the mobile and web games. As at 31 December 2014, the cash consideration of HK$200,000,000 has been paid to the Seller.

Details of the Acquisition 1 are set out in announcements of the Company dated 10 December 2014, 19 December 2014, 8 January 2015 and 30 January 2015.

(b) On 18 December 2014, a subsidiary of the Company entered into a framework agreement (the "Framework Agreement 1") in relation to a possible acquisition of entire equity interest in Kingworld (Beijing) Technology Co., Ltd. (the "Acquisition 2") for a consideration of HK$450,000,000. Kingworld (Beijing) Technology Co., Ltd. is principally engaged in distributing, selling, developing and investing in internet and mobile interaction entertainment products, including online games, browser-based games and games on mobile platforms. Pursuant to the Framework Agreement 1, HK$135,000,000 was paid on 29 December 2014.

Details of the Acquisition 2 are set out in announcement of the Company dated 19 December 2014.

(c) On 30 December 2014, a subsidiary of the Company entered into a framework agreement (the "Framework Agreement 2") in relation to a possible acquisition of 51% equity interest in Hangzhou Zhiwan Network Co., Ltd. (the "Acquisition 3") for a total consideration of HK$153,000,000. Hangzhou Zhiwan Network Co., Ltd. is principally engaged in the design, development and operation of the mobile and web games. Pursuant to the Framework Agreement 2, HK$50,000,000 was paid on 30 December 2014.

21. OTHER DEPOSITS

Other deposits represent rental deposits paid under operating leases receivable after one year.

22. TRADE AND OTHER RECEIVABLES

	2014 HK$'000	2013 HK$'000
Trade receivables	37,045	77,239
Less: allowance for doubtful debts	–	(1,500)
	37,045	75,739
Other receivables	27,380	4,538
Other deposits	3,939	3,574
Prepayments	6,297	8,663
Total trade and other receivables	74,661	92,514

Other receivables included an amount of approximately HK$20,790,000 (2013: Nil) representing a loan to the Seller and the interests accrued in respect of the loan. The loan is guaranteed by a related company of the Seller, interest-bearing at 10% per annum and repayable within one year.

The Group allows an average credit period of 30 to 210 days for its trade customers. The following is an aged analysis of trade receivables net of allowance of doubtful debts presented based on dates on which revenue was recognised.

	2014 HK$'000	2013 HK$'000
0–30 days	29,479	46,361
31–60 days	4,993	13,265
61–90 days	1,040	1,690
91–180 days	1,275	3,828
181–360 days	15	6,149
Over 360 days	243	4,446
	37,045	75,739

The Group seeks to maintain strict control over its outstanding receivables and has a credit control policy to minimise credit risk. Overdue balances are reviewed regularly by senior management.

22. TRADE AND OTHER RECEIVABLES (Continued)

Included in the trade receivable balance of the Group are debtors with an aggregate carrying amount of approximately HK$243,000 (2013: HK$243,000) which are past due at the end of the reporting period for which the Group has not provided for an impairment loss. The Group does not hold any collateral over these balances. The average age of these receivables is over 360 days (2013: 135 days).

Ageing of trade receivables which are past due but not impaired based on invoice dates:

	2014	2013
	HK$'000	HK$'000
91–180 days	**–**	243
Over 360 days	**243**	–
	243	243

Movement in the allowance for doubtful debts:

	2014	2013
	HK$'000	HK$'000
At 1 January	**1,500**	–
Allowance for doubtful debts	**326**	1,492
Amounts written off as uncollectible	**(1,500)**	–
Disposal of a subsidiary	**(330)**	–
Exchange differences	**4**	8
At 31 December	**–**	1,500

The trade and other receivables of the Group denominated in foreign currencies at the end of the reporting period are as follows:

	2014	2013
	HK$'000	HK$'000
JPY	**35,820**	64,871

23. INVESTMENT RECEIVABLES

The investment receivables represent wealth management products which mainly invest in debt securities in the PRC and are denominated in RMB.

