中彩網通控股有限公司

China Netcom Technology Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8071)

2014

ANNUAL REPORT

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Leung Ngai Man *(Chairman)*
Ms. Wu Wei Hua

Independent Non-executive Directors

Mr. Cai Wei Lun
Mr. Qi Ji
Ms. Xuan Hong

COMPANY SECRETARY

Mr. Wong Ka Bong

COMPLIANCE OFFICER

Mr. Leung Ngai Man

AUTHORISED REPRESENTATIVES

Mr. Leung Ngai Man
Mr. Wong Ka Bong

AUDIT COMMITTEE

Ms. Xuan Hong *(Chairman)*
Mr. Cai Wei Lun
Mr. Qi Ji

REMUNERATION COMMITTEE

Ms. Xuan Hong *(Chairman)*
Mr. Cai Wei Lun
Mr. Qi Ji
Mr. Leung Ngai Man

NOMINATION COMMITTEE

Mr. Leung Ngai Man *(Chairman)*
Mr. Cai Wei Lun
Mr. Qi Ji
Ms. Xuan Hong

AUDITORS

HLB Hodgson Impey Cheng Limited
Certified Public Accountants

PRINCIPAL BANKERS

Bank of Communications Co., Ltd
China CITIC Bank International Limited

REGISTERED OFFICE

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 1006, 10th Floor
Tower One Lippo Centre
89 Queensway
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER AGENT IN THE CAYMAN ISLANDS

Royal Bank of Canada Trust Company (Cayman) Limited
4th Floor, Royal Bank House
24 Shedden Road
George Town
Grand Cayman KY1-1110
Cayman Islands

BRANCH SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG

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

STOCK CODE

8071

WEBSITE

www.chinanetcomtech.com

CHAIRMAN'S STATEMENT

On behalf of the board (the "**Board**") of Directors, I hereby present to our shareholders (the "**Shareholders**") the annual results of the Company and its subsidiaries (collectively, the "**Group**") for the year ended 31 December 2014.

FINANCIAL HIGHLIGHTS

During the year, the revenue of the Group for the year ended 31 December 2014 was approximately HK$3,533,000, representing an increase of approximately 104% as compared with that in 2013. The revenue was mainly derived from lottery business. The loss attributable to owners of the Company was approximately HK$186,051,000 for the year ended 31 December 2014, representing an increase of approximately 147% as compared with that in 2013.

BUSINESS OVERVIEW

The Group is principally engaged in the trading of computer hardware and software and the provision of lottery system management service and the operation of lottery sales halls in the People's Republic of China (the "**PRC**").

The Company has made adjustment to the project of "Happy 12" in Liaoning Province in line with the actual operational conditions and has commenced sales of lottery games with high payout rates and high frequency of lottery drawings in 23 halls of "China Welfare Lottery Online" located in Liaoning Province since 2014.

SUPPLY CONTRACT OF SPORTS ENTERTAINMENT ELECTRONIC VIDEO LOTTERY TERMINALS

During the year, the Group won the open bid (quotation required) for the procurement of sports entertainment electronic video lottery terminals ("**VLT**") by Hainan Provincial Government of the PRC (the "**Hainan VLT Project**"). The Company having controlling interest subsidiary, 深圳環彩普達科技有限公司 (transliterated as Shenzhen Huancai Puda Technology Company Limited) ("**Huancai Puda**") has entered into a supply contract with Hainan Provincial Sports Lottery Administration Centre.

The Company is aware that, the procurement of Hainan VLT Project is the first open bid (quotation required) for government VLT procurement in the sports lottery market in the PRC. In 2014, sales of sports lotteries in the PRC reached RMB176.41 billion. In comparison, sales of welfare lotteries in the PRC amounted to RMB205.97 billion in 2014, while the video lottery "China Welfare Lottery Online" recorded sales of approximately RMB22.423 billion, approximately RMB28.939 billion and approximately RMB37.746 billion respectively for 2012, 2013 and 2014. The sales of electronic video lottery recorded a year-on-year growth of approximately 30.4%. The Group is the sports entertainment electronic VLT provider in the first open bid (quotation required) for government procurement in the PRC's sports lottery market. Capitalising on our technical strengths, the Group will extend its VLT business presence in other provincial sports lottery markets.

Details of the Hainan VLT Project were set out in the Company's announcements dated 5 June 2014, 9 June 2014 and 2 January 2015 respectively.

CHAIRMAN'S STATEMENT

INDUSTRY OVERVIEW

China's lottery industry has maintained the strong growth momentum in 2014, with total sales of lottery amounting to RMB382.38 billion, representing a growth of approximately 23.6% year on year. Welfare Lottery and Sports Lottery contributed approximately RMB205.97 billion and approximately RMB176.41 billion, increased approximately 16.7% and approximately 32.8% year on year respectively. The top three fastest growing lottery types were Sports Single Match Game, Welfare Video Lottery and Sports CTG, which grew approximately 81.7%, 30.4% and 20.5% year on year respectively. Among them, Sports Single Match Game was mainly driven by World Cup, while Welfare Video Lottery continued to maintain the strong growth.

Currently, the number of lottery consumers in the PRC is over 200 million and the per-capita lottery consumption is increasing. It will be expecting that the total sales volume in lottery market will greatly increase along with the abundant lottery types and increasing prize.

Furthermore, as an emerging industry, the PRC's lottery industry will have a sustainable development along with the richer non-paper lottery products, enlarging lottery market, updating lottery types, plentiful lottery buying channels, enlarging lottery consumer group and enriching lottery cultural content. Currently, the relevant regulator is formulating the supervisory structure and mode of online lottery, which is believed to stimulate the healthy development of the market more effectively.

PROSPECT

The year of 2014 continued to be a strong year for the PRC lottery industry, with annual sales well over RMB382.38 billion, representing an increase of approximately 23.6% over another year. The Company has been successfully operating the lottery sales halls for "Happy 12" in Liaoning Province in the PRC and will continue to increase the number as well as the efficiency of the sales halls in the coming years.

Moreover, the Group successfully won the open bid (quotation for procurement), the PRC Government's first open bid for the PRC sports lotteries, for the procurement of Hainan VLT Project in 2014, and for the provision of VLT for the PRC sports lotteries. The Group has also successfully completed the design and manufacture of the equipment at the sales halls for the self-help centralised sales of sports electronic lottery games in Hainan and with this technological advantage, will vigorously expand the VLT video sports lottery business in other provinces of the PRC.

Under the Hainan VLT Project, certain lottery games were already approved by the Ministry of Finance of the PRC in October 2014 for betting on terminals. This project is also the only VLT video electronic lottery of the PRC sports lotteries. Its horse racing video game is an innovative Chinese lottery. Among the existing lottery games in the PRC, this lottery game has the highest rate of return and the longest betting period (daily from 10 a.m. to 2 a.m. the next day), which hit a record in Chinese lottery. Lotteries related to the project have already been available for betting from 1 January 2015 on VLT provided by the Group. The Group is expected to provide more than 1,000 VLTs for the above project in 2015.

Looking forward, the Company will continue to build a strong business relationship and recruit management personnel of high caliber. The Company will also explore and identify more lottery business opportunities in Hainan and other provinces of the PRC pursuant to the relevant national policies for the lottery entertainment sector. Meanwhile, the Group will continuously looking for new projects in the PRC's lottery industry as well as other opportunities in line with China's development under the 12th Five-Year Plan while keeping a close eye on the business development opportunities in the nearby countries in the Asia Pacific region.

APPRECIATION

Lastly, I would like to extend my heartfelt appreciation to our valued Shareholders, business partners, advisors, management and staff for their continued support of our efforts to capitalise on this promising industry.

Leung Ngai Man
Chairman of the Board

Hong Kong, 23 March 2015

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATIONAL AND BUSINESS REVIEW

The Group is principally engaged in the trading of computer hardware and software and the provision of lottery system management service and the operation of lottery sales halls in the PRC.

The Company has made adjustment to the project of "Happy 12" in Liaoning Province in line with the actual operational conditions and has commenced sales of lottery games with high payout rates and high frequency of lottery drawings in 23 halls of "China Welfare Lottery Online" located in Liaoning Province since 2014.

Major events

Completion of placing of existing Shares and top-up subscription of new Shares

On 7 January 2014, an aggregate of 232,800,000 ordinary shares of the Company of HK$0.005 each (the "**Shares**", each, a "**Share**") were successfully placed by Mr. Leung Ngai Man ("**Mr. Leung**" or the "**Subscriber**"), the chairman of the Board and an executive Director, to not less than six placees (the "**Placing**") who are independent third parties at the placing price of HK$0.320 per placing share (the "**Placing Share**"). Completion of the subscription (the "**Subscription**") took place on 15 January 2014 whereby 232,800,000 subscription shares (equivalent to the number of Placing Shares placed) were allotted and issued to the Subscriber at the subscription price of HK$0.320 per subscription share. The net proceeds from the Subscription are approximately HK$72.6 million. The net price for the Subscription was approximately HK$0.312 per Share. The Company utilised approximately HK$10.8 million of the net proceeds from the Subscription as general working capital of the Group up to 31 December 2014 and the unused net proceeds will be used as the general working capital of the Group. Details of the Placing and the Subscription were set out in the Company's announcements dated 6 January 2014 and 15 January 2014 respectively.

Framework agreements in relation to possible acquisitions

On 11 November 2011, a subsidiary of the Company (the "**Subsidiary**") entered into a framework agreement (the "**2011 Framework Agreement**") with, among others, an independent third party (the "**2011 Potential Vendor**") in relation to a possible acquisition by the Subsidiary of equity interests in a company principally engaged in the provision of services for an instant lottery game in the PRC from the 2011 Potential Vendor. Details of the 2011 Framework Agreement were set out in the Company's announcement dated 14 November 2011. Pursuant to the supplemental agreements to the 2011 Framework Agreement, the period during which the Subsidiary had the exclusive right to negotiate with the 2011 Potential Vendor in relation to such possible acquisition expired on 28 February 2014 and the 2011 Framework Agreement was terminated on 4 March 2014. A refundable advance deposit of HK$2 million was paid. The management of the Company is negotiating with the 2011 Potential Vendor for the refund of this advance deposit.

MANAGEMENT DISCUSSION AND ANALYSIS

On 22 April 2014, Treasure Holy Investment Development Limited ("**Treasure Holy**"), a wholly-owned subsidiary of the Company, entered into a framework agreement (the "**2014 Framework Agreement**") with, among others, two independent third parties (the "**2014 Potential Vendors**") in relation to a possible acquisition by Treasure Holy of 60% of the entire equity interests in a company (the "**Target Company**") principally engaged in the provision of trading settlement and deferred spot delivery services of petrochemical and energy products and the associated electronic trading, trading data clearing and settlement custodian services. Pursuant to the 2014 Framework Agreement, Treasure Holy is required to pay a deposit of HK$1 million to a payee designated by the 2014 Potential Vendors. During the period of one year from the date of receipt of the deposit, Treasure Holy is entitled on an exclusive basis to acquire the 60% of the entire equity interest in the Target Company. The 2014 Framework Agreement was terminated on 22 August 2014 (the "**Termination**"). The advance deposit of HK$1 million was refunded. Details of the 2014 Framework Agreement and the Termination were set out in the Company's announcement dated 23 April 2014 and 22 August 2014 respectively.

Change of Director

Mr. Ng Kwok Chu, Winfield ("**Mr. Ng**") resigned as an executive Director with effect from 26 May 2014 and Mr. Sung Kin Man ("**Mr. Sung**") had been appointed as the executive Director in place of Mr. Ng with effect from 26 May 2014 (the "**Change of Director**"). Details of the Change of Director were set out in the announcement of the Company dated 26 May 2014.

