中國數碼信息有限公司

2014 ANNUAL REPORT

二零一四年度 年報

CONTENTS

CORPORATE INFORMATION

Directors

Executive
Mr. Yu Pun Hoi *(Chairman)*
Ms. Chen Dan
Ms. Liu Rong

Non-executive
Mr. Wang Gang
Mr. Lam Bing Kwan

Independent Non-executive
Prof. Jiang Ping
Mr. Hu Bin
Mr. Fung Wing Lap

Company Secretary

Mr. Watt Ka Po James

Auditor

BDO Limited
Certified Public Accountants
Hong Kong

Registered Office

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

Share Registrar

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

Stock Code

250

Principal Bankers

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

Website Address

http://www.sino-i.com

CHAIRMAN'S STATEMENT

On behalf of the board of directors of Sino-i Technology Limited (the "Board"), I present to the shareholders the annual report of Sino-i Technology Limited (the "Company") and its subsidiaries (collectively the "Group") for the year ended 31 December 2014. For the year ended 31 December 2014, the net loss attributable to the owners of the Company was approximately HK$115.4 million (2013: HK$28.8 million). The increase in loss for the year was mainly due to the significant increase in R&D expenses and the amortization on intangible assets.

During the year, the Company continued to focus on the development of corporate IT application services business through its main subsidiary 中企動力科技股份有限公司 (CE Dongli Technology Company Limited) ("CE Dongli") and 北京新網數碼信息技術有限公司 (Beijing Xinnet Cyber Information Company Limited) ("Xinnet") whose financial performance has been consolidated into the Group since November 2013. In 2014, the Group dedicated to enhance its internal administration and continued to improve its structure and operating efficiency. However, it was unable to achieve a significant growth in total revenue by comparing with that in 2013 due to slowdown of economic growth and continuously conservative corporate IT investments by SMEs. Due to significant increase in research and development costs and amortisation of products at preliminary research and development stage, which were not adapting to the needs of the market in 2014, there was a decrease in operating results as compared with the corresponding period in 2013. The Group is of the opinion that with increasing support to SMEs and vigorous pushing forward of the application of Internet by enterprises by the Chinese government as well as the favorable environment of rapid development of the mobile Internet consumer market, there is still enormous room for development of its corporate IT application services business in China.

Following the general trend of Internet development of Chinese enterprises, CE Dongli provided e-commerce applications and services platform on the basis of website for the purpose of helping SMEs speed up the application of Internet. During the year, in the external aspect, CE Dongli increased its efforts on new product development and market expansion, and in the internal aspect it completed structural optimization of its business team. As for the development of its self-owned e-commerce platform and application services, CE Dongli thoroughly explored different customers and conducted in-depth study in e-commerce models and solutions of specific industries in addition to focusing on promotion of new products in light of mobile Internet environment. In the meantime, functions of communication products were improved through reassessment and renovation, and the product security was increased significantly. The increase in costs of CE Dongli during the year was attributable to the renovation and upgrading of its products as well as the optimisation of its internal governance. Resulting from the improvement of product quality and operating efficiency, CE Dongli was awarded "值得信賴品牌 (Reliable Brand)" of Chinese Information Industry 2014 and "2014年度中國行業信息化最佳產品獎 (The Best Product of Chinese Information Industry 2014)" during the year, which laid the foundation for the improvement of operating results in 2015.

During the year, Xinnet strategically increased investment in the research and development of new products, platform renovation and cloud computing. Such upgraded products as "New Freemail" and "New Virtual Server" having certain competitive edge were continuously launched in the first half of 2014. The relevant products are still in the introduction stage of the product life cycle, their results have not yet brought significant contribution to the Group's operations. However, these strategic investments will comprehensively enhance Xinnet's competitiveness in the market of Internet-based application services. During the year, in response to market change, Xinnet strengthened its market share by adopting the strategy of market-oriented pricing on domain names. In addition, Xinnet conducted reform in its operating system by the end of the year, which led an increase in costs in the short term, but would facilitate the standardisation and normalisation of operation management and persistently reduce labor cost and improve operating quality in the long run, and in turn laying a solid foundation for the future development.

With the deepening of the structural reform of the national economy, the economic development is shifting from the extensive growth of scale and pace to the intensive growth of quality and efficiency. A range of favorable policies such as the state's support for the healthy development of SMEs will offer new opportunities for the business development of the Group. It was expected that the growth environment of SMEs will be improving. Besides, such new technologies as big data, cloud computing, mobile Internet and 4G etc. have entered into a "period of rapid development" and emergence of industry segment applications will bring new business development opportunities to the Group.

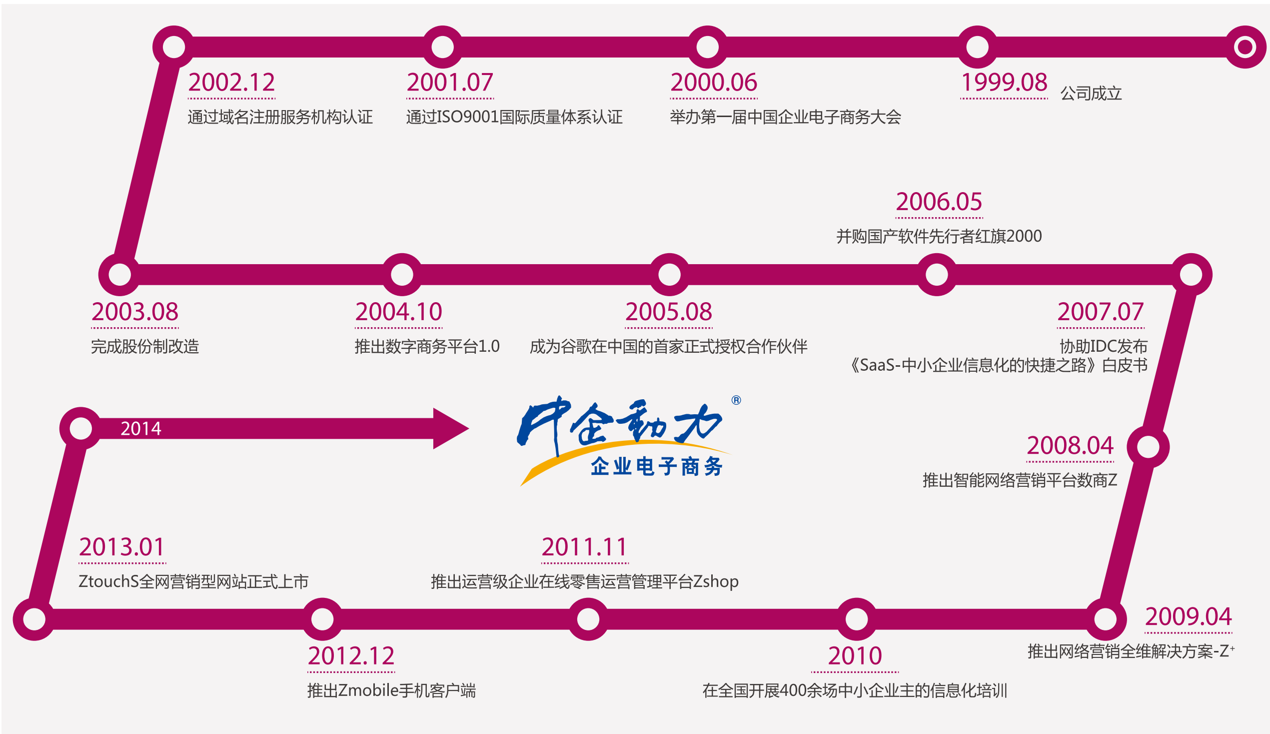
In 2015, the Group will continue to push forward the comprehensive strategic adjustment of CE Dongli, including organisational adjustment and optimisation and enhancement of existing products and business, and will facilitate the upgrading of enterprise operating model through the establishment of information platform. For Xinnet, the Group will transform it from a provider of Internet-based products to a provider of application services. It is expected that Xinnet will strive to be one of the largest "providers of Internet-based applications and services" for SMEs and individual users in China in the next three years. To achieve the above strategic objectives, the Group will increase its investment in research and development and new products, expand the scope of corporate IT application services business, and strengthen the business collaboration among different business segments with a view to achieve sustainable development of relevant business and the upgrading of models.

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

Yu Pun Hoi
Chairman

Hong Kong, 27 March 2015

Service 专心电子商务服务的十五年

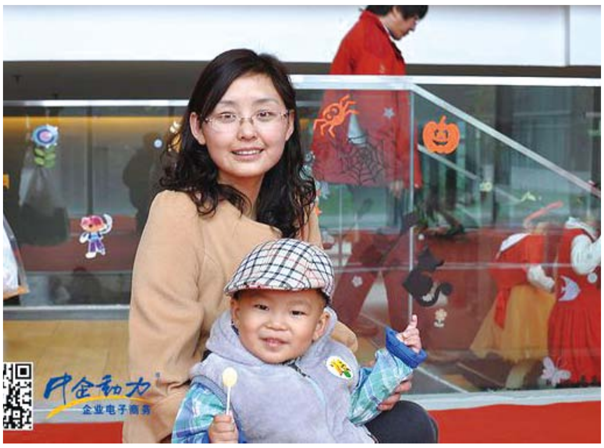


MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the year under review, the Group continued to focus on the development of its corporate IT application services business. In 2014, turnover of the Group was approximately HK$784.8 million (2013: HK$683.4 million), representing a growth of approximately 14.8% over the corresponding period last year, while net loss attributable to the owners of the Company was approximately HK$115.4 million (2013: HK$28.8 million). Net assets attributable to the owners of the Company were approximately HK$1,708.9 million (2013: HK$1,819.8 million), representing a value of approximately HK$0.086 (2013: HK$0.091) per share.

In 2014, the Group's corporate IT application services division stepped up its research and development of new products and market expansion for raising its revenue. In the meantime, the innovation and upgrading of products as well as the optimisation of its internal governance resulted in an increase in cost for the year. Turnover of this division for the year was approximately HK$784.8 million (2013: HK$683.4 million), representing a growth of approximately 14.8% over the corresponding period last year, while net loss before income tax was approximately HK$180.9 million (2013: HK$96.1 million).



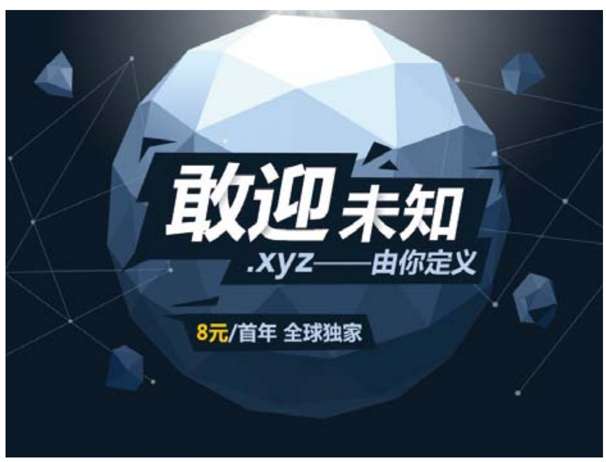
As compared to 2013, increase in loss of the corporate IT application services division was due to the following main reasons:

Firstly, resulting from the unexpected rapid development of information technology and the Internet, the market advantage of certain products of CE Dongli diminished substantially, so products had to be changed and upgraded speedy for maintaining its market position. Accordingly, CE Dongli's R&D expenses were increased substantially in 2014, and a considerable amount of amortisation on intangible assets was made for those technological out-dated products. Improvement of both quality and operating efficiency of products will lay foundation for improvement of results in 2015.

Secondly, Xinnet conducted reform in its operating system during the year. Although the costs would inevitably increase in the short term, it would facilitate the standardisation and normalisation of operation management and persistently reduce labor cost and improve operating quality in the long run, laying a solid foundation for the future development.

Thirdly, the Group's main target customer group is SMEs in China. Given the environment of economic slowdown in China, enterprises' IT investment remained conservative. In view of the foregoing, the Group's overall revenue experienced limitation on growth.

Fourthly, CE Dongli and Xinnet strategically increased investment in the research and development of new products and platform renovation in 2014. CE Dongli launched various products catering the demands and characteristics of the industry in respect of the development of its self-developed e-commerce platform and application services. Commencing from the first half of the year, such upgraded products as "New Freemail" and "New Virtual Server" with certain competitive edge were launched in stages by Xinnet. The relevant products were still in the introduction stage of the product life cycle, their results had yet brought significant improvement to the Group's operations. However, these strategic investments will help the Group enhance its all-round market competitiveness in the market of corporate IT application and Internet-based application services, the operation results brought by such investments would be gradually reflected in the coming future.



PROSPECTS

In 2014, growth rate of economy started to slow down in China, but the "new status" of economic structure became more optimistic. The national leaders were committed to economic structural reform, while the economic development is shifting from the extensive growth of scale and pace to the intensive growth of quality and efficiency. China's economic growth will rely more on innovation, service and domestic consumption. The active encouragement of entrepreneurship by national policies and a range of favorable policies for supporting healthy development of small-scale enterprises will offer new opportunities for the business development of the Group. The commercialization of 4G, continuous development of e-commerce and the rapid development of mobile Internet will push SMEs forward to increase in demand for e-commerce applications.

Looking forward in 2015, with respect to corporate IT application services, the continuous rapid development of new technology such as big data, cloud computing, mobile Internet and 4G etc. will further facilitate the development and maturation of the information technology market, which will bring new business opportunities to the Group. In the meantime, new opportunities create new challenges. Both personalization of customers' demands and rapid iteration of information technology require the Group to devote more resources in the research and development of new products.

In 2015, the Group will continue to actively meet the market demand for corporate IT application services and the development of corporate Internet. It will speed up the research and development of new products in corporate IT application services with a view to achieve sustainable development of corporate IT application services and the upgrading of models, thereby strengthening and enhancing the presence and influence of the Group in the market of corporate IT application services. Furthermore, the Group will continue to optimise its internal governance, improve operating efficiency and strive to consolidate the improved performance of operation so as to create greater value for the shareholders.

FINANCIAL RESOURCES AND LIQUIDITY

The Group continued to adopt prudent funding and treasury policies. As at 31 December 2014, net assets attributable to the owners of the Company amounted to approximately HK$1,708.9 million (2013: HK$1,819.8 million), including cash and bank balances of approximately HK$58.7 million (2013: HK$66.4 million) which were mainly denominated in Renminbi and Hong Kong dollars. As at 31 December 2014, the Group's aggregate borrowings were approximately HK$314.7 million (2013: HK$231.2 million), of which approximately HK$294.7 million (2013: HK$82.6 million) were bearing interest at fixed rates while approximately HK$20.0 million (2013: HK$148.6 million) were at floating rates.