The wealth management products were carried at cost less impairment loss as they do not have a quoted market price in an active market and their fair value cannot be reliably measured.

Subsequent to 31 December 2014, the investment receivables were fully received.

24. TERM DEPOSITS WITH INITIAL TERMS OF OVER THREE MONTHS AND BANK BALANCES AND CASH

Term deposits with initial terms of over three months and bank balances and cash comprise cash held by the Group and short-term bank deposits and carry interest at effective interest rates ranging from 0.001% to 3.3% (2013: 0.001% to 3.3%) per annum.

The Group's term deposits with initial terms of over three months and bank balances and cash denominated in foreign currencies at the end of the reporting period are as follows:

	2014	2013
	HK$'000	HK$'000
US$	**662**	3,273
JPY	**103,603**	245,348
HK$	**9,012**	24,077

As at 31 December 2014, the bank balances and cash of the Group denominated in RMB amounted to approximately HK$83,549,000 (2013: approximately HK$287,656,000). Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

25. TRADE AND OTHER PAYABLES

	2014 HK$'000	2013 HK$'000
Trade payables	**17,993**	16,861
Wages and salaries payables	**88,326**	76,887
Accruals	**7,089**	9,757
Other tax payables	**16,026**	4,483
Other payables	**2,917**	3,640
	132,351	111,628

The average credit period of trade payables is 30 to 60 days.

The following is an aged analysis of trade payables based on invoice dates at the end of the reporting period:

	2014 HK$'000	2013 HK$'000
0–30 days	**11,349**	11,752
31–60 days	**6,599**	5,048
61–90 days	**23**	61
91–180 days	**22**	–
	17,993	16,861

The trade and other payables of the Group denominated in foreign currency at the end of the reporting period are as follows:

	2014 HK$'000	2013 HK$'000
JPY	**42,896**	26,028
HK$	**5,091**	9,884

26. DEFERRED TAXATION

The following are the deferred tax liabilities/(assets) recognised and movements thereon during the current and prior years:

	Deferred tax liabilities			Deferred tax assets
	Prepaid expenses HK$'000	Distributable profit of the PRC subsidiaries HK$'000	Total HK$'000	Accrued expenses HK$'000
At 1 January 2013	1,215	6,661	7,876	(4,941)
(Credit)/charge to profit or loss for the year	(224)	(5,492)	(5,716)	4,032
Exchange differences	21	–	21	(80)
At 31 December 2013 and 1 January 2014	1,012	1,169	2,181	(989)
Credit to profit or loss for the year	(227)	(1,169)	(1,396)	(1,222)
Exchange differences	(5)	–	(5)	(4)
At 31 December 2014	780	–	780	(2,215)

At the end of the reporting period, the Group had unused tax losses of approximately HK$78,340,000 (2013: approximately HK$53,656,000) available for offset against future profits. No deferred tax asset has been recognised in respect of the tax losses of approximately HK$78,340,000 (2013: approximately HK$53,656,000) due to the unpredictability of future profit streams.

Under the EIT Law, withholding tax is imposed at 10% on dividends declared to foreign investors in respect of profit earned by PRC subsidiaries from 1 January 2008 onward. At the end of the reporting period, the aggregate amount of temporary differences associated with undistributed earnings of PRC subsidiaries for which deferred tax liabilities have not been recognised is HK$74,853,000. No liability has been recognised in respect of these differences because the Group is in a position to control the timing of reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

Withholding tax is also imposed on dividends declared by the subsidiary in Japan. At the end of the reporting period, the aggregate amount of temporary differences with undistributed earnings of the subsidiary in Japan for which deferred tax liabilities have not been recognised was approximately HK$37,537,000 (2013: approximately HK$40,929,000). No deferred tax liability has been recognised in respect of these differences because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