Appointment of Mr. Zhang Huaqiao (張化橋) as corporate development advisor

On 1 December 2014, the Group announced the appointment of Mr. Zhang Huaqiao (張化橋) ("**Mr. Zhang**") as a corporate development advisor to the Company (the "**Appointment**"). Mr. Zhang will, from time to time, provide advice to the Company and the Board on the overall corporate development of the Group.

With Mr. Zhang's extensive experience in financial management and corporate development, the Board expects that the appointment with Mr. Zhang could further strengthen the Group's corporate development structure and assist the Group in strengthening of a high corporate development ability to enhance the interests of the shareholders of the Company (the "**Shareholders**") and the performance of the Group. Details of the Appointment were set out in the Company's announcement dated 1 December 2014.

Supply contract of sports entertainment electronic video lottery terminals

During the year, the Group won the open bid (quotation required) for the procurement of sports entertainment electronic video lottery terminals ("**VLT**") by Hainan Provincial Government of the PRC (the "**Hainan VLT Project**"). The Company has controlling interest subsidiary, 深圳環彩普達科技有限公司 (transliterated as Shenzhen Huancai Puda Technology Company Limited) ("**Huancai Puda**") has entered into a supply contract with Hainan Provincial Sports Lottery Administration Centre.

The Company is aware that, the procurement of Hainan VLT Project is the first open bid (quotation required) for government VLT procurement in the sports lottery market in the PRC. In 2014, sales of sports lotteries in the PRC reached RMB176.41 billion. In comparison, sales of welfare lotteries in the PRC amounted to RMB205.97 billion in 2014, while the video lottery "China Welfare Lottery Online" recorded sales of approximately RMB22.423 billion, approximately RMB28.939 billion and approximately RMB37.746 billion respectively for 2012, 2013 and 2014. The sales of electronic video lottery recorded a year-on-year growth of approximately 30.4%. The Group is the sports entertainment electronic VLT provider in the first open bid (quotation required) for government procurement in the PRC's sports lottery market. Capitalising on our technical strengths, the Group will extend its VLT business presence in other provincial sports lottery markets.

Details of the Hainan VLT Project were set out in the Company's announcements dated 5 June 2014, 9 June 2014 and 2 January 2015 respectively.

FINANCIAL REVIEW

For the year, the Group's audited revenue and the loss attributable to owners of the Company were approximately HK$3,533,000 and approximately HK$186,051,000 respectively, representing an increase of approximately HK$1,802,000 and an increase of approximately HK$110,726,000 respectively as compared with the audited revenue of approximately HK$1,731,000 and the loss attributable to owners of the Company of approximately HK$75,325,000 for the year ended 31 December 2013. The increase of the loss attributable to owners of the Company for the year under review was mainly attributable to the impairment loss of concession rights approximately HK$374,217,000 (2013: approximately HK$93,200,000) due to the termination of a cooperation agreement in the first quarter of 2015 as agreed after negotiations between one of the lottery issuing centres and Huancai Puda.

Management has reviewed concession rights for impairment testing purpose by making estimations and taking reference with a valuation performed by an independent valuer. The income approach has been consistently adopted for impairment testing of concession rights. The valuation of the lottery business employing the income approach projects the five-year cash flows and discount these cash flows to its present value at a discount rate reflecting the risks associated with the cash flows. The market approach is not adopted as there are insufficient relevant comparable transaction for reference and the asset approach is not applied as it may ignore the future economic benefits of the business. Therefore, only income approach is employed for the valuation. The cash flow projection has been prepared by referring to the current operation environment and market conditions. The major inputs of the valuation include the pre-tax discount rate, revenue growth rate and terminal growth rate. The pre-tax discount rate of 28.07% reflects the minimum required return of the lottery business plus other specific risk of the underlying business. The revenue growth rate of 20% is determined by referring to the industry growth rate. Terminal growth rate of zero is used for the cash flows extrapolated beyond the five-year projection period.

As at 31 December 2014, the Group recorded total assets of approximately HK$167,824,000 (2013: approximately HK$533,508,000), and recorded total liabilities of approximately HK$131,427,000 (2013: approximately HK$247,232,000).

As at 31 December 2014, the Group has cash and bank balances (excluding pledged bank deposit) of approximately HK$61,790,000 (2013: approximately HK$33,985,000). The majority of cash and bank balances are denominated in Renminbi ("**RMB**") and were placed in short term deposit.

Capital structure

As at 31 December 2014, the Company's total number of issued ordinary shares was 2,217,035,049 ordinary shares of HK$0.005 each (the "**Shares**", each, a "**Share**") (2013: 1,854,235,049 ordinary shares of HK$0.005 each).

As at 31 December 2014, the Company's total number of issued non-redeemable convertible preferred shares was 1,463,333,333 preferred shares of HK$0.005 each (2013: 1,563,333,333 preferred shares of HK$0.005 each).

Segment review

During the year, the ordinary activities had been mainly derived from the following two business segments:

(i) Trading of computer hardware and software business – Trading of computer hardware and software in the PRC; and

(ii) Lottery business – Development of computer software, hardware and application system, sale of self-developed technology or results, provision of relevant technical consultancy services in the PRC and development and provision of operation system sector of the PRC lottery market.

Employee information

As at 31 December 2014, the Group employed a total of 38 (2013: 49) employees. The staff costs, including Directors' remuneration and share-based payment, were approximately HK$13,837,000 (2013: approximately HK$18,874,000) for the year ended 31 December 2014.

The salaries and benefits of the Group's employees are kept at a competitive level and employees are rewarded on a performance-related basis within the general framework of the Group's salary and bonus system, which is reviewed annually. The Group also operates a share option scheme adopted by the Company on 29 June 2007 ("**Share Option Scheme**") where options to subscribe for Shares may be granted to the Directors, employees and consultants of the Group. The aim of the Share Option Scheme is to motivate and give incentive to the eligible participants as defined in the Share Option Scheme for their contributions to the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

Charge on Group assets

As at 31 December 2014, a fixed deposit of approximately HK$214,000 was pledged for obtaining the corporate card services (2013: approximately HK$213,000).

Future plans for material investments or capital assets

Save as disclosed in this report, there was no specific plan for material investments and acquisition of material capital assets as at 31 December 2014. However, the Group will continue to seek new business development opportunities especially in the sector of the PRC lottery market.

Gearing ratio

As at 31 December 2014, the gearing ratio of the Group was approximately 258% (2013: approximately 36%), based on the total borrowings of approximately HK$93,820,000 (2013: approximately HK$102,323,000) and the total equity of approximately HK$36,397,000 (2013: approximately HK$286,276,000).

Exposure to fluctuation in exchange rates

The Group has no significant foreign exchange risk due to limited foreign currency translations.

Contingent liabilities

As at 31 December 2014, the Group had no significant contingent liabilities (2013: Nil).

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Mr. Leung Ngai Man, aged 54, joined the Group on 2 April 2007 as executive Director and was appointed as the chief executive officer of the Company on 29 June 2007 and subsequently re-designated as the chairman of the Board on 31 March 2008. Mr. Leung is also the compliance officer, an authorised representative, the chairman of each of the senior management committee (the "**Senior Management Committee**") and the nomination committee (the "**Nomination Committee**"), a member of the remuneration committee (the "**Remuneration Committee**") and director of various subsidiaries of the Company. He has over 28 years' experience in the areas of trading, property development and management in the PRC. Mr. Leung is also the chairman of the board of directors, an executive director and a member of the remuneration committee of Sino Prosper (Group) Holdings Limited ("**Sino Prosper**") (stock code: 766).

Ms. Wu Wei Hua, aged 44, joined the Group on 11 December 2007 as executive Director. Ms. Wu is also a member of the Senior Management Committee. She graduated from Donghua University in the PRC and obtained a Bachelor Degree in Textile Engineering. Ms. Wu has been working in the industry of finance and administration management in the PRC since 1995 and has gained extensive management experience throughout these years. She is also the finance director of Sino Prosper and its subsidiaries in the PRC.

Independent Non-executive Directors

Mr. Cai Wei Lun, aged 59, joined the Group on 11 August 2009 as independent non-executive Director. Mr. Cai is also a member of each of the audit committee (the"**Audit Committee**"), the Remuneration Committee and the Nomination Committee of the Company. He has over 25 years' experience in the property development sector in the PRC. Mr. Cai is also an independent non-executive director and a member of each of the audit committee and the remuneration committee of Sino Prosper.

Mr. Qi Ji, aged 27, joined the Group on 29 February 2012 as independent non-executive Director. Mr. Qi is also a member of each of the Audit Committee, the Remuneration Committee and the Nomination Committee. He graduated from Changchun University of Technology with a degree in Computer Network Technology. Mr. Qi has been engaged in computer software and hardware development and programming. He has extensive experience in web design, website production and management.

Ms. Xuan Hong, aged 50, joined the Group on 3 December 2013 as independent non-executive Director. Ms. Xuan is also the chairman of each of the Audit Committee and Remuneration Committee and a member of Nomination Committee. She has the qualification of certified public accountant in the PRC and is a senior accountant, and has worked in several accounting firms. She has extensive working experience in accounting, auditing and taxation, and has substantial experience in accounting policy, tax law and judicial accounting sectors. Currently, Ms. Xuan is also an independent non-executive director and the chairman of each of the audit committee and the remuneration committee of Sino Prosper.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Senior Management

Mr. Lin Zhi Wei, aged 41, the chief technology officer of the Group. Mr. Lin graduated from Tsinghua University in the PRC majoring in automatic control. He is Senior Engineer of Chinese Academy of Sciences and was appointed as one of the first batch of expert members of the National E-Government Consultant and Training Expert Committee (國家電子政務諮詢培訓專家委員會) where he took charge of various major government informatisation construction projects, and developed the first 彩證通 (selling lotteries on securities trading platforms) and 銀彩通 (selling lotteries on banking platforms) systems of the PRC. Mr. Lin has rich experience in lottery operation and major information system construction. In 2002, he was engaged in establishing Shenzhen Bozone IT Co. Ltd., and served as its chief operating officer. Besides, Mr. Lin was also the first one to bring forward the conception of selling lotteries on mobile phone, digital television, movable termination and internet. He focuses on developing and using new public platforms to expand lottery-related businesses.

Mr. Ji Feng Qing, aged 49, the chief executive officer of Huancai Puda. Mr. Ji graduated from Nankai University in the PRC and obtained a Bachelor Degree in History. Currently, he is studying for the Master of Finance in Nankai University. Mr. Ji has been working in the industry of lottery business operation and information technology in the PRC since 1993 and has gained extensive management experience throughout these years. He has over 21 years' experience in the areas of marketing, sales, finance and management in the information technology industry. Mr. Ji was one of the founders of Huancai Puda.

Mr. Wu Bin, aged 40, the chief technology officer of Huancai Puda. Mr. Wu graduated from Tsinghua University in the PRC and obtained a Master Degree in Electrical Engineering. He has been working in the industry of lottery business operation and electrical engineering in the PRC since 2001 and has gained extensive management experience throughout these years. Mr. Wu has over 14 years' experience in the areas of marketing, sales, and management in the electrical engineering and information technology industry. He was one of the founders of Huancai Puda.

REPORT OF THE DIRECTORS

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

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of its principal subsidiaries were set out in note 16 to the consolidated financial statements. An analysis of the Group's performance for the year ended 31 December 2014 by business segments was set out in note 6 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The Group's loss for the year ended 31 December 2014 and the state of affairs of the Group and of the Company as at that date were set out in the consolidated financial statements on pages 36 to 127.

The Directors do not recommend the payment of any dividend in respect of the year ended 31 December 2014 (2013: Nil).