The gearing ratio of the Group which is calculated as net debt divided by the adjusted capital plus net debt, increased from approximately 8.17% as at 31 December 2013 to approximately 12.86% as at 31 December 2014.

As at 31 December 2014, the Group's capital commitment was approximately HK$99.6 million which would be used as the funding for the construction of the headquarters of corporate IT application services.

The Group's contingent liabilities as at 31 December 2014 were approximately HK$60.3 million in connection with the guarantees given to secure credit facilities.

As at 31 December 2014, certain interests in leasehold land, buildings and intangible assets with a total net carrying value of approximately HK$641.8 million were pledged to secure the credit facilities granted to the Group.

EXPOSURE TO FLUCTUATION IN EXCHANGE RATES

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

EMPLOYEES AND REMUNERATION POLICY

The Company employs and remunerates its employees based on their qualifications, experience and performance. In addition to basic salary payments, other benefits include housing, contributions to mandatory provident fund, group medical insurance, group personal accident insurance and examination leave etc.. Employees are eligible to be granted share options under the Company's share option scheme at the discretion of the Board. In general, salary review is conducted annually. As at 31 December 2014, the Group had approximately 6,576 employees (2013: 6,544 employees). The salaries of and allowances for the employees for the year ended 31 December 2014 were approximately HK$608.1 million (2013: HK$478.1 million).

REPORT OF THE DIRECTORS

The Board herein present their report and the audited financial statements of the Group for the year ended 31 December 2014.

Principal Activities

The principal activity of the Company is investment holding. The subsidiaries were principally engaged in corporate IT application services during the year.

Segment Information

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

Results and Appropriations

The results of the Group for the year are set out in the consolidated income statement on page 34.

The Board do not recommend the declaration of the payment of a final dividend for the year ended 31 December 2014 (2013: Nil).

Five-Year Financial Summary

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 112.

Property, Plant and Equipment

Details of the movements in property, plant and equipment of the Company and the Group during the year are set out in note 13 to the financial statements.

Subsidiaries and Associate

Particulars of the Company's principal subsidiaries and associate as at 31 December 2014 are set out in notes 16 and 17 to the financial statements respectively.

Bank Borrowings

The Group's bank borrowings as at 31 December 2014 are set out in note 26 to the financial statements.

Share Capital

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

REPORT OF THE DIRECTORS

Reserves

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

Distributable Reserves

As at 31 December 2014, the amount of the Company's reserves available for distribution was approximately HK$456.1 million.

Major Customers and Suppliers

The Group's sales to the five largest customers and purchases from the five largest suppliers for the year ended 31 December 2014 accounted for less than 30% of the Group's total turnover and purchases respectively.

Directors' Emoluments

Details of directors' emoluments are set out in note 37 to the financial statements.

Directors' Interest in Competing Business

As at 31 December 2014, none of the directors of the Company has an interest in a business which competes or may compete with the business of the Group.

Pension Costs

Details of retirement benefit plans in respect of the year are set out in note 36 to the financial statements.

Directors

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

Mr. Yu Pun Hoi *(Chairman)*
Ms. Chen Dan
Ms. Liu Rong
Mr. Wang Gang#
Mr. Lam Bing Kwan#
Prof. Jiang Ping*
Mr. Hu Bin*
Mr. Fung Wing Lap*

Non-executive directors
* Independent non-executive directors

REPORT OF THE DIRECTORS

Directors (Continued)

The Company has received annual confirmation from each of the existing independent non-executive directors confirming his independence to the Company pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") and the Company considers that such directors are independent of the Company.

In accordance with Article 94 of the Company's articles of association (the "Articles"), Ms. Liu Rong, Mr. Lam Bing Kwan and Prof. Jiang Ping shall retire from office by rotation at the forthcoming annual general meeting ("AGM") and, being eligible, will offer themselves for re-election.

Biographical Details of Directors and Senior Management

Biographical Details of Directors

Executive Directors

Mr. Yu Pun Hoi, aged 56, holding a degree of Doctor of Philosophy conferred by Peking University, was a director of the Company from October 1991 to October 1994, and re-joined the Board in January 1997. Mr. Yu is the chairman of the Board, and the chairman of nomination committee of the Company.

Mr. Yu is also the chairman of the board of directors, controlling shareholder, and the chairman of executive committee and nomination committee of Nan Hai Corporation Limited ("Nan Hai"), the listed holding company of the Company, and a director of a number of subsidiaries of the Company and Nan Hai.

Ms. Chen Dan, aged 46, graduated from Beijing Finance & Trade College with a Bachelor degree in Trade & Economics, and obtained a degree of EMBA in China Europe International Business School, and is also a qualified lawyer in the PRC.

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

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

Ms. Liu Rong, aged 43, graduated from the Law School of Anhui University with a Bachelor degree in Laws, and got a Master of Laws conferred by the Law Institute of Chinese Academy of Social Science, and is also a qualified lawyer in the PRC. In addition, Ms. Liu graduated from the International MBA School of National School of Development of Peking University in 2013. Prior to joining the Group, Ms. Liu worked in Chinese government departments and law firms.

Ms. Liu joined the Group in April 2002 and has been appointed as an executive director of the Company in March 2009. Ms. Liu is also a general manager of Dadi group, subsidiaries of Nan Hai, and is responsible for the businesses in culture and media of Nan Hai.

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

REPORT OF THE DIRECTORS

Biographical Details of Directors and Senior Management (Continued)

Biographical Details of Directors (Continued)

Non-executive Directors

Mr. Wang Gang, aged 59, graduated from Capital University of Economics and Business in the PRC with a Bachelor degree in Business Economics, and obtained an MBA degree from National University of Singapore. Prior to joining the Group, Mr. Wang worked in the headquarters of Agricultural Bank of China for many years, and was appointed as a general manager working in the bank's branch office in Singapore.

Mr. Wang joined the Group in December 2007 and has been appointed as an executive director of the Company in March 2009. In May 2012, Mr. Wang was re-designated as a non-executive director of the Company and Nan Hai.

Mr. Lam Bing Kwan, aged 65, graduated from the University of Oregon in the United States of America with a Bachelor degree in Business Administration in 1974. Prior to joining the Group, Mr. Lam had been in senior management positions in the banking and financial industry for more than 10 years.

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

Independent Non-executive Directors

Prof. Jiang Ping, aged 84, graduated from Moscow University with a Bachelor degree in Laws in 1956. Prof. Jiang is the lifetime professor of China University of Political Science and Law, conducting lectures for doctoral degree class in civil and commercial laws. Prof. Jiang is also the honorary president of China Comparative Law Research Centre, the chairman of Beijing Arbitration Commission, and the honorary arbitrator in China International Economic and Trade Arbitration Commission.

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

Mr. Hu Bin, aged 43, is a director of the Research Center for Financial Supervision and Regulation and Financial Legislations at The Institute of Finance and Banking of Chinese Academy of Social Science (CASS). Mr. Hu got his doctoral degree in laws from the graduate school of CASS in 2002 and became a research professor in the Institute of Finance and Banking in 2009.

In September 2013, Mr. Hu was appointed as an independent non-executive director, the chairman of remuneration committee, and a member of audit committee and nomination committee of both the Company and Nan Hai. Moreover, Mr. Hu is also an independent non-executive director of Anhui Expressway Company Limited, a company listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

REPORT OF THE DIRECTORS

Biographical Details of Directors and Senior Management (Continued)

Biographical Details of Directors (Continued)

Independent Non-executive Directors (Continued)

Mr. Fung Wing Lap, aged 54, graduated from The Hong Kong Polytechnic University in 1992. Mr. Fung is a fellow member of Association of International Accountants, an associate member of The Taxation Institute of Hong Kong, an associate member of Hong Kong Institute of Certified Public Accountants, and a certified public accountant (practising). Mr. Fung is an executive director of FCC and Partners CPA Limited.

Mr. Fung joined the Board in September 2004 and has been appointed as a member of audit committee and remuneration committee of the Company. In March 2012, Mr. Fung has been appointed as a member of nomination committee of the Company. Mr. Fung is also appointed as the chairman of audit committee of the Company in September 2013.

Biographical Details of Senior Management

Mr. Chen Ming Fei (aged 38)
General Manager
中企動力科技股份有限公司 (CE Dongli Technology Company Limited)

General Manager
北京新網數碼信息技術有限公司 (Beijing Xinnet Cyber Information Company Limited)

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

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

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

Mr. Han Qi (aged 41)
Technical Deputy General Manager
中企動力科技股份有限公司 (CE Dongli Technology Company Limited)

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

Mr. Han joined the Group in 2011, and was appointed as deputy general manager of technical operations in Xinnet. In March 2015, Mr. Han was re-designated as technical deputy general manager of CE Dongli.

REPORT OF THE DIRECTORS

Directors' Interests and Short Positions in Shares and Underlying Shares

As at 31 December 2014, the interests and short positions of the directors and chief executive of the Company in shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules were as follows:

The Company

Long position in shares in issue

	Number of shares				
Name of Director	**Personal interest**	**Corporate interest**	**Family interest**	**Total interest**	**Approximate percentage holding**
Yu Pun Hoi ("Mr. Yu")	–	12,515,795,316 *(Note 1)*	–	12,515,795,316	62.85%
Fung Wing Lap	10,000	–	–	10,000	0.00005%

Note:

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

REPORT OF THE DIRECTORS

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

Associated Corporations

As disclosed above, Mr. Yu is entitled to control the exercise of more than one-third of the voting power at general meetings of Nan Hai. As such, Mr. Yu is taken to be interested in the shares of the associated corporations of the Company within the meaning of Part XV of the SFO. Nan Hai is a company whose shares are listed on the Stock Exchange, and is an associated corporation of the Company within the meaning of Part XV of the SFO. As at 31 December 2014, the interests of the directors of the Company in shares and underlying shares of Nan Hai were as follows:

Nan Hai

Long position in shares in issue

	Number of shares of HK$0.01 each				
Name of Director	**Personal interest**	**Corporate interest**	**Family interest**	**Total interest**	**Approximate percentage holding**
Yu Pun Hoi	–	36,096,430,679 *(Note 1)*	–	36,096,430,679	52.58%
Chen Dan	32,000,000	–	–	32,000,000	0.05%
Wang Gang	8,500,000	–	–	8,500,000	0.01%
Fung Wing Lap	15,756	–	–	15,756	0.00002%

Note:

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

Save as disclosed above, as at 31 December 2014, none of the directors nor chief executive of the Company had any interests or short positions in shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code as set out in Appendix 10 to the Listing Rules.

REPORT OF THE DIRECTORS

Share Option Scheme

On 28 May 2012, the Company adopted a share option scheme (the "Scheme"). Under the Scheme, share options may be granted to directors, employees of the Group and those who have contributed or will contribute to the Group at any time within ten years after its adoption at the discretion of the Board.

During the year ended 31 December 2014, no share options have been granted under the Scheme by the Company.

A summary of the Scheme is as follows:

(1) Purpose

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

(2) Participants

The participants include:

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

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

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

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

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

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

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

REPORT OF THE DIRECTORS

Share Option Scheme (Continued)

(3) Maximum number of shares

The total number of shares which may be issued upon exercise of all share options to be granted under the Scheme must not in aggregate exceed 10% of the relevant class of shares of the Company in issue as at the date of approval of the Scheme and the limit on the number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other schemes must not exceed 30% of the relevant class of shares of the Company in issue from time to time. No share options may be granted under the Scheme and any other schemes of the Company if this will result in such limit exceeded. As at the date of this report, the number of shares available for issue in respect thereof is 1,991,450,487 shares representing approximately 10% of the total number of shares of the Company in issue.

(4) Maximum entitlement of each participant

The total number of shares issued and to be issued upon exercise of the share options granted to each participant under the Scheme and any other schemes (including both exercised and outstanding options) in any 12-month period must not exceed 1 per cent. of the relevant class of shares of the Company in issue. Any further grant of share options above this limit shall be subject to certain requirements as stipulated in the rules of the Scheme and to the relevant rules under the Listing Rules.

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

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

(6) Minimum period for exercising a share option

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

(7) Acceptance and payment on acceptance

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

REPORT OF THE DIRECTORS

Share Option Scheme (Continued)

(8) Basis of determining the exercise price

The exercise price for shares under the Scheme shall be a price determined by the directors, but it must be at least the higher of (i) the closing price of the shares as stated in the Stock Exchange's daily quotation sheet on the date of grant, which must be a business day; and (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotation sheet for the five business days immediately preceding the date of grant.

(9) Remaining life of the Scheme

The Scheme will remain in force for a period of 10 years commencing on 29 May 2012 up to 28 May 2022.

Arrangements to Purchase Shares or Debentures

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

Directors' Service Contracts

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

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

Directors' Interests in Contracts

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

REPORT OF THE DIRECTORS

Substantial Shareholders' Interests and Short Positions

As at 31 December 2014, those persons (other than directors and chief executive of the Company) who had interests or short positions in shares or underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

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

Note:

1. CITIC Capital Credit Limited is a wholly-owned subsidiary of CITIC Capital Holdings Limited. CITIC Capital Holdings Limited was taken to be interested in those shares in which CITIC Capital Credit Limited held a security interest.

Save as disclosed above, as at 31 December 2014, no person (other than directors and chief executive of the Company) had notified to the Company any interests or short positions in shares or underlying shares of the Company which was required to be recorded in the register kept by the Company under Section 336 of the SFO.

Related Party Transactions

Details of related party transactions of the Company and the Group are set out in note 42 to the financial statements.

Purchase, Sale or Redemption of Listed Securities

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

Public Float

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

REPORT OF THE DIRECTORS

Corporate Governance

Particulars of the Company's corporate governance practices are set out in the "Corporate Governance Report" on pages 21 to 31.

Audit Committee

The Audit Committee comprises all the independent non-executive directors of the Company, namely Mr. Fung Wing Lap, Prof. Jiang Ping and Mr. Hu Bin. The Audit Committee has reviewed with the auditor of the Company and management the accounting principles and practices adopted by the Group, the audited consolidated financial statements of the Group for the year ended 31 December 2014, and discussed the auditing, financial control, internal control and risk management systems.

Auditor

The financial statements for the year ended 31 December 2014 were audited by BDO Limited ("BDO"). A resolution will be proposed at the forthcoming AGM of the Company to re-appoint BDO as auditor of the Company.