27. SHARE CAPITAL

	Number of shares '000	HK$'000
Authorised:		
Ordinary shares of HK$ 0.025 each, at 1 January 2013, 31 December 2013, 1 January 2014 and 31 December 2014	4,000,000	100,000
Issued and fully paid:		
At 1 January 2013, 31 December 2013 and 1 January 2014	1,115,835	27,896
Issue of shares on placement	200,000	5,000
At 31 December 2014	1,315,835	32,896

On 28 November 2014, the Company entered into a placing agreement in respect of the placement of 200,000,000 ordinary shares of HK$0.025 each to independent investors at a price of HK$0.70 per share. The placement was completed on 8 December 2014 and the premium on the issue of shares, amounting to approximately HK$131,500,000, net of share issue expenses of HK$3,500,000, was credited to the Company's share premium account. The Company issued and allotted 200,000,000 new shares on 8 December 2014.

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of equity attributable to owners of the Company, comprising issued share capital, reserves and retained earnings.

The directors of the Company review the capital structure of the Group on a timely basis. As part of this review, the directors of the Company consider the cost of capital and the risks associated with each class of capital. The Group will balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debts. The Group expects to maintain low gearing because of its cash-rich position.

The only externally imposed capital requirement is that for the Group to maintain its listing on the Stock Exchange it has to have a public float of at least 25% of the shares. The Group receives a report from the share registrars weekly on substantial share interests showing the non-public float and it demonstrates continuing compliance with the 25% limit throughout the year.

28. SHARE BASED PAYMENTS

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants include the employees, executives, officers and directors of the Company and the Company's subsidiaries. The Scheme became effective on 2 April 2004 and was expired on 1 April 2014.

During the year ended 31 December 2014, the Company terminated the Scheme and adopted a new share option scheme (the "New Scheme") pursuant to a resolution passed in the annual general meeting dated 26 March 2014 which became effective on the same date. The New Scheme will remain in force for ten years commencing from the effective date. Any options granted under the Scheme prior to its termination continue to be valid and exercisable in accordance with the rules of the Scheme. No share options have been granted under the New Scheme since its adoption.

The maximum number of unexercised share options currently permitted to be granted under the New Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the New Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of shares options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of the grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 20 days from the date of the offer, upon payment of a nominal consideration of HK$10 in total or other amount as determined by the board of the Company by the grantee. The exercise period of the share options granted is determinable by the directors, and commences after a certain vesting period and ends on a date which is not later than ten years from the date of the offer of the share options or the expiry date of the Scheme, if earlier.

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

28. SHARE BASED PAYMENTS (Continued)

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

At 31 December 2014, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 10,080,000 (2013: 13,580,000), representing 0.77% (2013: 1.21%) of the shares of the Company in issue at that date. The options outstanding at the end of the year have a weighted average remaining contractual life of 2.45 years (2013: 3.22 years) and the exercise prices range from HK$1.36 to HK1.3875 (2013: HK$1.36 to HK1.3875).

Details of specific category of options are as follows:

Date of grant	Exercisable period	Exercise price
24/01/2006 (Note (b))	24/01/2007–23/01/2016	HK$1.3875
28/01/2008 (Note (a) and (b))	28/01/2008–27/01/2018	HK$1.36
28/01/2008 (Note (b))	28/01/2009–27/01/2018	HK$1.36

Note a: On 28 January 2008, 15,750,000 share options which represented the then outstanding options previously granted on 15 January 2007 with an exercise price of HK$1.73 per share, were cancelled and the same number of share options ("New Options") were granted to the option holders with an exercise price of HK$1.36 per share and other terms remained the same as those of the old options.

Note b: All the outstanding options are exercisable as at 31 December 2014.