SHARE CAPITAL, SHARE OPTIONS, UNLISTED WARRANTS AND CONVERTIBLE BONDS

Details of the movements in the Company's share capital, share options, unlisted warrants and convertible bonds during the year, together with the reasons thereof, were set out in notes 27, 31, 30 and 25 to the consolidated financial statements respectively.

RESERVES

Details of the movements in the reserves of the Company and the Group during the year were set out in note 29 to the consolidated financial statements and the consolidated statement of changes in equity respectively.

DISTRIBUTABLE RESERVES

In accordance with the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, the share premium account is distributable to the Shareholders provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be able to pay its debts as they fall due in the ordinary course of business. As at 31 December 2014, the Company did not have any reserves available for distribution (2013: Nil).

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the property, plant and equipment of the Group during the year were set out in note 15 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

Under the Company's articles of association ("**Articles**"), in the event that the Company shall at any time issue to holders of new ordinary shares securities convertible into ordinary shares, the Company shall not be obliged to offer such shares or securities to the holders of preferred shares.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the published results and the assets and liabilities of the Group for the last five financial years as extracted from the audited consolidated financial statements of the Group was set out on page 128 of the annual report of the Company for the year ended 31 December 2014, of which this report forms part.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the purchases and sales percentage from the major customers and suppliers of the Group was set out below:

		Percentage of total purchases
(1)	**Purchases**	
	– the largest supplier	8.13%
	– the five largest suppliers combined	12.65%

		Percentage of total sales
(2)	**Sales**	
	– the largest customer (Note)	67.70%
	– the five largest customers combined	100%

As far as the Directors are aware, none of the Directors or any of their close associates, or any Shareholders (which, to the knowledge of the Directors, owns more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers and suppliers for the year.

Note: The largest customers are 海南省體育彩票管理中心 and 遼寧省彩票發行中心 which accounted for approximately 67.70% and 32.27% respectively of the total sales of the Group.

REPORT OF THE DIRECTORS

DIRECTORS

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

Executive Directors

Mr. Leung Ngai Man *(Chairman)*
Mr. Ng Kwok Chu, Winfield (resigned on 26 May 2014)
Ms. Wu Wei Hua
Mr. Sung Kin Man (appointed on 26 May 2014 and resigned on 2 March 2015)

Independent Non-executive Directors

Mr. Cai Wei Lun
Mr. Qi Ji
Ms. Xuan Hong

In accordance with articles 87 (1) and (2) of the Articles, Mr. Leung Ngai Man and Mr. Cai Wei Lun will retire as Directors by rotation and, being eligible, offer themselves for re-election as Directors at the forthcoming annual general meeting of the Company (the "**AGM**").

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received annual written confirmations from each of its independent non-executive Directors in respect of their independence during the year in accordance with the relevant requirements of the GEM Listing Rules and all independent non-executive Directors are still being considered to be independent.

DIRECTORS' BIOGRAPHIES

Biographical details of the Directors are set out on page 12 of this report.

DIRECTORS' SERVICE CONTRACTS

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

Each of the executive Directors, Mr. Leung Ngai Man and Ms. Wu Wei Hua had entered into a service contract with the Company for a term of two years commencing from June 2014 and February 2014 respectively, which may be terminated by one month prior notice in writing served by either party to the other one.

Each of the independent non-executive Directors, Mr. Cai Wei Lun, Mr. Qi Ji and Ms. Xuan Hong had entered into a service contract with the Company for a term of one year commencing from August 2014, February 2015 and December 2014 respectively, which may be terminated by one month prior notice in writing served by either party to the other one.

DIRECTOR'S INTERESTS IN CONTRACTS

Save as disclosed in note 37 to the consolidated financial statements, no Director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

INTERESTS AND SHORT POSITIONS OF THE DIRECTORS AND CHIEF EXECUTIVE OF THE COMPANY IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATIONS

As at 31 December 2014, the interests and short positions of the Directors and the chief executive of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (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 required standard of dealings in securities by directors of listed issuer as referred to in rule 5.46 of the GEM Listing Rules (the "**Required Standard of Dealings**"), were as follows:

Long position in the Shares and underlying Shares

Name of Director	Number of Shares		Equity derivatives	Total	Approximate percentage of issued share capital *(Note 8)*
	Personal interest	Corporate interest			
Mr. Leung	446,335,000 *(Note 1)*	294,880 *(Notes 1 & 2)*	1,562,583,333 *(Notes 3, 4 & 5)*	2,009,213,213	90.63%
Ms. Wu Wei Hua ("**Ms. Wu**")	–	–	22,000,000 *(Note 6 & 7)*	22,000,000	0.99%

Notes:

1. As a result of the 2012 Share Consolidation (as defined below), these Shares were adjusted.

2. These Shares were held by Speedy Well Investments Limited ("**Speedy Well**") which was wholly and beneficially owned by Mr. Leung. By virtue of the SFO, Mr. Leung was deemed to be interested in the Shares held by Speedy Well.

3. These equity derivatives comprise 99,250,000 Shares to be issued upon exercise of conversion rights attaching to the Convertible Bonds (as defined below) which were issued by the Company on 27 August 2010 and 1,463,333,333 Convertible Preferred Shares (as defined below) were allotted and issued by the Company on 17 December 2012.

4. The convertible bonds in an aggregate principal amount of HK$797,500,000 at a conversion price of HK$0.240 per share were issued to Mr. Leung on 27 August 2010 (the "**Convertible Bonds**"). Upon full conversion of the Convertible Bonds, a maximum of 3,322,916,666 shares of HK$0.001 each in the share capital of the Company will be issued to Mr. Leung. As at 30 September 2014, the Convertible Bonds in the amount of HK$144,100,000 remains outstanding. As a result of the consolidation of every five shares of HK$0.001 each in both issued and unissued share capital of the Company into one consolidated share of HK$0.005 each which became effective on 27 February 2012 (the "**2012 Share Consolidation**"), the relevant conversion price was adjusted from HK$0.240 to HK$1.200 per Share and the number of Shares falling to be issued under the outstanding Convertible Bonds was adjusted from 600,416,666 shares of HK$0.001 each in the share capital of the Company to 120,083,333 consolidated shares. Such interests constituted a long position of the Director in a physically settled equity derivatives for the purpose of the SFO.

5. 1,563,333,333 convertible preferred shares at an issue price of HK$0.600 per convertible preferred share were alloted and issued to Mr. Leung on 17 December 2012 (the "**Convertible Preferred Shares**") to capitalise the outstanding amount of approximately HK$938,000,000 due by the Company to Mr. Leung pursuant to the promissory note issued by the Company to Mr. Leung on 27 August 2010 as part of the consideration for the acquisition of the entire equity interest in Pearl Sharp Limited. Such interests constituted a long position of the Director in a physically settled equity derivatives for the purpose of the SFO. As at 31 December 2014, 1,463,333,333 alloted and issued Convertible Preferred Shares have not been converted yet.

6. On 10 July 2008, Ms. Wu was granted share options pursuant to the Share Option Scheme to subscribe for a total of 20,000,000 shares of HK$0.0005 each in the share capital of the Company at an exercise price of HK$0.1328 per share. Such share options would be exercisable during the period from 10 July 2008 to 29 June 2017. As a result of the consolidation of every two shares in both issued and unissued share capital of the Company into one consolidated share of HK$0.001 each which became effective on 21 October 2008, the relevant subscription price was adjusted from HK$0.1328 to HK$0.2656 per consolidated share and the number of consolidated shares falling to be issued under the outstanding share options was adjusted from 20,000,000 shares to 10,000,000 consolidated shares. As a result of the 2012 Share Consolidation, the relevant subscription price was further adjusted from HK$0.2656 to HK$1.3280 per Share and the number of Shares falling to be issued under the outstanding share options was adjusted from 10,000,000 consolidated shares to 2,000,000 Shares. Such interests constituted a long position of the Director in a physically settled equity derivatives for the purpose of the SFO.

7. On 10 July 2014, Ms. Wu was further granted share options pursuant to the Share Option Scheme to subscribe for a total of 20,000,000 Shares at an exercise price of HK$0.280 per share. Such share options would be exercisable during the period from 10 July 2014 to 29 June 2017. Such interests constituted a long position of the Director in a physically settled equity derivatives for the purpose of the SFO.

8. The percentage is calculated on the basis of 2,217,035,049 Shares in issue as at 31 December 2014.

Save as disclosed above, as at 31 December 2014, none of the Directors and the chief executive of the Company had any interests or short positions in any Shares, underlying Shares and debentures of the Company or any of its associated corporation (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 Required Standard of Dealings.

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY

Save as disclosed above, as at 31 December 2014, the Company had not been notified by any person or company, other than the Directors or the chief executive of the Company whose interest are set out in the section headed "INTERESTS AND SHORT POSITIONS OF THE DIRECTORS AND CHIEF EXECUTIVE OF THE COMPANY IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATIONS" in this report, who had interest or short position in the Shares and underlying Shares of the Company as recorded in the register required to be kept under section 336 of the SFO.

RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the sections "INTERESTS AND SHORT POSITIONS OF THE DIRECTORS AND CHIEF EXECUTIVE OF THE COMPANY IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATIONS" above and "SHARE OPTIONS SCHEME" below in this report, at no time during the year and up to the date of this report, was the Company or any of its subsidiaries, or any of its fellow subsidiaries, a party to any arrangement to enable the Directors or chief executive of the Company or their respective associates (as defined in the GEM Listing Rules) to have any right to subscribe for securities of the Company or any of its associated corporation as defined in the SFO or to acquire benefits by means of acquisition of Shares in, or debentures of, the Company or any other body corporate.

SHARE OPTION SCHEME

Details of the Share Option Scheme which replaced its old share option scheme adopted on 29 June 2007 are set out in note 31 to the consolidated financial statements. Details of the share options granted under the Share Option Scheme and remain outstanding as at 31 December 2014 are as follows:

Name or category of participant	Share Option type	Movements of share options (adjusted) during the period: As at 1 January 2014	Granted	Exercised	Lapsed/ Cancelled/ Forfeited	As at 31 December 2014	Date of grant	Exercise price HK$	Exercise period	Closing price of Shares immediately before the date of grant of options HK$
Directors										
– Mr. Ng (Resigned on 26 May 2014)	2008	2,000,000*	–	–	(2,000,000)	–	10 July 2008	1.328*	10 July 2008 – 29 June 2017	0.258
	2013(a)	3,000,000	–	(3,000,000)	–	–	21 May 2013	0.063	21 May 2013 – 29 June 2017	0.060
– Ms. Wu	2008	2,000,000*	–	–	–	2,000,000*	10 July 2008	1.328*	10 July 2008 – 29 June 2017	0.258
	2014(c)	–	20,000,000	–	–	20,000,000	10 July 2014	0.280	10 July 2014 – 29 June 2017	0.270
Sub-total		**7,000,000***	**20,000,000**	**(3,000,000)**	**(2,000,000)**	**22,000,000***				
Other Participants	2007(a)	9,600,000*	–	–	–	9,600,000*	9 July 2007	1.425*	9 July 2007 – 29 June 2017	0.248
	2007(b)	8,200,000*	–	–	–	8,200,000*	22 August 2007	2.030*	22 August 2007 – 29 June 2017	0.364
	2008	7,200,000*	–	–	–	7,200,000*	10 July 2008	1.328*	10 July 2008 – 29 June 2017	0.258
	2013(b)	16,000,000	–	–	–	16,000,000	10 October 2013	0.087	10 October 2013 – 29 June 2017	0.086
	2014(a)	–	32,000,000	–	–	32,000,000	25 March 2014	0.364	25 March 2014 – 29 June 2017	0.360
	2014(b)	–	2,700,000	–	–	2,700,000	26 March 2014	0.365	26 March 2014 – 29 June 2017	0.345
Sub-total		**41,000,000***	**34,700,000**	**–**	**–**	**75,700,000***				
Continuous Contract Employees	2013(a)	27,000,000	–	(27,000,000)	–	–	21 May 2013	0.063	21 May 2013 – 29 June 2017	0.063
Sub-total		**27,000,000**	**–**	**(27,000,000)**	**–**	**–**				
Total		**75,000,000***	**54,700,000**	**(30,000,000)**	**(2,000,000)**	**97,700,000***				
Weighted average exercise price		**HK$0.6464***	**HK$0.3333**	**HK$0.0630**	**HK$1.3280**	**HK$0.6363***				

Note:

* The number of share options granted and the exercise price of the share options was adjusted as a result of the 2012 Share Consolidation.