On behalf of the Board
Yu Pun Hoi
Chairman

Hong Kong, 27 March 2015

CORPORATE GOVERNANCE REPORT

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

Compliance with Corporate Governance Code

In the opinion of the Board, the Company has complied with the Corporate Governance Code (the "CG Code") and Corporate Governance Report as set out in Appendix 14 to the Listing Rules throughout the year ended 31 December 2014, except for the deviations from Code Provisions A.2.1, A.4.1, A.6.7 and E.1.2. Explanations for such non-compliance are provided below.

Model Code for Securities Transactions

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

Specific enquiries have been made to all the directors and the directors have confirmed that they have complied with the Model Code as set out in Appendix 10 to the Listing Rules throughout the year ended 31 December 2014.

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

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

Board of Directors

The current Board is made up of eight directors including three executive directors, two non-executive directors and three independent non-executive directors (the "INEDs"). The directors are, collectively and individually, aware of their responsibilities to the shareholders. The directors' biographical information is set out on pages 11 to 13 under the heading "Biographical Details of Directors and Senior Management". The Board consists of the following:

Executive Directors

Mr. Yu Pun Hoi *(Chairman)*
Ms. Chen Dan
Ms. Liu Rong

Non-executive Directors

Mr. Wang Gang
Mr. Lam Bing Kwan

Independent Non-executive Directors

Prof. Jiang Ping
Mr. Hu Bin
Mr. Fung Wing Lap

CORPORATE GOVERNANCE REPORT

Board of Directors (Continued)

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

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

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

To the best knowledge of the Company, the Board members do not have any financial, business and family or other material/relevant relationship with each other. During the year, the Board held 4 meetings.

Chairman and Chief Executive Officer

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

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

Non-executive Directors

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

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

Independent Non-executive Directors

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

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

CORPORATE GOVERNANCE REPORT

Board of Directors (Continued)

Independent Non-executive Directors (Continued)

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

Directors' Training

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

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

Board Committees

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

Management Committee

The Company established a Management Committee on 11 July 2013. As at 31 December 2014, the Management Committee consisted of senior management and department heads of the Company as follows:

Mr. Chen Ming Fei *(chairman)*
Mr. Zhang Bin
Mr. Han Qi
Mr. Hu Guang Bin
Mr. Zhou Jian

CORPORATE GOVERNANCE REPORT

Board Committees (Continued)

Management Committee (Continued)

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

Management Committee was dismissed in January 2015, its functions was taken up by the Board.

Audit Committee

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

Mr. Fung Wing Lap *(Chairman of the Audit Committee)*
Prof. Jiang Ping
Mr. Hu Bin

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

During the year, the Audit Committee held 2 meetings, in particular, to review with management the accounting principles and practices adopted by the Group, the audited financial statements for the year ended 31 December 2013 and the unaudited interim results for the six months ended 30 June 2014, and discussed the auditing, financial control, internal control and risk management systems.

Remuneration Committee

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

Mr. Hu Bin *(Chairman of the Remuneration Committee)*
Prof. Jiang Ping
Mr. Fung Wing Lap

The primary duties of the Remuneration Committee is responsible for making recommendations to the Board on the establishing of formal and transparent procedures for developing remuneration policies and the remuneration packages of individual executive directors and senior management. It takes into consideration on salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the Group.

CORPORATE GOVERNANCE REPORT

Board Committees (Continued)

Remuneration Committee (Continued)

During the year, the Remuneration Committee held 1 meeting, in particular, to review and recommend to the Board the remuneration policies and the remuneration packages of the Company.

For the year ended 31 December 2014, the emoluments paid or payable to members of senior management was within the following band:

Emolument band	Number of individuals 2014	2013
Nil–HK$1,000,000	**2**	3

Nomination Committee

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

Mr. Yu Pun Hoi *(Chairman of the Nomination Committee)*
Ms. Chen Dan
Prof. Jiang Ping*
Mr. Hu Bin*
Mr. Fung Wing Lap*

* INED

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

During the year, the Nomination Committee held 1 meeting, in particular, to review and assessment of the independence of all INEDs of the Company; to consider and recommend to the Board for approval the list of retiring directors for re-election at the annual general meeting held on 26 May 2014 (the "2014 AGM"); to review the structure, size and composition of the Board.

CORPORATE GOVERNANCE REPORT

Board Diversity Policy

The Board has adopted a board diversity policy in relation to the nomination and appointment of new directors, which sets out the selection of board candidates shall be based on a range of diversity perspectives with reference to the Company's business model and specific needs, including but not limited to gender, age, race, language, cultural background, educational background, industry experience and professional experience.

The Nomination Committee reviewed the board diversity policy and recommended the Board that the existing Board was appropriately structured and no change was required.

Corporate Governance Functions

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

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

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

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

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

e. To review the Company's compliance with the code and disclosure in the Corporate Governance Report.

CORPORATE GOVERNANCE REPORT

Number of Meetings and Directors' Attendance

The following table shows the individual attendance of each director at the meetings of the full Board ("BM"), the Shareholders ("AGM"), the Audit Committee ("ACM"), the Remuneration Committee ("RCM") and the Nomination Committee ("NCM") for the year ended 31 December 2014:

	Attendance/Number of Meetings				
Name of Director	**BM**	**AGM**	**ACM**	**RCM**	**NCM**
Executive Directors					
Mr. Yu Pun Hoi	4	–	N/A	N/A	1
Ms. Chen Dan	4	1	N/A	N/A	1
Ms. Liu Rong	4	–	N/A	N/A	N/A
Non-executive Directors					
Mr. Wang Gang	4	1	N/A	N/A	N/A
Mr. Lam Bing Kwan	4	1	N/A	N/A	N/A
Independent Non-executive Directors					
Prof. Jiang Ping	4	–	2	1	1
Mr. Hu Bin	4	1	2	1	1
Mr. Fung Wing Lap	4	1	2	1	1
Number of meetings held during the year	4	1	2	1	1

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

One independent non-executive director of the Company was unable to attend the 2014 AGM due to his personal engagement.

Code Provision E.1.2 stipulates that the chairman of the board should attend annual general meeting.

The chairman of the Board was unable to attend the 2014 AGM due to his unexpected illness.

CORPORATE GOVERNANCE REPORT

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

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

The directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2014.

The statement of the external auditor of the Company about its reporting responsibilities on the financial statements is set out in the "Independent Auditor's Report" on pages 32 and 33.

The remuneration paid to the external auditor of the Group in respect of audit services and non-audit services for the year ended 31 December 2014 amounted to HK$2.4 million and HK$Nil respectively. An analysis of the remuneration paid to the external auditor of the Group is set out in note 8 to the financial statements.

Internal Controls

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

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

Company Secretary

Mr. Watt Ka Po James, the Company Secretary of the Company, is an employee of the Company and have day-to-day knowledge of the Company's affairs. Mr. Watt has taken no less than 15 hours of relevant professional training in 2014.

CORPORATE GOVERNANCE REPORT

Shareholders' Rights

1. Procedures for shareholders to convene a general meeting ("GM")

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

The request:

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

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

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

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

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

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

CORPORATE GOVERNANCE REPORT

Shareholders' Rights (Continued)

2. Procedures for putting forward proposals at shareholders' meeting

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

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

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

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

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

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

3. Shareholders' enquiries

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

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

CORPORATE GOVERNANCE REPORT

Investor Relations

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

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

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

Constitutional Documents

There is no significant change in the Company's constitutional documents during the year.

INDEPENDENT AUDITOR'S REPORT

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

We have audited the consolidated financial statements of Sino-i Technology Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 34 to 111, which comprise the consolidated and company statements of financial position as at 31 December 2014, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance, Cap. 32 by operation of the transitional and saving provisions in Schedule 11 to the Hong Kong Companies Ordinance, Cap. 622, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This report is made solely to you, as a body, in accordance with Section 141 of the Hong Kong Companies Ordinance, Cap. 32 by operation of the transitional and saving provisions set out in Section 80 of Schedule 11 to the Hong Kong Companies Ordinance, Cap. 622, 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.

INDEPENDENT AUDITOR'S REPORT (Continued)

Auditor's responsibility (Continued)

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2014, and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance, Cap. 32.

BDO Limited
Certified Public Accountants

Yu Tsui Fong
Practising Certificate Number P05440

Hong Kong, 27 March 2015

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2014

	Notes	2014 HK$'000	2013 HK$'000
Revenue/Turnover	5(a)	**784,763**	683,401
Cost of sales and services provided		**(166,437)**	(118,351)
Gross profit		**618,326**	565,050
Other operating income	5(b)	**151,118**	124,364
Loss on disposal and dissolution of subsidiaries	33	**(7,850)**	–
Selling and marketing expenses		**(423,931)**	(328,594)
Administrative expenses		**(184,306)**	(160,794)
Other operating expenses		**(238,879)**	(201,572)
Finance costs	7	**(18,165)**	(15,353)
Share of results of an associate		**–**	–
Loss before income tax	8	**(103,687)**	(16,899)
Income tax expense	9	**(14,562)**	(13,477)
Loss for the year		**(118,249)**	(30,376)
Loss for the year attributable to:			
Owners of the Company	10	**(115,363)**	(28,809)
Non-controlling interests	32	**(2,886)**	(1,567)
		(118,249)	(30,376)
		HK cent	HK cent
Loss per share attributable to the owners of the Company during the year	11		
— Basic		**(0.58)**	(0.14)
— Diluted		**N/A**	N/A

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2014

	2014 HK$'000	2013 HK$'000
Loss for the year	**(118,249)**	(30,376)
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of foreign operations	**(8,510)**	15,185
Exchange differences reclassified on disposal and dissolution of subsidiaries	**12,576**	–
	4,066	15,185
Total comprehensive income for the year	**(114,183)**	(15,191)
Total comprehensive income attributable to:		
Owners of the Company	**(110,864)**	(15,021)
Non-controlling interests	**(3,319)**	(170)
	(114,183)	(15,191)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2014

	Notes	2014 HK$'000	2013 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	13	**637,794**	674,109
Prepaid land lease payments under operating leases	14	**26,532**	27,766
Interest in an associate	17	**–**	–
Available-for-sale financial assets	15	**324**	324
Goodwill	18	**84,864**	86,496
Other intangible assets	19	**55,936**	128,854
Deposits and other receivables	20	**735**	2,182
Loan to ultimate holding company	25(c)	**1,466,005**	1,367,219
		2,272,190	2,286,950
Current assets			
Trade receivables	21	**19,462**	11,843
Deposits, prepayments and other receivables	20	**205,706**	239,402
Time-deposits maturing over three months	22	**625**	653
Cash and cash equivalents	22	**58,073**	65,762
		283,866	317,660
Current liabilities			
Trade payables	23	**46,942**	25,900
Other payables and accruals	24	**284,468**	243,873
Deferred revenue		**11,962**	17,643
Provision for tax		**104,184**	92,684
Amount due to a director	25(a)	**7,858**	3,574
Amounts due to shareholders	25(b)	**1**	5,006
Amount due to an associate	25(d)	**5,499**	5,501
Bank borrowings, secured	26	**313,547**	230,976
Finance lease liabilities	27	**431**	116
		774,892	625,273
Net current liabilities		**(491,026)**	(307,613)
Total assets less current liabilities		**1,781,164**	1,979,337

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at 31 December 2014

	Notes	2014 HK$'000	2013 HK$'000
Non-current liabilities			
Finance lease liabilities	27	**756**	110
Amount due to ultimate holding company	25(c)	**37,018**	117,474
Deferred tax liabilities	28	**8,906**	10,239
		46,680	127,823
Net assets		**1,734,484**	1,851,514
EQUITY			
Share capital	29	**240,597**	199,145
Reserves	31	**1,468,348**	1,620,664
Equity attributable to the Company's owners		**1,708,945**	1,819,809
Non-controlling interests	32	**25,539**	31,705
Total equity		**1,734,484**	1,851,514

Yu Pun Hoi
Director

Chen Dan
Director

STATEMENT OF FINANCIAL POSITION

As at 31 December 2014

	Notes	**2014 HK$'000**	2013 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	13	**2,316**	1,688
Interests in subsidiaries	16	**105,721**	105,721
Available-for-sale financial assets	15	**324**	324
Loan to ultimate holding company	25(c)	**346,471**	323,124
		454,832	430,857
Current assets			
Amounts due from subsidiaries	16	**1,426,574**	1,464,014
Amount due from an associate	25(d)	**–**	–
Deposits, prepayments and other receivables	20	**60,337**	56,995
Cash and cash equivalents	22	**247**	88
		1,487,158	1,521,097
Current liabilities			
Other payables and accruals	24	**4,831**	3,845
Provision for tax		**743**	745
Amounts due to subsidiaries	16	**405,047**	405,063
Amount due to a director	25(a)	**158,069**	158,069
Amounts due to shareholders	25(b)	**–**	5,005
Finance lease liabilities	27	**29**	–
		568,719	572,727
Net current assets		**918,439**	948,370
Total assets less current liabilities		**1,373,271**	1,379,227
Non-current liabilities			
Amount due to ultimate holding company	25(c)	**16,071**	26,170
Finance lease liabilities	27	**102**	–
		16,173	26,170
Net assets		**1,357,098**	1,353,057
EQUITY			
Share capital	29	**240,597**	199,145
Reserves	31	**1,116,501**	1,153,912
Total equity		**1,357,098**	1,353,057

Yu Pun Hoi
Director

Chen Dan
Director

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2014

	Notes	2014 HK$'000	2013 HK$'000
Cash flows from operating activities			
Loss before income tax		**(103,687)**	(16,899)
Adjustments for:			
Depreciation of property, plant and equipment		**54,225**	45,036
Annual charges of prepaid operating lease payments		**557**	560
Amortisation of intangible assets		**76,509**	49,589
Gain on disposal of property, plant and equipment		**(125)**	(58)
Provision for impairment of trade receivables		**888**	8,141
Provision for impairment of other receivables		**–**	24,765
Bad debt written off		**–**	1,192
Write-back of provision for impairment of trade receivables		**(1,073)**	–
Property, plant and equipment written off		**253**	585
Write-back of long outstanding other payables		**–**	(19,027)
Reversal of other receivables written off		**(2,297)**	–
Bank interest income		**(296)**	(95)
Other interest income		**(102,557)**	(92,845)
Finance costs		**18,165**	15,353
Loss on disposal and dissolution of subsidiaries		**7,850**	–
Operating (loss)/profit before working capital changes		**(51,588)**	16,297
(Increase)/Decrease in trade receivables		**(7,770)**	1,488
Decrease in deposits, prepayments and other receivables		**30,290**	86,643
Increase in trade payables, other payables and accruals		**70,458**	37,931
Decrease in deferred revenue		**(5,279)**	(28,974)
Cash generated from operations		**36,111**	113,385
Income tax paid		**(1,814)**	(855)
Net cash generated from operating activities		**34,297**	112,530
Cash flows from investing activities			
Payments to acquire property, plant and equipment	35	**(31,764)**	(86,582)
Proceeds from disposal of property, plant and equipment		**319**	374
Net cash inflow arising from business combination	34	**–**	4,897
Payments to acquire intangible assets		**(6,339)**	(23,558)
Decrease/(Increase) in time-deposits maturing over three months		**12**	(653)
Bank and other interest received		**4,067**	3,897
Repayments from ultimate holding company		**–**	158,230
Net cash inflow arising from disposal and dissolution of subsidiaries	33	**61**	–
Net cash (used in)/generated from investing activities		**(33,644)**	56,605

CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

For the year ended 31 December 2014

	Notes	2014 HK$'000	2013 HK$'000
Cash flows from financing activities			
Proceeds from bank borrowings		**315,359**	278,227
Repayments of bank borrowings		**(226,620)**	(327,103)
Repayments of finance lease liabilities		**(386)**	(110)
Increase/(Decrease) in amount due to a director		**4,397**	(7,010)
Repayments to ultimate holding company		**(78,027)**	(50,856)
Repayments to shareholders		**(5,005)**	–
Interest paid		**(18,165)**	(15,353)
Net cash used in financing activities		**(8,447)**	(122,205)
Net (decrease)/increase in cash and cash equivalents		**(7,794)**	46,930
Cash and cash equivalents at 1 January		**65,762**	16,640
Effect of foreign exchange rate changes, on cash held		**105**	2,192
Cash and cash equivalents at 31 December		**58,073**	65,762
Analysis of the balances of cash and cash equivalents			
Cash at banks and in hand	22	**58,073**	65,762

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2014

	Equity attributable to the Company's owners									
	Share capital	Share premium*	Capital redemption reserve*	Capital distribution reserve* (note 31(a))	General reserve* (note 31(b))	Exchange reserve*	Retained profits*	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
At 1 January 2013	199,145	39,194	2,258	52,622	6,574	77,174	1,457,863	1,834,830	31,875	1,866,705
Loss for the year	–	–	–	–	–	–	(28,809)	(28,809)	(1,567)	(30,376)
Other comprehensive income										
Items that may be reclassified subsequently to profit or loss:										
— Exchange differences on translation of financial statements of foreign operations	–	–	–	–	–	13,788	–	13,788	1,397	15,185
Total comprehensive income for the year	–	–	–	–	–	13,788	(28,809)	(15,021)	(170)	(15,191)
At 31 December 2013 and 1 January 2014	**199,145**	**39,194**	**2,258**	**52,622**	**6,574**	**90,962**	**1,429,054**	**1,819,809**	**31,705**	**1,851,514**
Transfer upon abolition of nominal value of shares on 3 March 2014	**41,452**	**(39,194)**	**(2,258)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Loss for the year	**–**	**–**	**–**	**–**	**–**	**–**	**(115,363)**	**(115,363)**	**(2,886)**	**(118,249)**
Other comprehensive income										
Items that may be reclassified subsequently to profit or loss:										
— Exchange differences on translation of financial statements of foreign operations	**–**	**–**	**–**	**–**	**–**	**(8,077)**	**–**	**(8,077)**	**(433)**	**(8,510)**
— Exchange differences reclassified on disposal and dissolution of subsidiaries (note 33)	**–**	**–**	**–**	**–**	**–**	**12,576**	**–**	**12,576**	**–**	**12,576**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**4,499**	**(115,363)**	**(110,864)**	**(3,319)**	**(114,183)**
Released on disposal and dissolution of subsidiaries (note 33)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(2,847)**	**(2,847)**
At 31 December 2014	**240,597**	**–**	**–**	**52,622**	**6,574**	**95,461**	**1,313,691**	**1,708,945**	**25,539**	**1,734,484**

* These reserve accounts comprise the consolidated reserves of HK$1,468,348,000 (2013: HK$1,620,664,000) in the consolidated statement of financial position.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

1. General information

Sino-i Technology Limited (the "Company") is a limited liability company incorporated and domiciled in Hong Kong. The address of its registered office and its principal place of business is 26/F., Siu On Centre, 188 Lockhart Road, Wanchai, Hong Kong. The Company's shares are listed on The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange").

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

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

In 2013, 新網華通信息技術有限公司 (Xinnet Technology Information Company Limited), a wholly-owned subsidiary of the Company entered into various contractual agreements (the "Structured Agreements") with 北京中企華通信息科技有限公司 (Beijing Zhong Qi Hua Tong Information Limited) ("ZQHT") and its ultimate beneficial owner to obtain an effective 100% control over 北京新網數碼信息技術有限公司 (Beijing Xinnet Cyber Information Company Limited) ("Xinnet"), a company incorporated in the People's Republic of China (the "PRC") and also a wholly-owned subsidiary of ZQHT (the "Acquisition"). Xinnet and its existing subsidiary (collectively as "Xinnet Group") are principally engaged in the provision of virtual server hosting and maintenance services, provision of email services and registration of domain names in the PRC. The Acquisition was completed on 15 November 2013 and further details about the Acquisition are disclosed in note 34.

2. Summary of significant accounting policies

2.1 Basis of preparation

The financial statements on pages 34 to 111 have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") which collective term includes all applicable individual HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the provisions of the Hong Kong Companies Ordinance which concern the preparation of financial statements, which for the financial year and the comparative period continue to be those of the Hong Kong Companies Ordinance, Cap. 32, in accordance with the transitional and saving arrangements for Part 9 of the Hong Kong Companies Ordinance, Cap. 622 "Accounts and Audit" which are set out in sections 76 to 87 of Schedule 11 to that Ordinance. The financial statements also include the applicable disclosure requirements of the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (the "Listing Rules").

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

2. Summary of significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

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

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

The financial statements have been prepared on the going concern basis which assumes the realisation of assets and satisfaction of liabilities in the ordinary course of business notwithstanding that the Group was making losses in consecutive years and had net current liabilities of HK$491,026,000 as at 31 December 2014. Having reviewed the cash flow projection of the Group for the next 12 months from the reporting date, the board of directors of the Company (the "Board") is of the opinion that the Group will have sufficient resources to satisfy its working capital and other financing requirement in the foreseeable future based on the followings: (i) the Board foresees that the Group is able to generate positive cash flows from operation in 2015; and (ii) with the leasehold land and buildings amounting to approximately HK$637,285,000 being pledged for existing credit facilities (as set out in note 40), the Board is of the view that the Group should be able to renew these credit facilities when they fall due in second half of 2015.

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

2.2 Business combination and basis of consolidation

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

2. Summary of significant accounting policies (Continued)

2.2 Business combination and basis of consolidation (Continued)

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

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

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

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

2.3 Subsidiaries

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

2. Summary of significant accounting policies (Continued)

2.4 Associates

Associates are those entities over which the Group is able to exert significant influence, generally accompanying a shareholding of between 20% and 50% of voting rights, but which are neither subsidiaries nor joint arrangements. Significant influence is the power to participate in the financial and operating policy decision of the investee but not control or joint control over these policies.

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

2. Summary of significant accounting policies (Continued)

2.5 Foreign currency translation

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

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

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

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

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

2.6 Property, plant and equipment

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

2. Summary of significant accounting policies (Continued)

2.6 Property, plant and equipment (Continued)

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

Buildings	5%
Leasehold improvements, furniture,fixtures and equipment	10% to 33-1/3%, or over lease terms whichever involves shorter period
Motor vehicles	10% to 33-1/3%

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

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

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

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

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

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

2.7 Operating lease prepayments and land use right

Upfront payments made to acquire land held under an operating lease are stated at costs less accumulated amortisation and any accumulated impairment losses. The determination if an arrangement is or contains a lease and the lease is an operating lease is detailed in note 2.14. Amortisation is calculated on a straight-line basis over the term of the lease/right of use except where an alternative basis is more representative of the time pattern of benefits to be derived by the Group from use of the land.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

2. Summary of significant accounting policies (Continued)

2.8 Goodwill

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

2. Summary of significant accounting policies (Continued)

2.9 Other intangible assets and research and development costs

Other intangible assets

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

Computer software	4 years
Customer relationships	2 years
Development cost	2 – 4 years
Licenses	10 years

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

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

Intangible assets, with finite and indefinite useful lives, are tested for impairment as described below in note 2.20.

Research and development costs

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

2. Summary of significant accounting policies (Continued)

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

Research and development costs (Continued)

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

All other development costs are expensed as incurred.

2.10 Financial assets

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

Financial assets are classified into the following categories:

– loans and receivables

– available-for-sale financial assets

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

All financial assets are recognised when, and only when, the Group becomes a party to the contractual provisions of the instrument. Regular way purchases of financial assets are recognised on trade date. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

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

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

(i) Loans and receivables

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

2. Summary of significant accounting policies (Continued)

2.10 Financial assets (Continued)

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

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

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

Impairment of financial assets

At each reporting date, financial assets are reviewed to determine whether there is any objective evidence of impairment.

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

— significant financial difficulty of the debtor;

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

2. Summary of significant accounting policies (Continued)

2.10 Financial assets (Continued)

Impairment of financial assets (Continued)

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

(i) Financial assets at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The amount of the loss is recognised in profit or loss of the period in which the impairment occurs.

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

(ii) Available-for-sale financial assets

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

2. Summary of significant accounting policies (Continued)

2.11 Cash and cash equivalents

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

2.12 Financial liabilities

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

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

Financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instruments. All related finance costs are recognised in accordance with the Group's accounting policy for finance costs (see note 2.22).

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

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

Borrowings

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

2. Summary of significant accounting policies (Continued)

2.12 Financial liabilities (Continued)

Trade and other payables

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

Finance lease liabilities

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

2.13 Financial guarantees issued

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

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

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

2.14 Leases

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

(i) Classification of assets leased to the Group

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

2. Summary of significant accounting policies (Continued)

2.14 Leases (Continued)

(ii) Operating lease charges as the lessee

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

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

(iii) Assets acquired under finance leases

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

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

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

2.15 Provisions and contingent liabilities

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

2. Summary of significant accounting policies (Continued)

2.16 Share capital

The Hong Kong Companies Ordinance, Cap.622 came into operation on 3 March 2014. Under the Ordinance, shares of the Company do not have nominal value. Considerations received or receivable on the issue of shares on or after 3 March 2014 are credited to share capital. Commissions and expenses as allowed under s.148 and s.149 of the Ordinance are deducted from share capital.

2.17 Revenue recognition

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

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

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

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

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

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

2.18 Deferred revenue

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

2. Summary of significant accounting policies (Continued)

2.19 Government grants

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

2.20 Impairment of non-financial assets

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

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

An impairment loss is recognised as an expense immediately for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value-in-use. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of time value of money and the risk specific to the asset.

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

2. Summary of significant accounting policies (Continued)

2.21 Employee benefits

(i) Short-term employee benefits

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

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

(ii) Retirement benefits

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

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

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

The Mandatory Provident Fund Schemes Authority has approved the ORSO Scheme as a Mandatory Provident Fund Exempted Occupational Retirement Scheme under the Mandatory Provident Fund Schemes Ordinance (the "MPF Schemes Ordinance"). With effect from 1 December 2000, the MPF Scheme was also set up under the MPF Schemes Ordinance for existing staff who opt for this scheme and eligible staff recruited on or after that date. When the underlying staff elects the MPF Scheme, pension scheme benefits attributed to the staff under the ORSO Scheme remain unchanged in the MPF Scheme. Under the MPF Scheme, eligible employees are required to contribute 5% of their monthly basic salaries whereas the Group's monthly contribution will be 5% of the relevant employee's basic salaries with a maximum monthly contribution of HK$1,500 (2013: HK$1,250). There are no legal or constructive obligations to pay further contributions after payment of the fixed contribution.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

2. Summary of significant accounting policies (Continued)

2.21 Employee benefits (Continued)

(ii) Retirement benefits (Continued)

Contributions to defined contribution retirement plans are recognised as an expense in profit or loss when the services are rendered by the employees. Liabilities and assets may be recognised if underpayment or prepayment has occurred and are included in current liabilities or current assets as they are normally of a short term nature.

(iii) Share-based employee compensation

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

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

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

2.22 Finance costs

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

2. Summary of significant accounting policies (Continued)

2.23 Accounting for income taxes

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

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

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

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

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

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

Income taxes are recognised in profit or loss except when they relate to items recognised in other comprehensive income in which case the taxes are also recognised in other comprehensive income or when they relate to items recognised directly in equity in which case the taxes are also recognised directly in equity.

2.24 Segment reporting

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

The measurement policies the Group uses for reporting segment results under HKFRS 8 are the same as those used in its financial statements prepared under HKFRSs, except that share of results of associate, certain bank interest income, other interest income, loss on disposal and dissolution of subsidiaries, income tax expenses as well as corporate income and expenses which are not directly attributable to the business activities of the operating segment, are not included in arriving at the operating results of the operating segment.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

2. Summary of significant accounting policies (Continued)

2.24 Segment reporting (Continued)

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

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

2.25 Related parties

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

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

(ii) has significant influence over the Group; or

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

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

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

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

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of the employees of the Group or an entity related to the Group.

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

2. Summary of significant accounting policies (Continued)

2.25 Related parties (Continued)

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

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

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

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

3. Adoption of new/amended HKFRSs

3.1 New/amended HKFRSs which are effective during the year

In the current year, the Group has applied for the first time the following new/amended HKFRSs issued by the HKICPA, which are relevant to and effective for the Group's financial statements for the annual period beginning on 1 January 2014:

Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities

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

Amendments to HKAS 32 — Offsetting Financial Assets and Financial Liabilities

The amendments clarify the offsetting requirements by adding application guidance to HKAS 32 which clarifies when an entity "currently has a legally enforceable right to set off" and when a gross settlement mechanism is considered equivalent to net settlement. The amendments are applied retrospectively. The adoption of the amendments has no impact on these financial statements as the Group does not have any offsetting arrangements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

3. Adoption of new/amended HKFRSs (Continued)

3.2 New/amended HKFRSs which are issued but not yet effective

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

HKFRSs (Amendments)	Annual Improvements 2010–2012 Cycle[2]
HKFRSs (Amendments)	Annual Improvements 2011–2013 Cycle[1]
HKFRSs (Amendments)	Annual Improvements 2012–2014 Cycle[3]
Disclosure Initiative (Amendments to HKAS 1)	Presentation of Financial Statements[3]
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation[3]
Amendments to HKAS 27	Equity Method in Separate Financial Statements[3]
HKFRS 9 (2014)	Financial Instruments[5]
HKFRS 15	Revenue from Contracts with Customers[4]

1 Effective for annual periods beginning on or after 1 July 2014
2 Effective for annual periods beginning, or transactions occurring, on or after 1 July 2014
3 Effective for annual periods beginning on or after 1 January 2016
4 Effective for annual periods beginning on or after 1 January 2017
5 Effective for annual periods beginning on or after 1 January 2018

Disclosure Initiative (Amendments to HKAS 1) — Presentation of Financial Statements

The amendments to HKAS 1 are designed to encourage entities to use judgement in the application of HKAS 1 when considering the layout and content of their financial statements. In addition, an amendment is made to HKAS 1 to clarify the presentation of an entity's share of other comprehensive income from its equity accounted interests in associates and joint ventures. The amendment requires an entity's share of other comprehensive income to be split between those items that will and will not be reclassified to profit or loss, and presented in aggregate as single line items within those two groups.