The following table discloses movements of the number of the Company's shares under options held by employees during the year and prior year:

Date of grant	**Outstanding at 1/1/2014**	**Exercised during year**	**Forfeited during year**	**Outstanding at 31/12/2014**
24/01/2006	**5,760,000**	**–**	**(2,600,000)**	**3,160,000**
28/01/2008	**7,820,000**	**–**	**(900,000)**	**6,920,000**
	13,580,000	**–**	**(3,500,000)**	**10,080,000**

Date of grant	Outstanding at 1/1/2013	Exercised during year	Forfeited during year	Outstanding at 31/12/2013
24/01/2006	6,720,000	–	(960,000)	5,760,000
28/01/2008	9,670,000	–	(1,850,000)	7,820,000
	16,390,000	–	(2,810,000)	13,580,000

28. SHARE BASED PAYMENTS (Continued)

At 31 December 2014, 10,080,000 (2013: 13,580,000) share options are exercisable. The closing price of the Company's shares immediately before 24 January 2006, 28 January 2008 and 28 January 2008, the date of grant of options, was HK$5.55, HK$1.34 and HK$1.34, respectively.

The options granted on 24 January 2006 have a fair value of HK$2.13 per option which was determined at the date of grant using the Black-Scholes pricing model.

The New Options granted on 28 January 2008 have a fair value of HK$0.70 per option which was determined at the date of grant using the Black-Scholes pricing model.

The options granted on 28 January 2008 have a fair value of HK$0.43 per option which was determined at the date of grant using the Black-Scholes pricing model.

29. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

On 31 December 2014, the Group disposed of its 80% equity interests, being the entire equity interest held by the Group, in SinoCom-ArtM Technology Co., Ltd. to an independent third party for a total consideration of approximately HK$3,448,000.

Net assets at the date of disposal were as follows:

	HK$'000
Plant and equipment	942
Trade and other receivables (net of allowance for doubtful debts)	19,669
Amount due to the Group	(15,700)
Bank balances and cash	904
Other payables and accruals	(16,746)
Current tax liabilities	(359)
Net liabilities disposed of:	(11,290)
Release of foreign currency translation reserve	(1,165)
Waiver of payables due to the Group	15,700
Non-controlling interest	2,258
Loss on disposal of a subsidiary	(2,055)
Total consideration — satisfied by cash but not yet settled	3,448
Net cash outflow arising on disposal:	
Cash and cash equivalents disposed of	(904)

30. CONTINGENT LIABILITIES

As at 31 December 2014, the Group and the Company did not have any significant contingent liabilities (2013: Nil).

31. CAPITAL COMMITMENTS

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

	2014	2013
	HK$'000	HK$'000
Contracted but not provided for		
Acquisition 1 (Note 20(a))	**60,000**	–
Acquisition 2 (Note 20(b))	**315,000**	–
Acquisition 3 (Note 20(c))	**103,000**	–
	478,000	–

In respect of the Acquisition 1, HK$60,000,000 of the consideration will be settled by the Company's shares ("Consideration Shares"). The Company will issue the Consideration Shares under a specific mandate to be obtained at an extraordinary general meeting to be convened by the Company to consider and approve the specific mandate. The Consideration Shares shall, upon issuance, rank pari passu in all respects with the shares in issue.

32. OPERATING LEASE COMMITMENTS

The Group as lessee:

At the end of the reporting period, the Group had commitments for future minimum lease payments in respect of rented premises which fall due as follows:

	2014	2013
	HK$'000	HK$'000
Within one year	**16,041**	23,152
In the second to fifth year inclusive	**14,081**	14,007
	30,122	37,159

Operating lease payments represent rentals payable by the Group for its office premises. Leases are negotiated and rentals are fixed for lease terms from one to three years.