CONTRACT OF SIGNIFICANCE

During the year, the Group did not enter into any contract of significance with its controlling Shareholders or any of its subsidiaries.

During the year, no contract of significance for the provision of services to the Group by a controlling Shareholder or any of its subsidiaries was made.

CONNECTED AND RELATED PARTY TRANSACTIONS

Details of the related party transactions for the year are set out in note 37 to the consolidated financial statements and such related party transactions do not fall under the definition of "connected transaction" or "continuing connected transaction" in chapter 20 of the GEM Listing Rules.

COMPETITION AND CONFLICT OF INTERESTS

During the year under review, none of the Directors or controlling Shareholders or any of their respective close associates (as defined in the GEM Listing Rules) has any interest in a business which causes or may cause any significant competition with the business of the Group.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this report. The Company has maintained a sufficient public float in compliance with Rule 18.08B of the GEM Listing Rules.

EVENTS AFTER THE REPORTING PERIOD

Resignation of Director

Mr. Sung resigned as executive Director with effect from 2 March 2015 (the "**Resignation of Director**"). Details of the Resignation of Director were set out in the announcement of the Company dated 2 March 2015.

Termination of a Cooperation Agreement

Huancai Puda and its subsidiary entered into several cooperation agreements with several lottery issuing centres with its concession rights recognised as non-current assets in the consolidated statement of financial position of the Group. The total impairment of its concession rights was approximately HK$374,217,000 in 2014 mainly due to the termination of a cooperation agreement in the first quarter of 2015 as agreed after negotiations between one of the aforesaid lottery issuing centres and Huancai Puda in the wake of the industry integration in the PRC during the second half of 2014.

AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference in compliance with the GEM Listing Rules. During the year, the Audit Committee comprises three independent non-executive Directors, namely Ms. Xuan Hong (chairman of the Audit Committee), Mr. Cai Wei Lun and Mr. Qi Ji.

The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control of the Group. During the year, the Audit Committee held four meetings. The annual results of the Group for the year ended 31 December 2014 have been reviewed by the Audit Committee which is of the opinion that the preparation of such results complied with the applicable accounting standards, the GEM Listing Rules and the legal requirements, and that adequate disclosures have been made.

CORPORATE GOVERNANCE

A report detailed corporate governance was set out on pages 23 to 33 in this report.

AUDITORS

The accounts for the year ended 31 December 2012, 2013 and 2014 were audited by HLB Hodgson Impey Cheng Limited whose term of office will expire upon the AGM. A resolution for the re-appointment of HLB Hodgson Impey Cheng Limited as the auditors of the Company for the subsequent year is to be proposed at the AGM.

By order of the Board
China Netcom Technology Holdings Limited
Leung Ngai Man
Chairman and Executive Director

Hong Kong, 23 March 2015

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The Board is committed to maintaining high standards of corporate governance in order to uphold the transparency of the Group and safeguard interests of the Shareholders.

During the financial year under review, the Company has complied with all the code provisions in the Corporate Governance Code and Corporate Governance Report (the "**CG Code and Report**") as set out in Appendix 15 to the GEM Listing Rules except for the following:

Chairman and chief executive officer

Code provision A.2.1 of the CG Code and Report stipulates that the role of chairman and chief executive should be separate and should not be performed by the same individual.

Currently, the role of the chairman of the Board is performed by Mr. Leung who possesses essential leadership skills and has extensive knowledge in the business of the Group. The Board believes that vesting the role of the chairman in Mr. Leung provides the Company with strong and consistent leadership, facilitates effective and efficient planning, implementation of business decisions and strategies, and ensures the generation of benefits to the Shareholders.

Although the appointment of the chief executive officer of the Company remains outstanding, the overall management of the Company was performed by Mr. Leung and all the executive Directors whom have extensive experience in the business of the Group. Their respective areas of profession spearheaded the Group's overall development and business strategies.

The Company is still looking for a suitable candidate to fill the vacancy of the chief executive officer in order to comply with the CG Code and Report.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct for securities transactions by Directors (the "**Code**") which is on terms no less exacting than the Required Standard of Dealings. The Company was made specific enquiry with all Directors and has not been notified of any non-compliance with the Required Standard of Dealings and the Code by the Directors during the year.

THE BOARD OF DIRECTORS AND MEETINGS

The Board comprises the following Directors during the year and up to the date of this report:

Executive Directors:

Mr. Leung Ngai Man *(Chairman)*
Mr. Ng Kwok Chu, Winfield (resigned on 26 May 2014)
Ms. Wu Wei Hua
Mr. Sung Kin Man (appointed on 26 May 2014 and resigned on 2 March 2015)

Independent Non-executive Directors:

Mr. Cai Wei Lun
Mr. Qi Ji
Ms. Xuan Hong

The biographical details of the Directors were set out under the section headed "Biographical Details of Directors and Senior Management" of this report.

The updated list of Directors and their role and function were published on the websites of GEM and the Company.

CORPORATE GOVERNANCE REPORT

The Board meets regularly (at least four times a year at quarterly intervals) for reviewing and approving the financial and operating performance, considering and approving the overall strategies and policies of the Company. Additional meetings are convened as and when the Board considers necessary. 11 Board meetings (four of which were regular Board meetings) were held during the year. The Directors attended those meetings in person, by phone or through other electronic means of communication. The attendance record of each Director at the meeting of the Board and Board Committees (as defined below) and general meetings during the year is set out below:

		Attendance/Number of Meetings				
Name of Directors	Notes	**Board**	**Audit Committee**	**Nomination Committee**	**Remuneration Committee**	**General Meeting**
Executive Directors						
Mr. Leung Ngai Man		10/11	–	2/2	1/1	1/1
Mr. Ng Kwok Chu, Winfield	(1)	8/8	–	–	–	1/1
Ms. Wu Wei Hua		11/11	–	–	–	0/1
Mr. Sung Kin Man	(2)	2/2	–	–	–	–
Independent Non-executive Directors						
Mr. Cai Wei Lun		6/6	4/4	2/2	1/1	0/1
Mr. Qi Ji		5/6	3/4	2/2	1/1	0/1
Ms. Xuan Hong		5/6	3/4	2/2	1/1	0/1

Notes:

(1) Resigned on 26 May 2014

(2) Appointed on 26 May 2014 and resigned on 2 March 2015

The Board has overall responsibility for the stewardship of the Group, including the responsibilities for the adoption of long-term strategies and appointing and supervising senior management to ensure that the operation of the Group is conducted in accordance with the objective of the Group. Execution of daily operational matters is delegated to the management.

The senior management committee was established on 27 June 2005 and of its members are Mr. Leung (chairman of the committee) and Ms. Wu, all being the executive Directors.

Currently, Mr. Cai Wei Lun, Mr. Qi Ji and Ms. Xuan Hong are the independent non-executive Directors. All of them are under a term of service of one year commencing from the date of their respective appointment or the date of entering into their respective service contract. All Directors, including the independent non-executive Directors, are subject to retirement by rotation and re-election at the annual general meeting in accordance with the Articles, provided that the appointment may be terminated by the Company or the Director concerned with a written notice pursuant to their service contract.

Save for the co-directorship of Mr. Leung, Mr. Cai Wei Lun and Ms. Xuan Hong in Sino Prosper, and Ms. Wu, being the finance director of Sino Prosper group in the PRC, there is no other relationship (including financial, business, family or other material/relevant relationships) among members of the Board. All of them are free to exercise their independent judgement during the year. The Company has received annual written confirmations from Mr. Cai Wei Lun, Mr. Qi Ji and Ms. Xuan Hong, being the independent non-executive Directors during the year in respect of their independence pursuant to the GEM Listing Rules. The Company considers all independent non-executive Directors to be independent in accordance with the independence guidelines set out in the GEM Listing Rules.

In accordance with the Articles, one-third of the Directors are subject to retirement by rotation or, if their number is not three or a multiple of three, then the number nearest to but not less than one-third shall retire from the office and being eligible offer themselves for re-election provided that every Director, including those appointed for a specific term, shall be subject to retirement by rotation at least once every three years. The Directors to be retired by rotation shall be those who have been longest in office since their last appointment or re-appointment.

In case where conflict of interest arises involving a substantial Shareholder or a Director, such matter will not be dealt with by written resolutions. Independent non-executive Directors with no conflict of interest will be dealt with such conflict issues.

The board committees, including the audit committee, the remuneration committee and the nomination committee (the "**Board Committee**") save all adopted the applicable practices and procedures used in the Board meetings for all committee meetings.

The Company has arranged for appropriate insurance cover in respect of legal action against the Directors.

CONTINUOUS PROFESSIONAL DEVELOPMENT OF THE DIRECTORS

In order to comply with the code provision A.6.5 of the CG Code and Report, the Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. According to the confirmation/records provided by the Directors, all the Directors have participated in the continuous professional developments for the year ended 31 December 2014. During the year, the Directors have participated in the continuous professional developments in the following manners:

Directors	Notes	**Attending in-house briefings**	**Attending talks**	**Attending relevant business training conducted by professional parties**	**Reading materials relevant to director's duties and responsibilities**
Executive Directors					
Mr. Leung Ngai Man					✓
Mr. Ng Kwok Chu, Winfield	(1)		✓	✓	✓
Mr. Sung Kin Man	(2)	✓			✓
Ms. Wu Wei Hua		✓			
Independent Non-executive Directors					
Mr. Cai Wei Lun		✓			
Mr. Qi Ji		✓			
Ms. Xuan Hong		✓			

Notes:

(1) Resigned on 26 May 2014

(2) Appointed on 26 May 2014 and resigned on 2 March 2015

CHAIRMAN AND CHIEF EXECUTIVE

The chairman of the Board is Mr. Leung, who possesses essential leadership skills and has extensive knowledge in the business of the Group. The appointment of the chief executive officer of the Company remains outstanding. The role of the chief executive is currently taken up by Mr. Leung and all the executive Directors who have extensive experience in the business of the Group. The roles of the chairman of the Board and the chief executive are not separate and exercised by the same person together with all the executive Directors.

The Company is still looking for a suitable candidate to fill the vacancy of the chief executive officer in order to comply with the CG Code and Report.

BOARD COMMITTEES

The Board has established the nomination committee, the remuneration committee and the audit committee in order to maintain high level of corporate governance standard of the Company.

Nomination Committee

The Company has established a nomination committee with written terms of reference on 23 March 2012 in order to comply with the CG Code and Report. The terms of reference have been reviewed and revised with reference to the changes to the CG Code and Report during the year. The committee is chaired by Mr. Leung, the chairman of the Board and executive Director, and other members include Mr. Cai Wei Lun, Mr. Qi Ji and Ms. Xuan Hong (all being independent non-executive Directors).

The primary duties of the nomination committee are to review the structure, size and composition of the Board at least annually; identify individuals suitably qualified to become members of the Board, to assess the independence of the independent non-executive Directors and the make recommendation to the Board on relevant matters relating to the appointment or reappointment of directors.