Amendments to HKAS 27 — Equity Method in Separate Financial Statements

The amendments allow an entity to apply the equity method in accounting for its investments in subsidiaries, joint ventures and associates in its separate financial statements.

HKFRS 9 (2014) — Financial Instruments

HKFRS 9 introduces new requirements for the classification and measurement of financial assets. Debt instruments that are held within a business model whose objective is to hold assets in order to collect contractual cash flows (the business model test) and that have contractual terms that give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding (the contractual cash flow characteristics test) are generally measured at amortised cost. Debt instruments that meet the contractual cash flow characteristics test are measured at fair value through other comprehensive income ("FVTOCI") if the objective of the entity's business model is both to hold and collect the contractual cash flows and to sell the financial assets. Entities may make an irrevocable election at initial recognition to measure equity instruments that are not held for trading at FVTOCI. All other debt and equity instruments are measured at fair value through profit or loss ("FVTPL").

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

3. Adoption of new/amended HKFRSs (Continued)

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

HKFRS 9 (2014) — Financial Instruments (Continued)

HKFRS 9 includes a new expected loss impairment model for all financial assets not measured at FVTPL replacing the incurred loss model in HKAS 39 and new general hedge accounting requirements to allow entities to better reflect their risk management activities in financial statements.

HKFRS 9 carries forward the recognition, classification and measurement requirements for financial liabilities from HKAS 39, except for financial liabilities designated at FVTPL, where the amount of change in fair value attributable to change in credit risk of the liability is recognised in other comprehensive income unless that would create or enlarge an accounting mismatch. In addition, HKFRS 9 retains the requirements in HKAS 39 for derecognition of financial assets and financial liabilities.

HKFRS 15 — Revenue from Contracts with Customers

The new standard establishes a single revenue recognition framework. The core principle of the framework is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. HKFRS 15 supersedes existing revenue recognition guidance including HKAS 18 Revenue, HKAS 11 Construction Contracts and related interpretations.

HKFRS 15 requires the application of a 5 steps approach to revenue recognition:

Step 1:	Identify the contract(s) with a customer
Step 2:	Identify the performance obligations in the contract
Step 3:	Determine the transaction price
Step 4:	Allocate the transaction price to each performance obligation
Step 5:	Recognise revenue when each performance obligation is satisfied

HKFRS 15 includes specific guidance on particular revenue related topics that may change the current approach taken under HKFRS. The standard also significantly enhances the qualitative and quantitative disclosures related to revenue.

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

3. Adoption of new/amended HKFRSs (Continued)

3.3 Change in accounting estimates

During the year, the amortisation rate for certain intangible assets are changed from 25% to 50% to better reflect the expected pattern of consumption of the future economic benefits embodied in these intangible assets. The change in accounting estimate in this regard resulted in full amortisation of these intangible assets and has impact on the amortisation charge for the current year by an increase in amortisation charge for these intangible assets of approximately HK$48,958,000.

3.4 New Companies Ordinance provisions relating to the preparation of financial statements

The provisions of the new Companies Ordinance, Cap. 622, in relation to the preparation of financial statements will apply to the Company in its first financial year beginning on or after 3 March 2014 (i.e. the financial year ending 31 December 2015).

The Board considers that there will be no impact on the Group's financial position or performance, however the new Companies Ordinance, Cap. 622, would have impacts on the presentation and disclosures in the consolidated financial statements. The Statement of Financial Position of the Company will be presented in the notes rather than a separate statement and the related notes need not be included, while generally the statutory disclosures will be simplified.

4. Critical accounting estimates and judgements

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

4.1 Critical accounting estimates and assumptions

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

Depreciation and amortisation

The Group depreciates and amortises property, plant and equipment and intangible assets other than goodwill on a straight-line basis over the estimated useful life, and after taking into account of their estimated residual value, 5% to 33-1/3% per annum and 10% to 50% per annum, respectively, commencing from the date on which the assets are available for use. The estimated useful life reflects the directors' estimate of the periods that the Group intends to derive future economic benefits from the use of the Group's property, plant and equipment and other intangible assets.

4. Critical accounting estimates and judgements (Continued)

4.1 Critical accounting estimates and assumptions (Continued)

Provision for impairment of receivables

The policy for the provision for impairment of receivables of the Group is based on the evaluation of collectability and aging analysis of accounts and on management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each debtor. If the financial conditions of debtors of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional provision for impairment may be required.

Impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in note 2.20. The recoverable amounts of CGUs have been determined based on value-in-use calculations. These calculations require the use of estimates about future cash flows and discount rates. In the process of estimating expected future cash flow management makes assumptions about future revenues and profits. These assumptions relate to future events and circumstances. The actual results may vary and may cause a material adjustment to the carrying amount of goodwill within the next financial year. Determining the appropriate discount rate involves estimating the appropriate adjustment for market risk and for asset specific risk factors. Details of the estimates of the recoverable amounts of CGUs containing goodwill are disclosed in note 18.

Impairment of non-financial assets

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

Current tax and deferred tax

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

4. Critical accounting estimates and judgements (Continued)

4.2 Critical judgements in applying the Group's accounting policies

Research and development costs

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

Control through Structured Agreements

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

5. Revenue/Turnover and other operating income

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

(b) Other operating income:

	2014 **HK$'000**	2013 HK$'000
Bank interest income	**296**	95
Other interest income	**102,557**	92,845
Gain on disposal of property, plant and equipment	**125**	58
Government grants (Note)	**16,425**	321
Rental income	**12,722**	8,415
Write-back of long outstanding payables	**–**	19,027
Refund of value-added tax and business tax	**14,483**	2,811
Reversal of other receivables written off	**2,297**	–
Sundry income	**2,213**	792
	151,118	124,364

Note: Certain government grants amounting to approximately HK$14,580,000 were granted in prior years to subsidise software development projects of the Group in the PRC, of which the prescribed conditions in relation to the grant had been fulfilled during the current year (note 24). The remaining of approximately HK$1,845,000 represents subsidies granted during the year ended 31 December 2014 and, upon fulfilling the granting criteria, were immediately recognised as other operating income during the year.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

6. Segment information

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

	2014 **HK$'000**	2013 HK$'000
Reportable segment revenue	**784,763**	683,401
Reportable segment results	**(180,861)**	(96,050)
Bank interest income	**3**	3
Other interest income	**102,557**	92,845
Depreciation and amortisation	**(274)**	(111)
Loss on disposal and dissolution of subsidiaries	**(7,850)**	–
Finance costs	**(3)**	–
Unallocated corporate expenses	**(17,259)**	(13,586)
Loss before income tax	**(103,687)**	(16,899)
Reportable segment assets	**1,004,425**	1,151,332
Loan to ultimate holding company	**1,466,005**	1,367,219
Cash and cash equivalents	**597**	10,145
Available-for-sale financial assets	**324**	324
Other financial and corporate assets	**84,705**	75,590
Group assets	**2,556,056**	2,604,610
Reportable segment liabilities	**645,978**	513,059
Amount due to ultimate holding company	**37,018**	117,474
Amount due to a director	**7,858**	3,574
Amounts due to shareholders	**1**	5,006
Amount due to an associate	**5,499**	5,501
Provision for tax	**104,184**	92,684
Deferred tax liabilities	**8,906**	10,239
Other corporate liabilities	**12,128**	5,559
Group liabilities	**821,572**	753,096

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

6. Segment information (Continued)

	2014 HK$'000	2013 HK$'000
Bank interest income	293	92
Finance costs	(18,162)	(15,353)
Depreciation and amortisation of non-financial assets	(131,017)	(95,074)
Additions to non-current assets during the year	39,383	328,850

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

	Revenue from external customers		Specified non-current assets	
	2014 HK$'000	2013 HK$'000	2014 HK$'000	2013 HK$'000
— Mainland China (domicile)	784,586	683,265	803,456	919,106
— Hong Kong	177	136	2,405	301
	784,763	683,401	805,861	919,407

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

7. Finance costs

	2014 HK$'000	2013 HK$'000
Interest on bank loans wholly repayable within five years	18,106	15,340
Interest on finance leases	59	13
Amount recognised in profit or loss	18,165	15,353

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

8. Loss before income tax

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

	2014 HK$'000	2013 HK$'000
Auditors' remuneration	2,424	2,872
Gross depreciation of property, plant and equipment – owned assets	53,910	44,863
Less: Amounts included in cost of sales and services provided	(99)	(96)
Net depreciation of owned assets*	53,811	44,767
Depreciation of leased assets*	315	173
Operating lease charges on land and buildings	37,973	37,536
Annual charges of prepaid operating lease payments*	557	560
Gross retirement benefit contributions	63,004	58,912
Less: Amounts included in research and development expenses	(11,376)	(10,330)
Amounts included in cost of sales and services provided	(12,200)	(10,551)
Amounts capitalised in intangible assets	–	(82)
Net retirement benefit contributions	39,428	37,949
Cost of sales and services provided	166,437	118,351
Amortisation of intangible assets other than goodwill*	76,509	49,589
Property, plant and equipment written off*	253	585
Research and development expenses*	89,669	62,793
Provision for impairment of trade receivables*	888	8,141
Provision for impairment of other receivables*	–	24,765
Bad debt written off*	–	1,192
Write-back of provision for impairment of trade receivables*	(1,073)	–

* included in other operating expenses

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

9. Income tax expense

	2014 HK$'000	2013 HK$'000
Hong Kong profits tax		
— tax charge for the year	**12,063**	10,557
— over-provision in respect of prior years	**(298)**	(268)
	11,765	10,289
PRC Enterprise Income Tax		
— tax charge for the year	**3,885**	3,188
	15,650	13,477
Deferred tax (note 28)	**(1,088)**	–
Income tax expense	**14,562**	13,477

For the year ended 31 December 2014, Hong Kong profits tax has been provided at the rate of 16.5% (2013: 16.5%) on the estimated assessable profits for the year.

PRC Enterprise Income Tax ("EIT") has been provided on the estimated assessable profits of subsidiaries operating in Mainland China at 25% (2013: 25%), unless preferential rates are applicable in the cities where the subsidiaries are located.

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

In addition, certain subsidiaries that are located in the Beijing Economic-Technological Development Area are entitled to preferential PRC EIT rate of 15% (2013: 15%).

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2014

9. Income tax expense (Continued)

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

	2014 HK$'000	2013 HK$'000
Loss before income tax	**(103,687)**	(16,899)
Tax on loss before taxation, calculated at the rates applicable in the tax jurisdictions concerned	**(26,954)**	(3,422)
Tax effect of non-deductible expenses	**5,788**	4,394
Tax effect of non-taxable income	**(2,863)**	(5,009)
Tax effect of unused tax losses not recognised	**38,889**	17,782
Over-provision in respect of prior years	**(298)**	(268)
Income tax expense	**14,562**	13,477

10. Loss for the year attributable to the owners of the Company

Of the consolidated loss for the year attributable to the owners of the Company of HK$115,363,000 (2013: HK$28,809,000), a profit of HK$4,041,000 (2013: a loss of HK$10,500,000) has been dealt with in the financial statements of the Company.

11. Loss per share

The calculation of basic loss per share is based on loss attributable to the owners of the Company of HK$115,363,000 (2013: HK$28,809,000) and on 19,914,504,877 (2013: 19,914,504,877) ordinary shares in issue during the year.

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

12. Employee benefit expenses (including directors' emoluments)

	2014 HK$'000	2013 HK$'000
Directors' fee (note 37(a))	**602**	563
Wages and salaries	**529,591**	406,025
Pension costs — defined contribution plans	**63,004**	58,912
Staff welfare	**15,528**	13,187
	608,725	478,687
Less: Amounts capitalised in intangible assets	**–**	(1,953)
Total employee benefit expenses	**608,725**	476,734

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

13. Property, plant and equipment

Group

	Buildings HK$'000	Construction in progress HK$'000	Leasehold improvements, furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
At 1 January 2013					
Cost	194,116	238,753	225,827	3,508	662,204
Accumulated depreciation	(3,200)	–	(182,223)	(2,334)	(187,757)
Net carrying amount	190,916	238,753	43,604	1,174	474,447
Year ended 31 December 2013					
Opening net carrying amount	190,916	238,753	43,604	1,174	474,447
Additions	–	213,230	5,822	2,667	221,719
Re-classification	451,983	(451,983)	–	–	–
Acquisition of subsidiaries (note 34)	–	–	7,619	–	7,619
Write-off	–	–	(529)	(56)	(585)
Disposal	–	–	(316)	–	(316)
Depreciation	(22,816)	–	(21,122)	(1,098)	(45,036)
Net exchange differences	15,613	–	635	13	16,261
Closing net carrying amount	635,696	–	35,713	2,700	674,109
At 31 December 2013 and 1 January 2014					
Cost	662,135	–	235,791	4,264	902,190
Accumulated depreciation	(26,439)	–	(200,078)	(1,564)	(228,081)
Net carrying amount	635,696	–	35,713	2,700	674,109
Year ended 31 December 2014					
Opening net carrying amount	**635,696**	**–**	**35,713**	**2,700**	**674,109**
Additions	**–**	**23,396**	**9,634**	**1,483**	**34,513**
Re-classification	**23,396**	**(23,396)**	**–**	**–**	**–**
Write-off	**–**	**–**	**(79)**	**(174)**	**(253)**
Disposal	**–**	**–**	**(20)**	**(174)**	**(194)**
Depreciation	**(32,483)**	**–**	**(20,296)**	**(1,446)**	**(54,225)**
Net exchange differences	**(15,518)**	**–**	**(620)**	**(18)**	**(16,156)**
Closing net carrying amount	**611,091**	**–**	**24,332**	**2,371**	**637,794**
At 31 December 2014					
Cost	**669,178**	**–**	**241,056**	**5,222**	**915,456**
Accumulated depreciation	**(58,087)**	**–**	**(216,724)**	**(2,851)**	**(277,662)**
Net carrying amount	**611,091**	**–**	**24,332**	**2,371**	**637,794**

As at 31 December 2014, certain buildings of the Group amounting to HK$610,971,000 (2013: HK$635,567,000) were charged to secure banking facilities as detailed in note 40.