33. RELATED PARTY TRANSACTIONS

In addition to those related party transactions and balances disclosed elsewhere in the financial statements, the Group had the following transactions with its related parties during the year:

	2014 HK$'000	2013 HK$'000
Compensation for early termination of the lease on office premises from a fellow subsidiary (Note a)	10,086	–
Revenue — provision of technical support services to an associate	33	–
Cost of services — receiving travelling and tourism services from an associate	–	1,436
Cost of services — receiving technical support services from an associate	–	365
Cost of services — rental charges from a fellow subsidiary	–	2,621
Administrative expense — receiving management consulting services from ultimate holding company	–	432

Outstanding balances at the end of the reporting period

	2014 HK$'000	2013 HK$'000
Amount due from a fellow subsidiary (Note b)	–	1,272
Amount due from a related company (Note b)	11,422	–

Notes:

(a) The amount represents compensation receivable from 福建聯迪資訊科技有限公司 (Fujian Liandi Information Technology Limited) ("Fujian Liandi"), a wholly-owned subsidiary of SJI Inc., the former ultimate holding company, in relation to early termination of an operating lease of office premises located in Beijing, the PRC during the year ended 31 December 2014.

(b) The balance represents an advance of approximately HK$1,268,000 (2013: HK$1,272,000) to Fujian Liandi for the intention to lease office premises located in Beijing, the PRC during the year ended 31 December 2012 and compensation receivable from Fujian Liandi amounting approximately HK$10,154,000 during the year ended 31 December 2014. The amount was unsecured, non-interest bearing and had no fixed term of repayment.

33. RELATED PARTY TRANSACTIONS (Continued)

Compensation of key management personnel

The remuneration of directors of the Company and other members of key management during the period is as follows:

	2014 HK$'000	2013 HK$'000
Salaries and other benefits	**20,520**	20,905
Retirement benefits scheme contributions	**792**	792
	21,312	21,697

The remuneration of directors is determined by the salary review committee. The remuneration of the key executives is determined by the internal salary review committee of five members comprising the chairman, president, and three vice presidents of the Company having regard to the performance of individuals and market trends.

34. EVENT AFTER THE REPORTING PERIOD

On 30 January 2015, the Acquisition 1 (Note 20(a)) was completed. The fair value of the acquired identifiable assets and liabilities is pending receipt of the valuation of those assets and liabilities.

35. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2014 HK$'000	2013 HK$'000
Investments in subsidiaries	**47,057**	47,057
Amounts due from subsidiaries (Note)	**273,077**	155,991
Other current assets	**140**	1,370
Other current liabilities	**(5,084)**	(9,697)
NET ASSETS	**315,190**	194,721
Share capital	**32,896**	27,896
Reserves	**282,294**	166,825
TOTAL EQUITY	**315,190**	194,721

Note: The amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

36. RESERVES

(a) Group

The amounts of the reserves and movements of the Group therein are presented in the consolidated statement of profit or loss and other comprehensive income and consolidated statement of changes in equity.

(b) Company

	Shares premium HK$'000 (Note (c)(i))	Share redemption reserve HK$'000 (Note (c)(ii))	Contributed surplus HK$'000 (Note (c)(iii))	Shareholder's contribution HK$'000 (Note (c)(iv))	Share options reserve HK$'000 (Note (c)(v))	(Accumulated losses)/ retained earnings HK$'000	Total HK$'000
At 1 January 2013	166,189	2,269	29,412	1,392	10,104	(81,326)	128,040
Transfer of share options reserve upon forfeiture of share options	–	–	–	–	(1,678)	1,678	–
Dividends recognised as distribution (Note 14)	(55,000)	–	–	–	–	(23,108)	(78,108)
Total comprehensive income for the year	–	–	–	–	–	116,893	116,893
At 31 December 2013	111,189	2,269	29,412	1,392	8,426	14,137	166,825
At 1 January 2014	**111,189**	**2,269**	**29,412**	**1,392**	**8,426**	**14,137**	**166,825**
Transfer of share options reserve upon forfeiture of share options	**–**	**–**	**–**	**–**	**(2,007)**	**2,007**	**–**
Issue of shares on placement (Note 27)	**131,500**	**–**	**–**	**–**	**–**	**–**	**131,500**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**(16,031)**	**(16,031)**
At 31 December 2014	**242,689**	**2,269**	**29,412**	**1,392**	**6,419**	**113**	**282,294**

36. RESERVES (Continued)

(c) Nature and purpose of reserves

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

(ii) The share redemption reserve represents the aggregate amount of the share capital and share premium in relation to the repurchase of the Company's own equity instruments.