During the year, the nomination committee is responsible for identifying potential directors, reviewing the credentials of the potential director based on his qualifications, skills, experience, credibility and reputation. Once the potential director(s) is/are confirmed, it will make recommendations to the Board for approval.

The nomination committee held two meetings during the year ended 31 December 2014. Individual attendance records of each member of the nomination committee were set out in the table on page 25 of this report.

Board Diversity Policy

The Board has adopted a board diversity policy (the "**Policy**") and measurable objectives which are set for the purpose of implementing the policy with effect from 30 August 2013.

Summary of the Board Diversity Policy

The Company recognised and embraced the benefits of having a diverse Board to the quality of its performance. The Policy aimed to sets out the approach to achieve diversity on the Board. In designing the Board's composition, Board diversity has been considered from a numbers of measurable aspects including skills, experience, knowledge, expertise, culture, independence, age and gender. All Board appointments will be based on merit while taking into account diversity (including gender diversity).

Measurable Objectives

The measurable objectives for the purpose of implementation of the Policy including the independence, educational background, professional qualifications and years of experience in the industry he/she is specialised in.

The nomination committee will review the Policy to ensure its effectiveness and report annually, in the corporate governance report, on the Board's composition under diversified perspectives, and monitor the implementation on this policy.

Remuneration Committee

The Company has established a remuneration committee on 27 June 2005 with written terms of reference in compliance with the GEM Listing Rules, comprising all the independent non-executive Directors and the chairman of the Board. The committee is currently chaired by Ms. Xuan Hong, other members include Mr. Cai Wei Lun, Mr. Qi Ji, all are independent non-executive directors and Mr. Leung, the chairman of the Board and an executive Director.

The role and functions of the remuneration committee include the determination of the specific remuneration packages of all Directors, which include benefits in kind, pension rights and compensation payments, comprising any compensation payable for loss or termination of their office or appointment.

The remuneration committee also considers factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors, employment conditions elsewhere in the Group and desirability of performance-based remuneration. The remuneration committee collects and reviews the remuneration plan and policy of all Directors and the senior management of the Group by reference to the prevailing rate which other companies listed on GEM adopt.

During the year, the remuneration committee assessed the performance of executive Directors and approval the terms of executive Directors' service contracts.

During the year ended 31 December 2014, three meetings of the remuneration committee were held. Individual attendance records of each member of the remuneration committee were set out in the table on page 25 of this report.

Audit Committee and Accountability

The Board is responsible for presenting a balanced, clear and comprehensible assessment of the Group's performance and prospects. The Board is also responsible for preparing the accounts of the Company, which give a true and fair view of the financial position of the Group on a going concern basis, and other price-sensitive announcements and financial disclosures. The management provides all relevant information and records to the Board enabling the Board to make the above assessment and to prepare the accounts and other financial disclosures. In full compliance with Rule 5.28 of GEM Listing Rules, the audit committee, which has been established since the listing of the Company, was composed of the three independent non-executive Directors as at the date of this report. The audit committee is currently chaired by Ms. Xuan Hong with the other members include Mr. Cai Wei Lun and Mr. Qi Ji (all being independent non-executive Directors). During the year, the following persons served as members of the audit committee:

Name	Service period
Mr. Cai Wei Lun	From 1 January 2014 to 31 December 2014
Mr. Qi Ji	From 1 January 2014 to 31 December 2014
Ms. Xuan Hong	From 1 January 2014 to 31 December 2014

During the year, no former partner of the Company's existing auditing firm acted as a member of the audit committee within one year on the date of his or her ceasing to be a partner or had any financial interest in the auditing firm. There was no disagreement between the Board and the audit committee on the selection, appointment, resignation or dismissal of the external auditors during the year. The audit committee's primary duties include ensuring the Group's consolidated financial statements, annual, interim and quarterly reports, and the auditors' report present a true and balanced assessment of the Group's financial position, reviewing the Group's financial control, internal control and risk management systems and reviewing the Group's financial and accounting policies and practices.

The works done by the audit committee during the year ended 31 December 2014 were set out as follows:

(a) reviewing and recommending the annual report, interim report and quarterly reports for the relevant period or year to the Board for approval;

(b) discussing the application of the new accounting policy;

(c) recommending the re-appointment of the auditors to the Board for approval; and

(d) reviewing the internal control procedures and system and to make recommendation to the Board for improvement.

The audit committee is provided with sufficient resources enabling it to discharge its duties. For the financial year ended 31 December 2014, the audit committee held four meetings. Individual attendance records of each member of the audit committee were set out in the table on page 25 of this report. The company secretary of the Company (the "**Company Secretary**") keeps full minutes of all meetings of the audit committee. In line with practices of the meetings of the Board and other Board Committees, draft and final versions of the minutes of the meetings of the audit committee are circulated to all members of the audit committee for comments, approval and record as soon as practicable after each meeting.

The accounts for the year ended 31 December 2014 were audited by HLB Hodgson Impey Cheng Limited whose term of office will expire upon the AGM. The audit committee has recommended to the Board that HLB Hodgson Impey Cheng Limited be re-appointed as the auditors of the Company at the AGM.

The audit committee, the remuneration committee and the nomination committee have adopted specific terms of reference clearly defining their respective powers and responsibilities. These committees are required by their terms of reference to report to the Board in relation to their decisions, findings or recommendations, and in certain specific situations, to seek the Board's approval before taking any actions. The Board reviews, on a yearly basis, all delegations by the Board to each of the committees to ensure that such delegations are appropriate and continue to be beneficial to the Group as a whole.

AUDITORS' REMUNERATION

During the year ended 31 December 2014, the remuneration payable to the external auditors in respect of the audit and non-audit services are as follows:

Type of services	**Amount** *(HK$'000)*
Audit services	900
Non-audit services (financial due diligence in relation to a possible acquisition)	180

DIRECTORS' AND AUDITORS' ACKNOWLEDGEMENT

All Directors acknowledged their responsibility for preparing the accounts for the year ended 31 December 2014 which give a true and fair view of the financial position of the Group. The Directors are not aware of any material uncertainties relating to events or conditions which may cast significant doubt upon the Company's ability to continue as a going concern. The statement of the auditors of the Company about their reporting responsibilities on the consolidated financial statements for the year ended 31 December 2014 was set out in the section "Independent Auditors' Report" of this report.

INTERNAL CONTROL

The Board has overall responsibilities for the establishment and maintenance of an adequate and effective internal control system to safeguard the Group's assets against unauthorised use or disposition, and to protect the interest of Shareholders of the Company.

The Group has in place an effective internal control system which encompasses sound control environment, appropriate segregation of duties, well-defined policies and procedures, close monitoring and is reviewed and enhanced by the management at regular intervals.

The Group is committed to maintaining and upholding good corporate governance practices and internal control system. During the year, the Board has conducted reviews of the internal control system of the Group and considered the internal control system of the Group has implemented effectively. Such review covered financial, compliance and operational controls as well as risk management mechanisms.

COMPANY SECRETARY

The Company Secretary, Mr. Wong Ka Bong ("**Mr. Wong**"), is responsible for facilitating the Board process, as well as communication among Board members of the Company. In accordance with rule 5.15 of the GEM Listing Rules, he undertook no less than 15 hours of the relevant professional training during the year ended 31 December 2014. Mr. Wong is also directly responsible for the Group's compliance with the continuing obligation of the GEM Listing Rules, Codes on Takeovers and Mergers and Share Repurchases, Companies Ordinance, SFO and other applicable laws, rules and regulations.

The primary corporate contact person of the Company is Mr. Leung Ngai Man, the chairman of the Board and executive Director.

SHAREHOLDERS' RIGHTS

Procedures for the Shareholders to convene an extraordinary general meeting

Pursuant to the article 58 of the Articles, any one or more members holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Company Secretary, to require an extraordinary general meeting (the "**EGM**") to be called by the Board for the transaction of any business specified in such requisition.

Such meeting shall be held within two months after the deposit of such requisition. If within twenty-one days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Procedures for the Shareholders to put their enquiries to the Board

The Company is committed to a policy of open and regular communication and reasonable disclosure of information to its Shareholders. The Company delivers quarterly, interim annual results and reports and publication of the quarterly, interim and annual results announcement and other disclosed information on the websites of the Stock Exchange and the Company to all the Shareholders.

The Company endeavor to maintain two way communications with the Shareholders through various channels. The Shareholders are encouraged to put their enquiries about the Group through the Company's email at investorrelations@chinanetcomtech.com or by mail to the address of the Company's principle place of business in Hong Kong at Unit 1006, 10th Floor, Tower One Lippo Centre, 89 Queensway, Hong Kong. All the enquiries are dealt with in timely manner.

The Shareholders are also encouraged to attend the AGM and the EGM and to put their enquiries to the Board directly. Notices are duly circulated to the Shareholders in order to ensure each Shareholder is informed to attend the AGM and the EGM. The chairman of the Board, the chairman of each of the remuneration committee, nomination committee and audit committee and the senior management attend the aforesaid meetings and respond to the Shareholders' enquiries in a promptly manner. Pursuant to the GEM Listing Rules, voting by poll is mandatory at all general meetings.

The detailed procedures for conducting a poll are set out in the proxy forms and will be explained by the chairmen of the AGM and the EGM orally at the beginning of the aforesaid meetings. The poll results will be posted on the websites of the Stock Exchange and the Company after the AGM and the EGM.

INVESTOR RELATIONS

The Company believes that maintaining a high level of transparency is a key to enhance investor relations. It is committed to a policy of open and timely disclosure of corporate information to its Shareholders and investment public.

The Company updates its Shareholders on its latest business developments and financial performance through its annual, interim and quarterly reports. The website of the Company (www.chinanetcomtech.com) has provided an effective communication platform to the public and the Shareholders.

During the year ended 31 December 2014, there is no significant change in the Company's memorandum and articles of association.

By order of the Board
China Netcom Technology Holdings Limited
Leung Ngai Man
Chairman and Executive Director

Hong Kong, 23 March 2015

HLB 國衛會計師事務所有限公司
Hodgson Impey Cheng Limited

31/F, Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

TO THE SHAREHOLDERS OF
CHINA NETCOM TECHNOLOGY HOLDINGS LIMITED
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of China Netcom Technology Holdings Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 36 to 127, which comprise the consolidated and company statements of financial position as at 31 December 2014, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

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

Auditors' responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 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 disclosure requirements of the Hong Kong Companies Ordinance.