The carrying amount of the Group's motor vehicles and furniture, fixture and equipment included an amount of HK$966,000 and HK$123,000 respectively (2013: motor vehicles of HK$58,000) in respect of assets acquired under finance leases.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

13. Property, plant and equipment (Continued)

Company

	Leasehold improvements, furniture, fixtures and equipment HK$'000
At 1 January 2013	
Cost	676
Accumulated depreciation	(575)
Net carrying amount	101
Year ended 31 December 2013	
Opening net carrying amount	101
Additions	1,955
Depreciation	(368)
Closing net carrying amount	1,688
At 31 December 2013 and 1 January 2014	
Cost	2,631
Accumulated depreciation	(943)
Net carrying amount	1,688
Year ended 31 December 2014	
Opening net carrying amount	**1,688**
Additions	**1,469**
Depreciation	**(841)**
Closing net carrying amount	**2,316**
At 31 December 2014	
Cost	**4,100**
Accumulated depreciation	**(1,784)**
Net carrying amount	**2,316**

The carrying amount of the Company's furniture, fixtures and equipment included an amount of HK$123,000 (2013: Nil) in respect of assets acquired under finance lease.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

14. Prepaid land lease payments under operating leases

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

	Group	
	2014	2013
	HK$'000	HK$'000
Outside Hong Kong, held on land with:		
Unexpired terms of leases of between 10 to 50 years	**13,680**	14,383
Unexpired terms of leases over 50 years	**12,852**	13,383
	26,532	27,766
Opening net carrying amount	**27,766**	27,510
Annual charges of prepaid operating lease payments	**(557)**	(560)
Net exchange differences	**(677)**	816
Closing net carrying amount	**26,532**	27,766

As at 31 December 2014, certain prepaid land lease payments under operating leases amounting to HK$26,314,000 (2013: HK$27,537,000) were charged to secure banking facilities as detailed in note 40.

15. Available-for-sale financial assets

	Group		Company	
	2014	2013	**2014**	2013
	HK$'000	HK$'000	**HK$'000**	HK$'000
Unlisted investment				
— Club debenture	**324**	324	**324**	324
— Other investment	**155**	155	**–**	–
	479	479	**324**	324
Less: Provision for impairment	**(155)**	(155)	**–**	–
	324	324	**324**	324

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

16. Interests in subsidiaries

	Company 2014 HK$'000	Company 2013 HK$'000
Unlisted shares, at cost	**290,977**	290,977
Less: Provision for impairment	**(185,256)**	(185,256)
	105,721	105,721
Amounts due from subsidiaries	**2,037,170**	2,073,924
Less: Provision for impairment of receivables	**(610,596)**	(609,910)
	1,426,574	1,464,014
Amounts due to subsidiaries	**(405,047)**	(405,063)

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

Particulars of the principal subsidiaries at 31 December 2014 are as follows:

Name	Country/place of incorporation/ registration and operations	Particulars of issued and paid-up share capital/ registered capital	Percentage held by the Company Directly	Percentage held by the Company Indirectly	Principal activities
China Enterprise ASP Limited ("CE ASP")	Hong Kong	Paid-up capital of HK$14,037,000 (2013: HK$9,000,000)	–	100	Investment holding
Dadi Media Limited ("Dadi Media")	Hong Kong	Paid-up capital of HK$2	100	–	Investment holding
Hongkong New Media Interactive Advertising Co., Limited	Hong Kong	Paid-up capital of HK$100	–	100	Investment holding and information technology business
Robina Profits Limited	British Virgin Islands	1 ordinary share of US$1 each	100	–	Investment holding
中企動力科技股份有限公司 (note a)	PRC	RMB242,369,720	–	99.68	Information technology business

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

16. Interests in subsidiaries (Continued)

Name	Country/place of incorporation/ registration and operations	Particulars of issued and paid-up share capital/ registered capital	Percentage held by the Company Directly	Percentage held by the Company Indirectly	Principal activities
數碼慧谷置業管理股份有限公司 (note a)	PRC	RMB689,171,334	–	92.36	Information technology business
北京中企動力廣告有限公司 (note b)	PRC	RMB21,000,000 (2013: RMB1,000,000)	–	100	Information technology business
北京新網數碼信息技術有限公司 (note b)	PRC	RMB45,000,000 (2013: RMB30,000,000)	–	100*	Information technology business

* controlled through Structured Agreements

The above table lists out the subsidiaries of the Company as at 31 December 2014 which, in the opinion of the Board, principally affected the Group's results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the Board, result in particulars of excessive length.

Notes:

a. These subsidiaries are registered as joint stock limited company under the law of PRC

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

17. Interest in an associate

	Group 2014 HK$'000	Group 2013 HK$'000
Balance at 1 January	**–**	–
Share of results of an associate		
— loss before income tax	**–**	–
— income tax expense	**–**	–
Balance at 31 December	**–**	–

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

17. Interest in an associate (Continued)

The carrying amount of interest in the associate can be analysed as follows:

	Group 2014 HK$'000	2013 HK$'000
Share of net assets	**–**	–
Goodwill	**–**	–
Balance at 31 December	**–**	–

Particulars of the associate as at 31 December 2014 and 2013 are as follows:

Name	Place of incorporation	Particulars of issued capital	Percentage of interest held by the Group 2014	2013	Nature of business
Genius Reward Company Limited ("Genius Reward") **	Hong Kong	Paid-up capital of HK$200	**50%**	50%	Inactive

** unlisted limited liability company

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

	2014 HK$'000	2013 HK$'000
Assets	**25,702**	25,702
Liabilities	**(38,111)**	(37,323)
Revenue	**–**	–
Loss for the year	**(788)**	(786)
Other comprehensive income	**–**	–
Total comprehensive income	**(788)**	(786)

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17. Interest in an associate (Continued)

The Group has discontinued recognising its share of loss of the associate. The amount of unrecognised share of loss of the associate for the year and cumulatively unrecognised share of loss of the associate amounted to HK$394,000 (2013: HK$393,000) and HK$6,204,000 (2013: HK$5,810,000) respectively.

18. Goodwill

	Group	
	2014	2013
	HK$'000	HK$'000
At 1 January		
Gross carrying amount	**94,527**	61,588
Accumulated impairment	**(8,031)**	(7,868)
Net carrying amount	**86,496**	53,720
Year ended 31 December		
Opening net carrying amount	**86,496**	53,720
Acquisition of subsidiaries (note 34)	**–**	31,535
Net exchange differences	**(1,632)**	1,241
Closing net carrying amount	**84,864**	86,496
At 31 December		
Gross carrying amount	**87,305**	94,527
Accumulated impairment	**(2,441)**	(8,031)
Net carrying amount	**84,864**	86,496

For the purpose of the annual impairment test, the carrying amount of goodwill, net of any impairment loss, is allocated to the following CGUs under corporate IT application services:

	2014	2013
	HK$'000	HK$'000
CE ASP	**53,881**	54,735
Xinnet Group	**30,983**	31,761

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

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18. Goodwill (Continued)

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

	2014	2013
Average sales growth rate	**8.35%**	11.27%
Discount rates	**14.21%**	15.00%
Growth rates used to extrapolate cashflows beyond the budget period	**0.00%**	0.00%

The key assumptions used for value-in-use calculations of Xinnet Group CGU for the year are as follows:

	2014	2013
Average sales growth rate	**16.21%**	11.28%
Discount rates	**22.19%**	27.00%
Growth rates used to extrapolate cashflows beyond the budget period	**3.00%**	3.00%

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

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

The discount rates used are pre-tax and reflect specific risks relating to the segment. Apart from the considerations described in determining the value-in-use of the CGUs above, the Group's management is not currently aware of any other probable changes that would necessitate changes in its key estimates. However, the estimated recoverable amounts of CE ASP CGU and Xinnet Group CGU are particularly sensitive to the average sales growth rate applied.

The recoverable amount of CE ASP CGU exceeds its carrying amount by approximately HK$115,403,000. The key assumption is the average sales growth rate of approximately 8.35%. If the average sales growth rate reduced by approximately 1.34%, the carrying amount of CE ASP CGU would equal its recoverable amount.

The recoverable amount of Xinnet Group CGU exceeds its carrying amount by approximately HK$15,525,000. The key assumption is the average sales growth rate of approximately 16.21%. If the average sales growth rate reduced by approximately 0.85%, the carrying amount of Xinnet Group CGU would equal its recoverable amount.

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19. Other intangible assets

Group

	Computer software HK$'000	Development cost HK$'000	Licenses HK$'000	Others HK$'000	Total HK$'000
At 1 January 2013					
Cost	298,354	81,953	–	737	381,044
Accumulated amortisation	(264,773)	(8,477)	–	(737)	(273,987)
Net carrying amount	33,581	73,476	–	–	107,057
Year ended 31 December 2013					
Opening net carrying amount	33,581	73,476	–	–	107,057
Additions	40	23,518	–	–	23,558
Acquisition of subsidiaries (note 34)	55	3,953	40,665	–	44,673
Amortisation charge for the year	(31,611)	(17,642)	(336)	–	(49,589)
Net exchange differences	553	2,315	287	–	3,155
Closing net carrying amount	2,618	85,620	40,616	–	128,854
At 31 December 2013 and 1 January 2014					
Cost	307,393	112,247	40,957	759	461,356
Accumulated amortisation	(304,775)	(26,627)	(341)	(759)	(332,502)
Net carrying amount	2,618	85,620	40,616	–	128,854
Year ended 31 December 2014					
Opening net carrying amount	**2,618**	**85,620**	**40,616**	**–**	**128,854**
Additions	**2,486**	**3,076**	**777**	**–**	**6,339**
Amortisation charge for the year	**(2,448)**	**(69,912)**	**(4,149)**	**–**	**(76,509)**
Net exchange differences	**(64)**	**(1,713)**	**(971)**	**–**	**(2,748)**
Closing net carrying amount	**2,592**	**17,071**	**36,273**	**–**	**55,936**
At 31 December 2014					
Cost	**302,336**	**112,556**	**41,471**	**–**	**456,363**
Accumulated amortisation	**(299,744)**	**(95,485)**	**(5,198)**	**–**	**(400,427)**
Net carrying amount	**2,592**	**17,071**	**36,273**	**–**	**55,936**

As at 31 December 2014, certain intangible assets amounting to HK$4,479,000 (2013: HK$31,500,000) were charged to secure banking facilities as detailed in note 40.

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For the year ended 31 December 2014

20. Deposits, prepayments and other receivables

	Group		Company	
	2014	2013	**2014**	2013
	HK$'000	HK$'000	**HK$'000**	HK$'000
Deposits and prepayments	**50,076**	58,028	**3,547**	204
Amount due from a former subsidiary	**56,943**	86,537	**56,868**	56,868
Others	**148,323**	147,055	**3,587**	3,588
	255,342	291,620	**64,002**	60,660
Less: Provision for impairment of other receivables	**(48,901)**	(50,036)	**(3,665)**	(3,665)
	206,441	241,584	**60,337**	56,995
Less: Non-current portion Deposits for construction in progress	**(735)**	(2,182)	**–**	–
	205,706	239,402	**60,337**	56,995

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

	Group		Company	
	2014	2013	**2014**	2013
	HK$'000	HK$'000	**HK$'000**	HK$'000
At the beginning of the year	**50,036**	26,307	**3,665**	3,665
Provision for impairment	**–**	24,765	**–**	–
Write-back during the year	**–**	(2,040)	**–**	–
Net exchange differences	**(1,135)**	1,004	**–**	–
At the end of the year	**48,901**	50,036	**3,665**	3,665

At each of the reporting date, the Group's other receivables are individually assessed for impairment. For the year ended 31 December 2013, the Group encountered difficulties in collection of certain other receivables and appropriate provision for impairment had been made against these other receivables. The individually impaired receivables are recognised based on the credit history of its debtors, their financial positions and record of delinquency in payments, and current market conditions. Consequently, specific impairment provision was recognised. The Group does not hold any collateral over these balances. Except for the amount impaired, none of the above assets is either past due or impaired.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

20. Deposits, prepayments and other receivables (Continued)

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

21. Trade receivables

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

	Group	
	2014	2013
	HK$'000	HK$'000
0–90 days	**17,200**	1,530
91–180 days	**114**	10,441
181–270 days	**4,406**	2,836
271–360 days	**1,009**	1,078
Over 360 days	**15,256**	15,199
Trade receivables, gross	**37,985**	31,084
Less: Provision for impairment of receivables	**(18,523)**	(19,241)
Trade receivables, net	**19,462**	11,843

Trade receivables are due on presentation of invoices.

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

	Group	
	2014	2013
	HK$'000	HK$'000
At the beginning of the year	**19,241**	10,599
Provision for impairment	**888**	8,141
Write-back during the year	**(1,073)**	–
Net exchange differences	**(533)**	501
At the end of the year	**18,523**	19,241

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For the year ended 31 December 2014

21. Trade receivables (Continued)

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

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

	Group	
	2014	2013
	HK$'000	HK$'000
0–90 days past due	**16,881**	1,212
91–180 days past due	**114**	8,753
181–270 days past due	**2,398**	828
271–360 days past due	**56**	69
Overdue for more than 360 days	**13**	981
	19,462	11,843

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

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

22. Cash and cash equivalents

	Group		**Company**	
	2014	2013	**2014**	2013
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and bank balances	**58,698**	66,415	**247**	88
Less: Time-deposits maturing over three months	**(625)**	(653)	**–**	–
Cash and cash equivalents	**58,073**	65,762	**247**	88

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For the year ended 31 December 2014

22. Cash and cash equivalents (Continued)

Deposits with banks earn interest at floating rates based on daily bank deposit rates. Time-deposits were made for a period over three months (2013: three months) depending on the immediate cash requirement of the Group and earned fixed-rate interest at 4.45% per annum (2013: ranging from 2.85% to 4.87% per annum).