(iii) The contributed surplus of the Company represents the excess of the net assets of the subsidiaries acquired by the Company pursuant to a group reorganisation and the nominal value of the ordinary shares issued by the Company in exchange thereof.

(iv) The shareholder's contribution of the Company represents contribution from the intermediate holding company for cancellation of the Company's share options in 2012.

(v) The share options reserve represents the fair value of the actual or estimated number of unexercised share options granted to employees of the Company recognised in accordance with the accounting policy adopted for equity-settled share-based payments in note 3(q) to the financial statements.

37. PRINCIPAL SUBSIDIARIES

Details of the principal subsidiaries of the Group as at 31 December 2013 and 2014 are as follows:

Name of subsidiary	Place of incorporation and operation	Class of capital held	Proportion ownership interest held by the Company		Principal Activity
			2014	2013	
SinoCom Holdings (BVI) Limited ("SinoCom BVI")	British Virgin Islands	Ordinary shares US$3,624,502	**100%**	100%	Investment holding
SinoCom Japan Corporation	Japan	Ordinary shares JPY40,000,000	**92%**	92%	Provision of outsourcing software development services
SinoCom Beijing	PRC	Registered capital US$6,040,800	**100%**	100%	Provision of outsourcing software development and technical support services
SinoCom Development Holdings Limited	British Virgin Islands	Ordinary shares US$474,671	**100%**	100%	Investment holding
SinoCom Innovative Technology Software Beijing Co., Ltd.	PRC	Registered capital US$370,000	**100%**	100%	Inactive
SinoCom-ArtM Technology Co., Ltd.	PRC	Registered capital RMB2,500,000	**–**	80%	Provision of outsourcing software development and technical support services
SinoCom Ideas Holdings Limited	British Virgin Islands	Ordinary shares HK$3,800,000	**94.48%**	94.48%	Investment holding
Dalian SinoCom High Technology Software Company Limited	PRC	Registered capital HK$3,200,000	**94.48%**	94.48%	Provision of outsourcing software development and technical support services
SinoCom Shensoft Computer Technology (Shanghai) Company Limited	PRC	Registered capital US$232,000	**100%**	100%	Provision of outsourcing software development services

37. PRINCIPAL SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation and operation	Class of capital held	Proportion ownership interest held by the Company 2014	2013	Principal Activity
SinoCom Shensoft	British Virgin Islands	Ordinary shares US$500,000	100%	100%	Investment holding
Wuxi SinoCom High Technology Software Co., Ltd	PRC	Registered capital RMB5,000,000	100%	100%	Provision of outsourcing software development and technical support services
Jilin SinoCom Innovative Technology Software Co., Ltd	PRC	Registered capital RMB5,000,000	100%	100%	Provision of outsourcing software development and technical support services
SinoCom Investment Holding Limited ("SinoCom Investment")	British Virgin Islands	Ordinary shares US$1	100%	N/A	Investment holding
SinoCom Technology Limited	HK	Ordinary shares HK$10,000	100%	100%	Inactive
SinoCom Software (Hong Kong) Limited	HK	Ordinary shares HK$1	100%	N/A	Investment holding
深圳中訊實華軟件有限公司	PRC	Registered capital HK$5,000,000	100%	N/A	Inactive
深圳市前海中訊軟件開發有限公司	PRC	Registered capital HK$5,000,000	100%	N/A	Inactive

The form of business structure of all above subsidiaries is a limited company and the Company indirectly owns the equity interests of all of the above subsidiaries except SinoCom BVI and SinoCom Investment.

38. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approval and authorised for issue by the Board of Directors on 23 March 2015.