HLB Hodgson Impey Cheng Limited
Certified Public Accountants

Chan Ching Pang
Practising Certificate Number: P05746

Hong Kong, 23 March 2015

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2014

	Notes	**2014** **HK$'000**	2013 HK$'000
Revenue	5	**3,533**	1,731
Cost of sales		**(3,896)**	(3,293)
Gross loss		**(363)**	(1,562)
Other income and gains	7	**2,462**	5,872
Administrative expenses		**(29,731)**	(27,130)
Impairment loss of concession rights	17	**(374,217)**	(93,200)
Loss on early redemption of convertible bonds		**(3,235)**	–
Finance costs	8	**(10,772)**	(11,205)
Other operating expenses		**(13,688)**	(15,031)
Share of losses of associates	18	**–**	(484)
Loss before tax		**(429,544)**	(142,740)
Income tax credit	9	**99,463**	23,924
Loss for the year	10	**(330,081)**	(118,816)
Other comprehensive (expense)/income			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations		**(2,975)**	19,513
Reclassification adjustment relating to foreign operations disposed of during the year		**–**	(74)
Share of other comprehensive income of associates	18	**–**	165
Other comprehensive (expense)/income for the year		**(2,975)**	19,604
Total comprehensive expense for the year		**(333,056)**	(99,212)
Loss attributable to:			
Owners of the Company		**(186,051)**	(75,325)
Non-controlling interests		**(144,030)**	(43,491)
		(330,081)	(118,816)
Total comprehensive expense attributable to:			
Owners of the Company		**(187,575)**	(65,324)
Non-controlling interests		**(145,481)**	(33,888)
		(333,056)	(99,212)
Loss per share	13		
Basic and diluted (HK cents per share)		**(8.5)**	(4.1)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2014

	Notes	2014 HK$'000	2013 HK$'000
Non-current assets			
Property, plant and equipment	15	**1,897**	2,517
Club debenture		**115**	–
Concession rights	17	**99,324**	490,067
		101,336	492,584
Current assets			
Inventories	19	**–**	1,612
Prepayments, deposits and other receivables	20	**4,244**	4,873
Amount due from a non-controlling interest of a subsidiary	21	**240**	241
Pledged bank deposit	22	**214**	213
Cash and bank balances	22	**61,790**	33,985
		66,488	40,924
Current liabilities			
Trade and other payables	23	**9,661**	15,227
Amount due to a non-controlling interest of a subsidiary	24	**227**	228
Convertible bonds	25	**93,820**	–
Current tax liabilities		**1**	1
		103,709	15,456
Net current (liabilities)/assets		**(37,221)**	25,468
Total assets less current liabilities		**64,115**	518,052
Non-current liabilities			
Convertible bonds	25	**–**	102,323
Deferred tax liabilities	26	**27,718**	129,453
		27,718	231,776
Net assets		**36,397**	286,276
Capital and reserves			
Share capital – ordinary shares	27	**11,085**	9,271
Share capital – non-redeemable convertible preferred shares	28	**7,317**	7,817
Reserves		**(17,299)**	88,413
Equity attributable to owners of the Company		**1,103**	105,501
Non-controlling interests		**35,294**	180,775
Total equity		**36,397**	286,276

The consolidated financial statements on pages 36 to 127 were approved and authorised for issue by the board of directors on 23 March 2015 and signed on its behalf by:

Leung Ngai Man
Director

Wu Wei Hua
Director

STATEMENT OF FINANCIAL POSITION

At 31 December 2014

	Notes	2014 HK$'000	2013 HK$'000
Non-current assets			
Property, plant and equipment	15	**–**	–
Investments in subsidiaries	16	**–**	54,276
		–	54,276
Current assets			
Prepayments and other receivables	20	**106**	103
Amounts due from subsidiaries	16	**101,734**	164,655
Bank balances	22	**58,572**	23,272
		160,412	188,030
Current liabilities			
Other payables and accruals	23	**1,165**	1,314
Convertible bonds	25	**93,820**	–
Amounts due to subsidiaries	16	**26,615**	26,599
		121,600	27,913
Net current assets		**38,812**	160,117
Total assets less current liabilities		**38,812**	214,393
Non-current liabilities			
Convertible bonds	25	**–**	102,323
Deferred tax liabilities	26	**2,887**	6,936
		2,887	109,259
Net assets		**35,925**	105,134
Capital and reserves			
Share capital – ordinary shares	27	**11,085**	9,271
Share capital – non-redeemable convertible preferred shares	28	**7,317**	7,817
Reserves	29	**17,523**	88,046
Total equity		**35,925**	105,134

Leung Ngai Man
Director

Wu Wei Hua
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2014

	Attributable to owners of the Company												
	Share capital – ordinary shares HK$'000	Share capital – non-redeemable convertible preferred shares HK$'000	Share premium account HK$'000	Warrants reserve HK$'000	Capital redemption reserve HK$'000 (note 29)	Convertible bonds equity reserve HK$'000	Share options reserve HK$'000	Foreign currency translation reserve HK$'000	Other reserve HK$'000 (note 29)	Accumulated losses HK$'000	Subtotal HK$'000	Attributable to non-controlling interests HK$'000	Total HK$'000
Balance at 1 January 2013	9,271	7,817	3,213,139	1,740	1	66,267	13,341	112,406	(49)	(3,254,114)	169,819	214,663	384,482
Loss for the year	–	–	–	–	–	–	–	–	–	(75,325)	(75,325)	(43,491)	(118,816)
Other comprehensive income for the year	–	–	–	–	–	–	–	10,001	–	–	10,001	9,603	19,604
Total comprehensive income/(expense) for the year	–	–	–	–	–	–	–	10,001	–	(75,325)	(65,324)	(33,888)	(99,212)
Recognition of equity-settled share-based payments	–	–	–	–	–	–	1,006	–	–	–	1,006	–	1,006
Balance at 31 December 2013	9,271	7,817	3,213,139	1,740	1	66,267	14,347	122,407	(49)	(3,329,439)	105,501	180,775	286,276

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2014

	Attributable to owners of the Company												
	Share capital – ordinary shares HK$'000	Share capital – non-redeemable convertible preferred shares HK$'000	Share premium account HK$'000	Warrants reserve HK$'000	Capital redemption reserve HK$'000 (note 29)	Convertible bonds equity reserve HK$'000	Share options reserve HK$'000	Foreign currency translation reserve HK$'000 (note 29)	Other reserve HK$'000	Accumulated losses HK$'000	Subtotal HK$'000	Attributable to non-controlling interests HK$'000	Total HK$'000
Balance at 1 January 2014	9,271	7,817	3,213,139	1,740	1	66,267	14,347	122,407	(49)	(3,329,439)	105,501	180,775	286,276
Loss for the year	–	–	–	–	–	–	–	–	–	(186,051)	(186,051)	(144,030)	(330,081)
Other comprehensive expense for the year	–	–	–	–	–	–	–	(1,524)	–	–	(1,524)	(1,451)	(2,975)
Total comprehensive expense for the year	–	–	–	–	–	–	–	(1,524)	–	(186,051)	(187,575)	(145,481)	(333,056)
Recognition of equity-settled share-based payments	–	–	–	–	–	–	8,952	–	–	–	8,952	–	8,952
Exercise of non-redeemable convertible preferred shares	500	(500)	–	–	–	–	–	–	–	–	–	–	–
Issue of new ordinary shares	1,164	–	73,332	–	–	–	–	–	–	–	74,496	–	74,496
Transaction costs attributable to issue of new ordinary shares	–	–	(1,943)	–	–	–	–	–	–	–	(1,943)	–	(1,943)
Issue of ordinary shares under share option scheme	150	–	2,327	–	–	–	(587)	–	–	–	1,890	–	1,890
Release of reserve upon share options lapsed	–	–	–	–	–	–	(994)	–	–	994	–	–	–
Redemption of convertible bonds	–	–	–	–	–	(13,768)	–	–	–	11,278	(2,490)	–	(2,490)
Deferred tax relating to convertible bonds	–	–	–	–	–	2,272	–	–	–	–	2,272	–	2,272
Balance at 31 December 2014	11,085	7,317	3,286,855	1,740	1	54,771	21,718	120,883	(49)	(3,503,218)	1,103	35,294	36,397

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 for the year		**(330,081)**	(118,816)
Adjustments for:			
Income tax credit recognised in profit or loss		**(99,463)**	(23,924)
Share of losses of associates		**–**	484
Finance costs recognised in profit or loss		**10,772**	11,205
Interest income		**(2,259)**	(753)
Loss on disposal of property, plant and equipment – net		**110**	720
Gain on disposal of a subsidiary	34	**(10)**	–
Gain recognised on disposal/deregistration of associates		**–**	(3,781)
Loss on early redemption of convertible bonds		**3,235**	–
Depreciation of property, plant and equipment		**834**	1,072
Amortisation of concession rights		**13,578**	14,311
Impairment loss of concession rights		**374,217**	93,200
Expense recognised in respect of equity-settled share-based payments		**8,952**	1,006
		(20,115)	(25,276)
Movements in working capital			
Decrease/(increase) in prepayment, deposits and other receivables		**439**	(197)
Decrease/(increase) in inventories		**1,612**	(1,502)
(Decrease)/increase in trade and other payables		**(5,566)**	4,405
Net cash used in operating activities		**(23,630)**	(22,570)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2014

	Notes	2014 HK$'000	2013 HK$'000
Cash flows from investing activities			
Interest received		**2,228**	753
Increase in pledged bank deposit		**(1)**	(1)
Payment for club debenture		**(115)**	–
Payments for property, plant and equipment		**(187)**	(230)
Proceeds from disposal of property, plant and equipment		**69**	18
Proceed from disposal of an associate		**–**	10,513
Cash flow on disposal of a subsidiary	34	**10**	–
Return of deposit for acquisition of non-controlling interest of a subsidiary		**–**	9,238
Net cash generated by investing activities		**2,004**	20,291
Cash flows from financing activities			
Repayment of convertible bonds	25	**(25,000)**	–
Proceeds from issue of ordinary shares under share placing		**74,496**	–
Payment for transaction costs attributable to issue of new ordinary shares		**(1,943)**	–
Proceeds from issue of ordinary shares under share option scheme		**1,890**	–
Net cash generated by financing activities		**49,443**	–
Net increase/(decrease) in cash and cash equivalents		**27,817**	(2,279)
Cash and cash equivalents at the beginning of year		**33,985**	36,072
Effect of foreign exchange rate changes, net		**(12)**	192
Cash and cash equivalents at the end of year		**61,790**	33,985
Analysis of the balances of cash and cash equivalents			
Cash and bank balances		**61,790**	33,985

1. GENERAL INFORMATION

China Netcom Technology Holdings Limited (the "Company") was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law (1998 Revision) of the Cayman Islands and its shares are listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The addresses of the registered office and principal place of business in Hong Kong of the Company are disclosed in the corporate information section of the annual report.

During the year ended 31 December 2014, the Company and its subsidiaries (together referred to as the "Group") were involved in the following principal activities:

- trading of computer hardware and software
- provision of lottery system management service and operation of lottery sales halls services in the People's Republic of China (excluding Hong Kong) (the "PRC")

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

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied the following new and revised Hong Kong Accounting Standards ("HKAS(s)"), HKFRS(s), amendments and interpretations ("HK(IFRIC) – Int") (hereinafter collectively referred to as the "new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"):

Amendments to HKFRS 10, HKFRS 12 and HKAS 27	*Investment Entities*
Amendments to HKAS 32	*Offsetting Financial Assets and Financial Liabilities*
Amendments to HKAS 36	*Recoverable Amount Disclosures for Non-Financial Assets*
Amendments to HKAS 39	*Novation of Derivatives and Continuation of Hedge Accounting*
HK(IFRIC) – Int 21	*Levies*

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

Amendments to HKFRS 10, HKFRS 12 and HKAS 27 *Investment Entities*

The Group has applied the amendments to HKFRS 10, HKFRS 12 and HKAS 27 *Investment Entities* for the first time in the current year. The amendments to HKFRS 10 define an investment entity and require a reporting entity that meets the definition of an investment entity not to consolidate its subsidiaries but instead to measure its subsidiaries at fair value through profit or loss in its consolidated and separate financial statements.

To qualify as an investment entity, a reporting entity is required to:

- obtain funds from one or more investors for the purpose of providing them with investment management services;
- commit to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and
- measure and evaluate performance of substantially all of its investments on a fair value basis.

Consequential amendments have been made to HKFRS 12 and HKAS 27 to introduce new disclosure requirements for investment entities.

As the Company is not an investment entity (assessed based on the criteria set out in HKFRS 10 as at 1 January 2014), the application of the amendments has had no impact on the disclosures or the amounts recognised in the Group's consolidated financial statements.

Amendments to HKAS 32 *Offsetting Financial Assets and Financial Liabilities*

The Group has applied the amendments to HKAS 32 *Offsetting Financial Assets and Financial Liabilities* for the first time in the current year. The amendments to HKAS 32 clarify the requirements relating to the offset of financial assets and financial liabilities. Specifically, the amendments clarify the meaning of "currently has a legally enforceable right of set-off" and "simultaneous realisation and settlement".