Included in bank and cash balance of the Group is an aggregate amount of approximately HK$57,226,000 (2013: HK$65,357,000), which represented Renminbi ("RMB") deposits placed with banks in Mainland China.

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

The Company did not have any deposits denominated in RMB deposited with banks in Mainland China as at 31 December 2014 and 2013.

23. Trade payables

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

	Group	
	2014	2013
	HK$'000	HK$'000
0–90 days	**34,849**	2,279
91–180 days	**1,668**	2,459
181–270 days	**1,497**	630
271–360 days	**158**	9,740
Over 360 days	**8,770**	10,792
	46,942	25,900

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

24. Other payables and accruals

As at 31 December 2013, included in the Group's other payables and accruals was RMB13,050,000 (equivalent to approximately HK$16,718,000) in respect of deferred government grants mainly related to the Group's design, research and development of new software products by the Group which contributes positively to the local industry environment. The deferred government grant amounting to approximately RMB11,600,000 (equivalent to approximately HK$14,580,000) has been recognised as "other operating income" during the year ended 31 December 2014 upon those prescribed conditions were satisfactorily fulfilled (note 5(b)) and the remaining deferred government grant amounting to approximately RMB1,450,000 (equivalent to approximately HK$1,799,000) was derecognised upon disposal of subsidiaries (note 33).

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For the year ended 31 December 2014

24. Other payables and accruals (Continued)

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

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

(a) Amount due to a director

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

(b) Amounts due to shareholders

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

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

	Group		**Company**	
	2014	2013	**2014**	2013
	HK$'000	HK$'000	**HK$'000**	HK$'000
Non-current assets				
Loan to ultimate holding company	**1,466,005**	1,367,219	**346,471**	323,124
Non-current liabilities				
Amount due to ultimate holding company	**(37,018)**	(117,474)	**(16,071)**	(26,170)

Loan to ultimate holding company

Group and Company

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

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

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

Loan to ultimate holding company (Continued)

Group and Company (Continued)

On 9 May 2013, loan extension agreement in respect of the loan agreement dated 29 May 2009 was signed and was conditional upon its ultimate holding company having settled in full, the interest accrued on the outstanding principal amount under the loan agreement on or before 29 June 2013. It was agreed that the repayment date for the outstanding principal to be extended for two years to 29 June 2015 and the loan was secured by share mortgage of a fellow subsidiary. The rate of interest applicable to the outstanding principal amount of the loan during the extension period is 7.5% per annum.

As at 31 December 2014, included in the balances of the Company and the Group, approximately HK$311,291,000 and HK$1,317,149,000 (2013: HK$311,291,000 and HK$1,317,149,000) respectively were interest bearing at 7.5% (2013: 7.5%) per annum, and the remaining balance was interest-free. The loan balance has been classified as non-current assets notwithstanding that the repayment date of the loan would be 29 June 2015. Based on an understanding of the business plans of the ultimate holding company, substantial financial resources of the ultimate holding company have been invested in its property projects which may take a longer time for the ultimate holding company to release those financial resources to repay the loan balance. The Company's management expects that a further extension of the loan to the ultimate holding company upon the maturity on 29 June 2015 may be required if there is no other possible financial arrangement to be made by the ultimate holding company to repay the loan balance. Therefore, the loan balance is classified as non-current assets.

Amount due to ultimate holding company

The amount due to ultimate holding company is unsecured, interest-free and repayable after one year (2013: repayable after one year).

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

	Group		Company	
	2014	2013	**2014**	2013
	HK$'000	HK$'000	**HK$'000**	HK$'000
Amount due from an associate	**–**	–	**20,203**	20,202
Less: Provision for impairment of receivables	**–**	–	**(20,203)**	(20,202)
	–	–	**–**	–
Amount due to an associate	**(5,499)**	(5,501)	**–**	–

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

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For the year ended 31 December 2014

26. Bank borrowings, secured

At 31 December 2014, the bank borrowings, which are denominated in RMB, are repayable as follows:

	Group	
	2014	2013
	HK$'000	HK$'000
Within one year	**313,547**	230,976

At 31 December 2014, the bank borrowings' interest rate profiles are as follows:

	Group	
	2014	2013
	HK$'000	HK$'000
Floating rates — 7.2% (2013: 6.0%) per annum	**19,995**	148,604
Fixed rates — ranging from 6.0% to 7.8% (2013: 6.9% to 7.8%) per annum	**293,552**	82,372

The carrying amounts of the borrowings approximate their fair values.

27. Finance lease liabilities

(a) Total minimum lease payments is as follows:

	Group		Company	
	2014	2013	**2014**	2013
	HK$'000	HK$'000	**HK$'000**	HK$'000
Due within one year	**476**	123	**34**	–
Due in the second to fifth years	**804**	113	**116**	–
	1,280	236	**150**	–
Future finance charges on finance lease	**(93)**	(10)	**(19)**	–
Present value of finance lease liabilities	**1,187**	226	**131**	–

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For the year ended 31 December 2014

27. Finance lease liabilities (Continued)

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

	Group		Company	
	2014	2013	**2014**	2013
	HK$'000	HK$'000	**HK$'000**	HK$'000
Due within one year, included under current liabilities	**431**	116	**29**	–
Due in the second to fifth years, included under non-current liabilities	**756**	110	**102**	–
	1,187	226	**131**	–

The Group has entered into finance leases for items of two motor vehicles and two photocopiers (2013: a motor vehicle) with remaining lease terms of one to five years (2013: two years). Interest rates under the leases range from 2.4% to 3.33% (2013: 2.5%) per annum. The lease does not have options to renew or any contingent rental provisions. Under the lease terms, the Group has the option to purchase the leased assets at a price that is expected to be sufficiently lower than the fair value of the leased asset at the end of the leases.

The Company has entered into finance leases for item of two photocopiers (2013: Nil) with remaining lease terms of five years (2013: Nil). Interest rates under the leases range from 2.4% to 3.33% (2013: Nil) per annum. The lease does not have options to renew or any contingent rental provisions. Under the lease terms, the Company has the option to purchase the leased asset at a price that is expected to be sufficiently lower than the fair value of the leased asset at the end of the leases.

Finance lease liabilities are secured by the underlying assets where the lessors have the rights to revert in event of default. The carrying amount of the finance lease liabilities are denominated in Hong Kong dollars and approximates their fair values.

28. Deferred tax liabilities

At 31 December 2014, the movement on the deferred tax liabilities are as follows:

	Group	
	2014	2013
	HK$'000	HK$'000
At the beginning of the year	**10,239**	–
Acquisition of subsidiaries (note 34)	**–**	10,166
Charge to profit or loss (note 9)	**(1,088)**	–
Exchange realignment	**(245)**	73
At the end of the year	**8,906**	10,239

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

28. Deferred tax liabilities (Continued)

At 31 December 2014, the Group has unrecognised deferred tax asset arising from tax losses of the subsidiaries operating in Hong Kong and in Mainland China of approximately HK$6,095,000 and HK$353,120,000 (2013: HK$6,085,000 and HK$255,830,000) respectively. The amount of unrecognised deferred tax assets are as follows:

	Group		Company	
	2014	2013	**2014**	2013
	HK$'000	HK$'000	**HK$'000**	HK$'000
Tax effect of:				
— unused tax losses	**89,286**	64,961	**–**	–

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

29. Share capital

Authorised

	2014	**2014**	2013	2013
	Number	**HK$'000**	Number	HK$'000
Ordinary shares of HK$0.01 each				
At beginning of the year	**30,000,000,000**	**300,000**	30,000,000,000	300,000
The concept of authorised share capital was abolished on 3 March 2014 (Note)	**(30,000,000,000)**	**(300,000)**	–	–
At end of the year	**–**	**–**	30,000,000,000	300,000

Issued and fully paid

	2014	**2014**	2013	2013
	Number	**HK$'000**	Number	HK$'000
At beginning of the year	**19,914,504,877**	**199,145**	19,914,504,877	199,145
Transfer from share premium and capital redemption reserves on 3 March 2014 (Note)	**–**	**41,452**	–	–
At end of the year	**19,914,504,877**	**240,597**	19,914,504,877	199,145

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

29. Share capital (Continued)

Note:

The Hong Kong Companies Ordinance, Cap. 622 (the "Ordinance") came into effect on 3 March 2014. Under s.135 of the Ordinance, shares in a company do not have a nominal value. Accordingly, the concept of authorised share capital is abolished. The no nominal value regime applies to the Company. Following the transitional provisions in the Ordinance, any amount standing to the credit of the share premium account and capital redemption reserve at the beginning of 3 March 2014 became part of the Company's share capital.

30. Share option scheme

Under the ordinary resolution passed at the annual general meeting on 28 May 2012, the Board adopted a share option scheme (the "Scheme"). Under the Scheme, share options may be granted to directors, employees of the Group and those who have contributed or will contribute to the Group at any time within ten years after its adoption at the discretion of the Board. No share options have been granted by the Company since the adoption of the Scheme. There was no share-based compensation expense included in profit or loss for the years ended 31 December 2014 and 2013.

31. Reserves

Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 41 of the financial statements.

Notes:

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

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

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

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For the year ended 31 December 2014

31. Reserves (Continued)

Company

	Share premium HK$'000	Capital redemption reserve HK$'000	General reserve HK$'000 (note a)	Retained profits HK$'000 (note b)	Total HK$'000
At 1 January 2013	39,194	2,258	79,579	1,043,381	1,164,412
Loss for the year	–	–	–	(10,500)	(10,500)
At 31 December 2013 and 1 January 2014	**39,194**	**2,258**	**79,579**	**1,032,881**	**1,153,912**
Transfer upon abolition of nominal value of shares on 3 March 2014	**(39,194)**	**(2,258)**	**–**	**–**	**(41,452)**
Profit for the year	**–**	**–**	**–**	**4,041**	**4,041**
At 31 December 2014	**–**	**–**	**79,579**	**1,036,922**	**1,116,501**

Notes:

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

(b) Included in the Company's retained profits is an amount of approximately HK$53,238,000 (2013: approximately HK$68,572,000) which represents the balance of the special reserve arising from the Company's capital reduction effected in a prior year.

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

32. Non-controlling interests

	2014 HK$'000	2013 HK$'000
At 1 January	**31,705**	31,875
Loss for the year	**(2,886)**	(1,567)
Released on disposal and dissolution of subsidiaries (note 33)	**(2,847)**	–
Net exchange differences	**(433)**	1,397
As at 31 December	**25,539**	31,705

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

	2014	2013
Percentage of equity interest held by non-controlling interests:		
數碼慧谷置業管理股份有限公司	**7.64%**	7.64%
北京共創開源軟件有限公司	**–**	48.31%

	2014 HK$'000	2013 HK$'000
(Loss)/Profit for the year allocated to non-controlling interests:		
數碼慧谷置業管理股份有限公司	**(2,639)**	(9,491)
北京共創開源軟件有限公司	**(9)**	8,014
Accumulated balances of non-controlling interests at the reporting date:		
數碼慧谷置業管理股份有限公司	**25,239**	28,321
北京共創開源軟件有限公司	**–**	2,828

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

32. Non-controlling interests (Continued)

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

數碼慧谷置業管理股份有限公司	**2014** **HK$'000**	2013 HK$'000
Revenue/Turnover	**–**	293
Loss for the year	**(34,545)**	(124,234)
Total comprehensive income for the year	**(40,338)**	(104,373)

北京共創開源軟件有限公司	**2014** **HK$'000**	2013 HK$'000
Revenue/Turnover	**–**	–
(Loss)/Profit for the period/year	**(19)**	16,590
Total comprehensive income for the period/year	**40**	16,288

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

33. Disposal and dissolution of subsidiaries

The Group entered into sale and purchase agreement to dispose of 51.69% equity interests in a subsidiary, namely 北京共創開源軟件有限公司, to an independent third party at a consideration of approximately HK$62,000. The disposal was completed on 28 May 2014. In addition, two wholly-owned subsidiaries have been dissolved during the year. The carrying amounts of the net liabilities of these subsidiaries at the date of disposal and dissolution were as follows:

	2014 HK$'000
Net liabilities disposed of:	
Cash and cash equivalents	1
Other payables and accruals (including deferred government grants (note 24))	(1,818)
Non-controlling interests (note 32)	(2,847)
	(4,664)
Exchange reserve released on disposal and dissolution	12,576
Loss on disposal and dissolution of subsidiaries	(7,850)
Total consideration	62
Satisfied by:	
Cash	62

An analysis of net inflow of cash and cash equivalents in respect of the disposal and dissolution of subsidiaries was as follows:

	2014 HK$'000
Net cash inflow arising on the disposal and dissolution of subsidiaries:	
Cash consideration received	62
Cash and cash equivalents disposed of	(1)
	61

NOTES TO THE FINANCIAL STATEMENTS

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34. Business combination

There was no business combination during the year.

In last financial year, the Group completed the acquisition of 100% effective control over Xinnet Group on 15 November 2013 (the "Acquisition Date"). The fair values of the identifiable assets and liabilities of Xinnet Group as at the Acquisition Date and the corresponding carrying amounts immediately prior to the Acquisition were as follows:

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

34. Business combination (Continued)

Notes:

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

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

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

(d) The Group incurred transaction cost of HK$129,000 for the Acquisition which were expensed and recognised as administrative expense in the profit or loss for the year ended 31 December 2013.

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

35. Major non-cash transactions

(a) During the year ended 31 December 2014, certain non-current deposits and other receivables of the Group amounting to approximately HK$1,402,000 (2013: HK$135,137,000) were transferred to property, plant and equipment.

(b) The Group entered into finance lease arrangements in respect of certain assets with a total capital value of approximately HK$1,347,000 (2013: Nil) at the inception of the lease.

36. Retirement benefit plans

Defined contribution retirement plans

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

Subsidiaries operating in Mainland China are required to participate in a defined contribution retirement benefit plan organised by the relevant government authorities. These subsidiaries are required to contribute a specified percentage of payroll costs to the retirement benefit plan to fund the benefits.

The only obligation of the Group with respect to the retirement benefit plan is to make the specified contributions.

The total costs charged to the consolidated income statement amounting to HK$63,004,000 (2013: HK$58,912,000) represent contributions payable to the schemes by the Group at the rates specified in the rules of the schemes.