The amendments have been applied retrospectively. As the Group does not have any financial assets and financial liabilities that qualify for offset, the application of the amendments has had no impact on the disclosures or on the amounts recognised in the Group's consolidated financial statements.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

Amendments to HKAS 36 *Recoverable Amount Disclosures for Non-Financial Assets*

The Group has applied the amendments to HKAS 36 *Recoverable Amount Disclosures for Non-Financial Assets* for the first time in the current year. The amendments to HKAS 36 remove the requirement to disclose the recoverable amount of a cash-generating unit to which goodwill or other intangible assets with indefinite useful lives had been allocated when there has been no impairment or reversal of impairment of the related cash-generating unit. Furthermore, the amendments introduce additional disclosure requirements applicable to when the recoverable amount of an asset or a cash-generating unit is measured at fair value less costs of disposal. These new disclosures include the fair value hierarchy, key assumptions and valuation techniques used which are in line with the disclosure required by HKFRS 13 *Fair Value Measurements*.

The application of these amendments has had no material impact on the disclosures in the Group's consolidated financial statements.

Amendments to HKAS 39 *Novation of Derivatives and Continuation of Hedge Accounting*

The Group has applied the amendments to HKAS 39 *Novation of Derivatives and Continuation of Hedge Accounting* for the first time in the current year. The amendments to HKAS 39 provide relief from the requirement to discontinue hedge accounting when a derivative designated as a hedging instrument is novated under certain circumstances. The amendments also clarify that any change to the fair value of the derivative designated as a hedging instrument arising from the novation should be included in the assessment and measurement of hedge effectiveness.

The amendments have been applied retrospectively. As the Group does not have any derivatives that are subject to novation, the application of these amendments has had no impact on the disclosures or on the amounts recognised in the Group's consolidated financial statements.

HK(IFRIC) – Int 21 *Levies*

The Group has applied HK(IFRIC) – Int 21 *Levies* for the first time in the current year. HK(IFRIC) – Int 21 addresses the issue as to when to recognise a liability to pay a levy imposed by a government. The Interpretation defines a levy, and specifies that the obligating event that gives rise to the liability is the activity that triggers the payment of the levy, as identified by legislation. The Interpretation provides guidance on how different levy arrangements should be accounted for, in particular, it clarifies that neither economic compulsion nor the going concern basis of financial statements preparation implies that an entity has a present obligation to pay a levy that will be triggered by operating in a future period.

HK(IFRIC) – Int 21 has been applied retrospectively. The application of this Interpretation has had no material impact on the disclosures or on the amounts recognised in the Group's consolidated financial statements.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

New and revised HKFRSs in issue but not yet effective

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

HKFRS 9	*Financial Instruments*[1]
HKFRS 14	*Regulatory Deferral Accounts*[2]
HKFRS 15	*Revenue from Contracts with Customers*[3]
Amendments to HKFRS 11	*Accounting for Acquisitions of Interests in Joint Operations*[5]
Amendments to HKAS 16 and HKAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation*[5]
Amendments to HKAS 16 and HKAS 41	*Agriculture: Bearer Plants*[5]
Amendments to HKAS 19	*Defined Benefit Plans: Employee Contributions*[4]
Amendments to HKAS 27	*Equity Method in Separate Financial Statements*[5]
Amendments to HKFRS 10 and HKAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[5]
Amendments to HKFRSs	*Annual Improvements to HKFRSs 2010 – 2012 Cycle*[6]
Amendments to HKFRSs	*Annual Improvements to HKFRSs 2011 – 2013 Cycle*[4]
Amendments to HKFRSs	*Annual Improvements to HKFRSs 2012 – 2014 Cycle*[5]

1 Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.

2 Effective for first annual HKFRS financial statements beginning on or after 1 January 2016, with earlier application permitted.

3 Effective for annual periods beginning on or after 1 January 2017, with earlier application permitted.

4 Effective for annual periods beginning on or after 1 July 2014, with earlier application permitted.

5 Effective for annual periods beginning on or after 1 January 2016, with earlier application permitted.

6 Effective for annual periods beginning on or after 1 July 2014, with limited exceptions. Earlier application is permitted.

HKFRS 9 *Financial Instruments*

HKFRS 9 issued in 2009 introduced new requirements for the classification and measurement of financial assets. HKFRS 9 was subsequently amended in 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and further amended in 2013 to include the new requirements for general hedge accounting. Another revised version of HKFRS 9 was issued in 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a "fair value through other comprehensive income" ("FVTOCI") measurement category for certain simple debt instruments.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

HKFRS 9 *Financial Instruments* (Continued)

Key requirements of HKFRS 9 are described below:

- All recognised financial assets that are within the scope of HKAS 39 *Financial Instruments: Recognition and Measurement* are subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

- In relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

- The new general hedge accounting requirements retain the three types of hedge accounting. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an "economic relationship". Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

HKFRS 9 *Financial Instruments* (Continued)

The directors of the Company anticipate that the application of HKFRS 9 in the future may have a material impact on the amounts reported in respect of the Group's financial assets and financial liabilities, however, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

HKFRS 15 *Revenue from Contracts with Customers*

In July 2014, HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 *Revenue*, HKAS 11 *Construction Contracts* and the related Interpretations when it becomes effective.

The core principle of HKFRS 15 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 or services. Specifically, the Standard introduces a 5-step 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 the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

The directors of the Company anticipate that the application of HKFRS 15 in the future may have a material impact on the amounts reported and disclosures made in the Group's consolidated financial statements. However, it is not practicable to provide a reasonable estimate of the effect of HKFRS 15 until the Group performs a detailed review.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

Amendments to HKFRS 11 *Accounting for Acquisitions of Interests in Joint Operations*

The amendments to HKFRS 11 provide guidance on how to account for the acquisition of a joint operation that constitutes a business as defined in HKFRS 3 *Business Combinations*. Specifically, the amendments state that the relevant principles on accounting for business combinations in HKFRS 3 and other standards (e.g. HKAS 36 *Impairment of Assets* regarding impairment testing of a cash generating unit to which goodwill on acquisition of a joint operation has been allocated) should be applied. The same requirements should be applied to the formation of a joint operation if and only if an existing business is contributed to the joint operation by one of the parties that participate in the joint operation.

A joint operator is also required to disclose the relevant information required by HKFRS 3 and other standards for business combinations.

The amendments to HKFRS 11 apply prospectively for annual periods beginning on or after 1 January 2016. The directors of the Company do not anticipate that the application of these amendments to HKFRS 11 will have a material impact on the Group's consolidated financial statements.

Amendments to HKAS 16 and HKAS 38 *Clarification of Acceptable Methods of Depreciation and Amortisation*

The amendments to HKAS 16 prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to HKAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortisation of an intangible asset. This presumption can only be rebutted in the following two limited circumstances:

a) when the intangible asset is expressed as a measure of revenue; or

b) when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

The amendments apply prospectively for annual periods beginning on or after 1 January 2016. Currently, the Group uses the straight-line method for depreciation and amortisation for its property, plant and equipment, and intangible assets respectively. The directors of the Company believe that the straight-line method is the most appropriate method to reflect the consumption of economic benefits inherent in the respective assets and accordingly, the directors of the Company do not anticipate that the application of these amendments to HKAS 16 and HKAS 38 will have a material impact on the Group's consolidated financial statements.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

Amendments to HKAS 16 and HKAS 41 *Agriculture: Bearer Plants*

The amendments to HKAS 16 and HKAS 41 define a bearer plant and require biological assets that meet the definition of a bearer plant to be accounted for as property, plant and equipment in accordance with HKAS 16, instead of HKAS 41. The produce growing on bearer plants continues to be accounted for in accordance with HKAS 41.

The directors of the Company do not anticipate that the application of these amendments to HKAS 16 and HKAS 41 will have a material impact on the Group's consolidated financial statements as the Group is not engaged in agricultural activities.

Amendments to HKAS 19 *Defined Benefit Plans: Employee Contributions*

The amendments to HKAS 19 clarify how an entity should account for contributions made by employees or third parties to defined benefit plans, based on whether those contributions are dependent on the number of years of service provided by the employee.

For contributions that are independent of the number of years of service, the entity may either recognise the contributions as a reduction in the service cost in the period in which the related service is rendered, or to attribute them to the employees' periods of service using the projected unit credit method; whereas for contributions that are dependent on the number of years of service, the entity is required to attribute them to the employees' periods of service.

The directors of the Company do not anticipate that the application of these amendments to HKAS 19 will have a significant impact on the Group's consolidated financial statements.

Amendments to HKAS 27 *Equity Method in Separate Financial Statements*

The amendments allow an entity to account for investments in subsidiaries, joint ventures and associates in its separate financial statements

- At cost
- In accordance with HKFRS 9 *Financial Instruments* (or HKAS 39 *Financial Instruments: Recognition and Measurement* for entities that have not yet adopted HKFRS 9), or
- Using the equity method as described in HKAS 28 *Investments in Associates and Joint Ventures*.

The accounting option must be applied by category of investments.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

Amendments to HKAS 27 *Equity Method in Separate Financial Statements* (Continued)

The amendments also clarify that when a parent ceases to be an investment entity, or becomes an investment entity, it shall account for the change from the date when the change in status occurred.

In addition to the amendments to HKAS 27, there are consequential amendments to HKAS 28 to avoid a potential conflict with HKFRS 10 *Consolidated Financial Statements* and to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards*.

The directors of the Company do not anticipate that the application of these amendments to HKAS 27 will have a material impact on the Group's consolidated financial statements.

Amendments to HKFRS 10 and HKAS 28 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

Amendments to HKAS 28:

- The requirements on gains and losses resulting from transactions between an entity and its associate or joint venture have been amended to relate only to assets that do not constitute a business.
- A new requirement has been introduced that gains or losses from downstream transactions involving assets that constitute a business between an entity and its associate or joint venture must be recognised in full in the investor's financial statements.
- A requirement has been added that an entity needs to consider whether assets that are sold or contributed in separate transactions constitute a business and should be accounted for as a single transaction.

Amendments to HKFRS 10:

- An exception from the general requirement of full gain or loss recognition has been introduced into HKFRS 10 for the loss control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method.
- New guidance has been introduced requiring that gains or losses resulting from those transactions are recognised in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement at fair value of investments retained in any former subsidiary that has become an associate or a joint venture that is accounted for using the equity method are recognised in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.
- The directors of the Company do not anticipate that the application of these amendments to HKFRS 10 and HKAS 28 will have a material impact on the Group's consolidated financial statements.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

Annual Improvements to HKFRSs 2010-2012 Cycle

The Annual Improvements to HKFRSs 2010-2012 Cycle include a number of amendments to various HKFRSs, which are summarised below.

The amendments to HKFRS 2 (i) change the definitions of "vesting condition" and "market condition"; and (ii) add definitions for "performance condition" and "service condition" which were previously included within the definition of "vesting condition". The amendments to HKFRS 2 are effective for share-based payment transactions for which the grant date is on or after 1 July 2014.

The amendments to HKFRS 3 clarify that contingent consideration that is classified as an asset or a liability should be measured at fair value at each reporting date, irrespective of whether the contingent consideration is a financial instrument within the scope of HKFRS 9 or HKAS 39 or a non-financial asset or liability. Changes in fair value (other than measurement period adjustments) should be recognised in profit and loss. The amendments to HKFRS 3 are effective for business combinations for which the acquisition date is on or after 1 July 2014.

The amendments to HKFRS 8 (i) require an entity to disclose the judgements made by management in applying the aggregation criteria to operating segments, including a description of the operating segments aggregated and the economic indicators assessed in determining whether the operating segments have "similar economic characteristics"; and (ii) clarify that a reconciliation of the total of the reportable segments' assets to the entity's assets should only be provided if the segment assets are regularly provided to the chief operating decision-maker.