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For the year ended 31 December 2014

37. Directors' remuneration and five highest paid individuals

(a) Directors' emoluments

Directors remuneration and fees disclosed pursuant to the Listing Rules and Section 78(1) of Schedule 11 of the Hong Kong Companies Ordinance Cap. 622 which requires compliance with Section 161 of the Hong Kong Companies Ordinance Cap. 32 are as follows:

	Fees HK$'000	Basic salaries, housing, other allowances and benefits in kind HK$'000	Pension scheme contributions HK$'000	Total HK$'000
2014				
Executive directors				
YU Pun Hoi	–	120	6	126
CHEN Dan	–	449	–	449
LIU Rong	–	–	–	–
Non-executive directors				
WANG Gang	120	–	–	120
LAM Bing Kwan	60	–	–	60
Independent non-executive directors				
Prof. JIANG Ping	152	–	–	152
HU Bin	150	–	–	150
FUNG Wing Lap	120	–	–	120
	602	569	6	1,177

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

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

(a) Directors' emoluments (Continued)

	Fees HK$'000	Basic salaries, housing, other allowances and benefits in kind HK$'000	Pension scheme contributions HK$'000	Total HK$'000
2013				
Executive directors				
YU Pun Hoi	–	120	6	126
CHEN Dan	–	451	–	451
LIU Rong	–	–	–	–
Non-executive directors				
WANG Gang	120	–	–	120
LAM Bing Kwan	60	–	–	60
Independent non-executive directors				
Prof. JIANG Ping	150	–	–	150
HU Bin**	38	–	–	38
FUNG Wing Lap	120	–	–	120
HUANG Yaowen#	75	–	–	75
	563	571	6	1,140

\# Resigned as independent non-executive directors with effect from 1 July 2013

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

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

(b) Five highest paid individuals

The five highest paid individuals of the Group for the year included one (2013: one) director, details of whose emoluments are set out above. The emoluments of the remaining four (2013: four) employees are as follows:

	2014 HK$'000	2013 HK$'000
Basic salaries, other allowances and benefits in kind	**1,554**	2,288
Pension contributions	**265**	244
	1,819	2,532

The emoluments of the five highest paid individuals, other than a director (2013: a director), fell within the following band:

Emolument band	**Number of individuals**	
	2014	2013
Nil–HK$1,000,000	**4**	4

During the years ended 31 December 2014 and 2013, no emoluments were paid to any of the Company's directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

None of the directors have waived or agreed to waive any emoluments in respect of the years ended 31 December 2014 and 2013.

38. Commitments

(a) Capital commitments

At 31 December 2014, the Group had outstanding capital commitments as follows:

	Group	
	2014 HK$'000	2013 HK$'000
Contracted but not provided for in respect of construction in progress	**99,634**	120,560

At 31 December 2014 and 2013, the Company did not have any significant capital commitments.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

38. Commitments (Continued)

(b) Operating lease commitments

At 31 December 2014, total future minimum lease payments in respect of land and buildings under non-cancellable operating leases are payable as follows:

	Group		Company	
	2014	2013	**2014**	2013
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within one year	**35,125**	30,928	**5,925**	–
In the second to fifth years	**30,622**	16,533	**11,454**	–
	65,747	47,461	**17,379**	–

The Group leases a number of properties under operating leases. The leases of the Group run for an initial period of one to five years (2013: one to five years), with options to renew the lease terms at the expiry dates or at dates as mutually agreed between the Group and the respective landlords. None of the leases includes any contingent rentals.

39. Contingent liabilities

Guarantees given in connection with credit facilities granted to:

	Group and Company	
	2014	2013
	HK$'000	HK$'000
An associate (note)	**17,126**	16,341
Third parties (note)	**43,185**	54,513
	60,311	70,854

Note:

In February 1993, a Group's associate borrowed a loan of US$5 million from a Filipino bank namely Banco de Oro-EPCI Inc. (formerly known as Equitable PCI Bank Inc.) ("EPCIB"). The loan was secured by a guarantee executed by the Company ("EPCIB Guarantee"), and by share mortgage of 74,889,892 shares ("Philippines Shares") of Acesite (Philippines) Hotel Corporation Inc. ("Acesite Phils."). Due to the pending litigation as mentioned in note 41(a), the Group cannot ascertain the fair value of the guarantee in respect of the loan borrowed by the associate.

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

40. Credit facilities

As at 31 December 2014, the Group's credit facilities were secured by the following:

(a) charge over interest in certain leasehold land (note 14) with a net carrying value of approximately HK$26,314,000 (2013: HK$27,537,000);

(b) charge over certain buildings (note 13) with a net carrying value of approximately HK$610,971,000 (2013: HK$635,567,000); and

(c) charge over certain intangible assets (note 19) with net carrying value of approximately HK$4,479,000 (2013: HK$31,500,000).

41. Pending litigations

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

42. Related party transactions

Remuneration for key management personnel which represents amounts paid to the Company's directors as disclosed in note 37.

Included in other interest income of HK$102,557,000 (2013: HK$92,845,000) and in rental income of HK$12,722,000 (2013: HK$8,415,000), amount of HK$98,786,000 (2013: HK$89,043,000) and HK$1,086,000 (2013: HK$1,086,000) were interest income from ultimate holding company and rental income from fellow subsidiaries respectively.

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

43. Financial risk management and fair value measurements

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

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

43.1 Categories of financial assets and liabilities

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

	Group		Company	
	2014	2013	**2014**	2013
	HK$'000	HK$'000	**HK$'000**	HK$'000
Financial assets				
Available-for-sale financial assets	**324**	324	**324**	324
Loans and receivables:				
— Loan to ultimate holding company	**1,466,005**	1,367,219	**346,471**	323,124
— Trade receivables	**19,462**	11,843	**–**	–
— Other receivables	**186,626**	208,979	**59,064**	56,977
— Amounts due from subsidiaries	**–**	–	**1,426,574**	1,464,014
— Amount due from an associate	**–**	–	**–**	–
— Time-deposits maturing over three months	**625**	653	**–**	–
Cash and cash equivalents	**58,073**	65,762	**247**	88
	1,731,115	1,654,780	**1,832,680**	1,844,527

	Group		Company	
	2014	2013	**2014**	2013
	HK$'000	HK$'000	**HK$'000**	HK$'000
Financial liabilities				
Financial liabilities measured at amortised cost:				
— Trade payables	**46,942**	25,900	**–**	–
— Other payables and accruals	**284,468**	243,873	**4,831**	3,845
— Amount due to ultimate holding company	**37,018**	117,474	**16,071**	26,170
— Amount due to a director	**7,858**	3,574	**158,069**	158,069
— Amounts due to subsidiaries	**–**	–	**405,047**	405,063
— Amounts due to shareholders	**1**	5,006	**–**	5,005
— Amount due to an associate	**5,499**	5,501	**–**	–
— Bank borrowings	**313,547**	230,976	**–**	–
— Finance lease liabilities	**1,187**	226	**131**	–
	696,520	632,530	**584,149**	598,152

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

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

43.2 Currency risk

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

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

43.3 Cash flow interest rate risk

The Group is exposed to interest rate risk through the impact of interest rate changes on interest bearing bank borrowings carrying interests at variable rates and cash and cash equivalents. Borrowings and cash and cash equivalents carried at variable rates expose the Group to cash flow interest rate risk. The Group will review whether bank loans bearing fixed or floating rates should be drawn from time to time with reference to the trend of changes in interest rates. The interest rates and repayment terms of bank borrowings and cash and cash equivalents of the Group are disclosed in notes 26 and 22 respectively. The Group currently does not have an interest rate hedging policy. However, the directors monitor interest rate change exposure and will consider hedging significant interest rate change exposure should the need arise.

Cash flow interest rate risk sensitivity

At 31 December 2014, the Group was exposed to changes in market interest rates through its cash and cash equivalents and bank borrowings, which are subject to variable interest rates. The following table illustrates the sensitivity of the loss for the year and retained earnings to a change in interest rates of +50 basis points and -50 basis points (2013: +50 basis points and -50 basis points), with effect from the beginning of the year. The calculations are based on the Group's bank borrowings and bank balance held at each reporting date. All other variables are held constant.

	Group	
	2014	2013
	HK$'000	HK$'000
If interest rates were 50 basis points (2013: 50 basis points) higher		
Decrease/(Increase) in loss for the year	**195**	(437)
If interest rates were 50 basis points (2013: 50 basis points) lower		
(Increase)/Decrease in loss for the year	**(195)**	437

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

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

43.3 Cash flow interest rate risk (Continued)

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

43.4 Credit risk

Credit risk refers to the risk that the counterparty to a financial instrument would fail to discharge its obligation under the terms of the financial instrument and cause a financial loss to the Group. As at 31 December 2014, the Group's maximum exposure to credit risk in the event of counterparties' failure to perform their obligation and financial guarantees provided by the Group is arising from:

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

— the amount of contingent liabilities in relation to the financial guarantees provided by the Group as disclosed in note 39.

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

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

Further quantitative disclosure in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in notes 21 and 20 respectively.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

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

43.5 Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and availability of funding through the ability to close-out market positions. In the opinion of the Board, the Group should have adequate resources to meet its obligations in the forthcoming year on the basis as set out in note 2.1 to these financial statements.

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

Group

	Carrying amount HK$'000	Total contractual undiscounted cash flow HK$'000	On demand or within one year HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 5 years HK$'000
As at 31 December 2014					
Trade payables	46,942	46,942	46,942	–	–
Other payables and accruals	284,468	284,468	284,468	–	–
Amount due to ultimate holding company	37,018	37,018	–	37,018	–
Amount due to a director	7,858	7,858	7,858	–	–
Amounts due to shareholders	1	1	1	–	–
Amount due to an associate	5,499	5,499	5,499	–	–
Bank borrowings	313,547	324,383	324,383	–	–
Finance lease liabilities	1,187	1,280	476	364	440
	696,520	707,449	669,627	37,382	440
Financial guarantee issued					
Maximum amount guaranteed (note 39)	–	60,311	60,311	–	–

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

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

43.5 Liquidity risk (Continued)

Group (Continued)

	Carrying amount HK$'000	Total contractual undiscounted cash flow HK$'000	On demand or within one year HK$'000	More than 1 year but less than 2 years HK$'000
As at 31 December 2013				
Trade payables	25,900	25,900	25,900	–
Other payables and accruals	243,873	243,873	243,873	–
Amount due to ultimate holding company	117,474	117,474	–	117,474
Amount due to a director	3,574	3,574	3,574	–
Amounts due to shareholders	5,006	5,006	5,006	–
Amount due to an associate	5,501	5,501	5,501	–
Bank borrowings	230,976	238,055	238,055	–
Finance lease liabilities	226	236	123	113
	632,530	639,619	522,032	117,587
Financial guarantee issued				
Maximum amount guaranteed (note 39)	–	70,854	70,854	–

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

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

43.5 Liquidity risk (Continued)

Company

	Carrying amount HK$'000	Total contractual undiscounted cash flow HK$'000	On demand or within one year HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 5 years HK$'000
As at 31 December 2014					
Other payables and accruals	**4,831**	**4,831**	**4,831**	**–**	**–**
Amount due to ultimate holding company	**16,071**	**16,071**	**–**	**16,071**	**–**
Amount due to a director	**158,069**	**158,069**	**158,069**	**–**	**–**
Amounts due to subsidiaries	**405,047**	**405,047**	**405,047**	**–**	**–**
Finance lease liabilities	**131**	**150**	**34**	**34**	**82**
	584,149	**584,168**	**567,981**	**16,105**	**82**
Financial guarantee issued					
Maximum amount guaranteed (note 39)	**–**	**60,311**	**60,311**	**–**	**–**

	Carrying amount HK$'000	Total contractual undiscounted cash flow HK$'000	On demand or within one year HK$'000	More than 1 year but less than 2 years HK$'000
As at 31 December 2013				
Other payables and accruals	3,845	3,845	3,845	–
Amount due to ultimate holding company	26,170	26,170	–	26,170
Amount due to a director	158,069	158,069	158,069	–
Amounts due to subsidiaries	405,063	405,063	405,063	–
Amounts due to shareholders	5,005	5,005	5,005	–
	598,152	598,152	571,982	26,170
Financial guarantee issued				
Maximum amount guaranteed (note 39)	–	70,854	70,854	–

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

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

43.6 Fair value

The carrying amounts of the following financial assets and financial liabilities approximate their fair values as all of them are in short-term nature: cash and cash equivalents, time-deposits maturing over three months, trade receivables and payables, other receivables and payables, bank borrowings, finance lease liabilities, loan to ultimate holding company, amounts due to/from a director/shareholders/ultimate holding company/an associate/ subsidiaries. Analysis of the interest rate and carrying amounts of bank borrowings are presented in note 26 to the financial statements.

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

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

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

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

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

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

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

	Group and Company			
	Level 1 HK$'000	**Level 2 HK$'000**	**Level 3 HK$'000**	**Total HK$'000**
As at 31 December 2014 and 2013				
Asset				
Available-for-sale financial assets	–	**324**	–	**324**
Total fair values	–	**324**	–	**324**

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

44. Capital management

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

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

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

	Group		**Company**	
	2014	2013	**2014**	2013
	HK$'000	HK$'000	**HK$'000**	HK$'000
Bank borrowings	**313,547**	230,976	**–**	–
Finance lease liabilities	**1,187**	226	**131**	–
Total debt	**314,734**	231,202	**131**	–
Less: Cash and cash equivalents	**(58,073)**	(65,762)	**(247)**	(88)
Time-deposits maturing over three months	**(625)**	(653)	**–**	–
Net debt	**256,036**	164,787	**(116)**	(88)
Total equity	**1,734,484**	1,851,514	**1,357,098**	1,353,057
Total equity plus net debt	**1,990,520**	2,016,301	**1,356,982**	1,352,969
Gearing ratio	**12.86%**	8.17%	**N/A**	N/A

45. Approval of financial statements

The financial statements for the year ended 31 December 2014 were approved and authorised for issue by the Board on 27 March 2015.

FIVE-YEAR FINANCIAL SUMMARY

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

	2014 **HK$'000**	2013 HK$'000	2012 HK$'000	2011 HK$'000	2010 HK$'000
Revenue/Turnover (continuing and discontinued operations)	**784,763**	683,401	659,106	824,350	742,744
Loss for the year	**(118,249)**	(30,376)	(63,948)	(183,462)	(90,575)
Non-controlling interests	**2,886**	1,567	4,036	26,091	10,718
Loss attributable to the owners of the Company	**(115,363)**	(28,809)	(59,912)	(157,371)	(79,857)
Total assets	**2,556,056**	2,604,610	2,596,528	2,464,118	2,772,509
Total liabilities	**(821,572)**	(753,096)	(729,823)	(537,184)	(697,124)
	1,734,484	1,851,514	1,866,705	1,926,934	2,075,385

中国数码

Sino-i Technology Limited

Stock Code：250　股份代號：250

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