The amendments to the basis for conclusions of HKFRS 13 clarify that the issue of HKFRS 13 and consequential amendments to HKAS 39 and HKFRS 9 did not remove the ability to measure short-term receivables and payables with no stated interest rate at their invoice amounts without discounting, if the effect of discounting is immaterial. As the amendments do not contain any effective date, they are considered to be immediately effective.

The amendments to HKAS 16 and HKAS 38 remove perceived inconsistencies in the accounting for accumulated depreciation/amortisation when an item of property, plant and equipment or an intangible asset is revalued. The amended standards clarify that the gross carrying amount is adjusted in a manner consistent with the revaluation of the carrying amount of the asset and that accumulated depreciation/amortisation is the difference between the gross carrying amount and the carrying amount after taking into account accumulated impairment losses.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

Annual Improvements to HKFRSs 2010-2012 Cycle (Continued)

The amendments to HKAS 24 clarify that a management entity providing key management personnel services to a reporting entity is a related party of the reporting entity. Consequently, the reporting entity should disclose as related party transactions the amounts incurred for the service paid or payable to the management entity for the provision of key management personnel services. However, disclosure of the components of such compensation is not required.

The directors of the Company do not anticipate that the application of these amendments will have a material effect on the Group's consolidated financial statements.

Annual Improvements to HKFRSs 2011-2013 Cycle

The Annual Improvements to HKFRSs 2011-2013 Cycle include a number of amendments to various HKFRSs, which are summarised below.

The amendments to HKFRS 3 clarify that the standard does not apply to the accounting for the formation of all types of joint arrangement in the financial statements of the joint arrangement itself.

The amendments to HKFRS 13 clarify that the scope of the portfolio exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis includes all contracts that are within the scope of, and accounted for in accordance with, HKAS 39 or HKFRS 9, even if those contracts do not meet the definitions of financial assets or financial liabilities within HKAS 32.

The amendments to HKAS 40 clarify that HKAS 40 and HKFRS 3 are not mutually exclusive and application of both standards may be required. Consequently, an entity acquiring investment property must determine whether:

(a) the property meets the definition of investment property in terms of HKAS 40; and

(b) the transaction meets the definition of a business combination under HKFRS 3.

The directors of the Company do not anticipate that the application of these amendments will have a material effect on the Group's consolidated financial statements.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

Annual Improvements to HKFRSs 2012-2014 Cycle

The Annual Improvements to HKFRSs 2012-2014 Cycle include a number of amendments to various HKFRSs, which are summarised below.

The amendments to HKFRS 5 introduce specific guidance in HKFRS 5 for when an entity reclassifies an asset (or disposal group) from held for sale to held for distribution to owners (or vice versa), or when held-for-distribution accounting is discontinued. The amendments apply prospectively.

The amendments to HKFRS 7 provide additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purpose of the disclosures required in relation to transferred assets and clarify that the offsetting disclosures (introduced in the amendments to HKFRS 7 *Disclosure – Offsetting Financial Assets and Financial Liabilities* issued in December 2011 and effective for periods beginning on or after 1 January 2013) are not explicitly required for all interim periods. However, the disclosures may need to be included in condensed interim financial statements to comply with HKAS 34 *Interim Financial Reporting*.

The amendments to HKAS 19 clarify that the high quality corporate bonds used to estimate the discount rate for post-employment benefits should be issued in the same currency as the benefits to be paid. These amendments would result in the depth of the market for high quality corporate bonds being assessed at currency level. The amendments apply from the beginning of the earliest comparative period presented in the financial statements in which the amendments are first applied. Any initial adjustment arising should be recognised in accumulated losses at the beginning of that period.

The amendments to HKAS 34 clarify the requirements relating to information required by HKAS 34 that is presented elsewhere within the interim financial report but outside the interim financial statements. The amendments require that such information be incorporated by way of a cross-reference from the interim financial statements to the other part of the interim financial report that is available to users on the same terms and at the same time as the interim financial statements.

The directors of the Company do not anticipate that the application of these will have a material effect on the Group's consolidated financial statements.

The directors anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the GEM of the Stock Exchange ("GEM Listing Rules") and by the Hong Kong Companies Ordinance, which for this financial year and the comparative period continue to be those of the predecessor Companies Ordinance (Cap. 32), in accordance with 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 of that Ordinance.

Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2, leasing transactions that are within the scope of HKAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 or value in use in HKAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including structured entities) controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of consolidation (Continued)

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Changes in the Group's ownership interests in existing subsidiaries

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

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and 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 interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations (Continued)

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 *Income Taxes* and HKAS 19 *Employee Benefits* respectively;

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 *Share-based Payment* at the acquisition date (see the accounting policy below); and

- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or, when applicable, on the basis specified in another HKFRS.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations (Continued)

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with HKAS 39, or HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to its acquisition-date fair value and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see the accounting policy above) less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

The Group's policy for goodwill arising on the acquisition of an associate is described below.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Subsidiaries

Subsidiaries are entities over which the Group has the power to control the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are excluded from consolidation from the date that control ceases.

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

Investments in associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment, or a portion thereof, is classified as held for sale, in which case it is accounted for in accordance with HKFRS 5. Under the equity method, an investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment in an associate, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments in associates (Continued)

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 *Impairment of Assets* as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate, or when the investment is classified as held for sale. When the Group retains an interest in the former associate and the retained interest is a financial asset, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with HKAS 39. The difference between the carrying amount of the associate at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part interest in the associate is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued.

The Group continues to use the equity method when an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate. There is no remeasurement to fair value upon such changes in ownership interests.

When the Group reduces its ownership interest in an associate but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When a group entity transacts with an associate of the Group, profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Revenue from provision of management, marketing and operating services for lottery system and lottery halls is recognised when the services are rendered.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Leasing

Leases are classified as finance leases whenever the terms of the leases transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leasing (Continued)

The Group as lessee

Assets held under finance leases are initially recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs (see the accounting policy below). Contingent rentals are recognised as expenses in the periods in which they are incurred.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies (Continued)

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;

- exchange differences on transactions entered into in order to hedge certain foreign currency risks; and

- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of foreign currency translation reserve (attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, a disposal involving loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in a joint arrangement or an associate that includes a foreign operation of which the retained interest becomes a financial asset), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

In addition, in relation to a partial disposal of a subsidiary that includes a foreign operation that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. partial disposals of associates or joint arrangements that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Goodwill and fair value adjustments to identifiable assets acquired and liabilities assumed through acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in other comprehensive income.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

Employee benefits

Retirement benefit costs

Payments to defined contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions.

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "Hong Kong Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance, for all of its employees who are eligible to participate in the Hong Kong Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the consolidated statement of profit or loss and other comprehensive income as they become payable in accordance with the rules of the Hong Kong Scheme. The assets of the Hong Kong Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the Hong Kong Scheme.

Pursuant to the relevant regulations of the government of the PRC, subsidiaries of the Company operating in the PRC participate in a local municipal government retirement benefits scheme (the "PRC Scheme"), whereby the subsidiaries are required to make contributions, as calculated under the rules specified by the relevant PRC local government authorities, to the PRC Scheme to fund their retirement benefits. The local municipal government undertakes to assume the retirement benefits obligations of all existing and future retired employees of the subsidiaries. The only obligation of the Group with respect to the PRC Scheme is to pay the ongoing required contributions under the PRC Scheme mentioned above. Contributions under the PRC Scheme are charged to the consolidated statement of profit or loss and other comprehensive income as incurred. There are no provisions under the PRC Scheme whereby forfeited contributions may be used to reduce future contributions.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Share-based payment arrangements

Share options granted by the Company to employees of the Group in an equity-settled share-based payment arrangement

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in note 31.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity.

At the end of the reporting period, the Group revises its estimates of the number of equity that are expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share options reserve.

For share options that vest immediately at the date of grant, the fair value of the share options granted is expensed immediately to profit or loss.

When share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to accumulated losses.

Share options granted to consultants in an equity-settled share-based payment transactions

Share options issued in exchange for goods or services are measured at the fair values of the goods or services received, unless that fair value cannot be reliably measured, in which case the goods or services received are measured by reference to the fair value of the share options granted. The fair values of the goods or services received are recognised as expenses immediately, unless the goods or services qualify for recognition as assets. Corresponding adjustment has been made to equity (share options reserve).

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

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

Deferred tax

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

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

Current and deferred tax for the year

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Property, plant and equipment

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

Depreciation is recognised so as to write off the cost of assets less their residual values over their useful lives, using the straight-line method as follows:

Furniture, fixtures and fittings	2-5 years
Computer and office equipment	2-5 years
Motor vehicles	5-10 years
Leasehold improvements	Over the shorter of term of lease or 3 years

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are recognised separately from goodwill are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Derecognition of intangible assets

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of tangible and intangible assets other than goodwill (Continued)

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or the cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

When an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on a first-in-first-out basis. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts (if any).

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

Financial assets are classified into the following specified categories: financial assets "at fair value through profit or loss" (FVTPL), "held-to-maturity" investments, "available-for-sale" (AFS) financial assets and "loans and receivables". The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Financial assets at FVTPL (Continued)

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 *Financial Instruments: Recognition and Measurement* permits the entire combined contract to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the consolidated statement of profit or loss and other comprehensive income.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity.

Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method less any impairment (see the accounting policy in respect of impairment losses on financial assets below).

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

AFS financial assets

AFS financial assets are non-derivatives that are either designated as available-for-sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at FVTPL.

Equity and debt securities held by the Group that are classified as AFS financial assets and are traded in an active market are measured at fair value at the end of each reporting period. Changes in the carrying amount of AFS monetary financial assets relating to interest income calculated using the effective interest method and dividends on AFS equity investments are recognised in profit or loss. Other changes in the carrying amount of AFS financial assets are recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss (see the accounting policy in respect of impairment loss on financial assets below).

Dividends on AFS equity investments are recognised in profit or loss when the Group's right to receive the dividends is established.

The fair value of AFS monetary financial assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate prevailing at the end of the reporting period. The foreign exchange gains and losses that are recognised in profit or loss are determined based on the amortised cost of the monetary asset. Other foreign exchange gains and losses are recognised in other comprehensive income.

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment losses at the end of each reporting period (see the accounting policy in respect of impairment loss on financial assets below).

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 (including deposits and other receivables, amount due from a non-controlling interest of a subsidiary, pledged bank deposit and cash and bank balances) are measured at amortised cost using the effective interest method, less any impairment.

Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For AFS equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as trade receivables, assets that are assessed for impairment on collective basis even if they were assessed not to be impaired individually. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets that are carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods (see the accounting policy below).

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets **(Continued)**

Impairment of financial assets (Continued)

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

For financial assets measured at amortised cost, if, in a 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 through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of AFS equity securities, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. In respect of AFS debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

Financial liabilities and equity instruments

Classification as debt or equity

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by a group entity are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial liabilities and equity instruments **(Continued)**

Convertible bonds

The component parts of compound instruments (convertible bonds) issued by the Company are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is an equity instrument.

At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible instruments. This amount is recorded as a liability on an amortised cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date.

The conversion option classified as equity is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognised and included in equity, net of income tax effects, and is not subsequently remeasured. In addition, the conversion option classified as equity will remain in equity until the conversion option is exercised, in which case, the balance recognised in equity will be transferred to share premium. When the conversion option remains unexercised at the maturity date of the convertible bonds, the balance recognised in equity will be transferred to accumulated losses. No gain or loss is recognised in profit or loss upon conversion or expiration of the conversion option.

Transaction costs that relate to the issue of the convertible bonds are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are recognised directly in equity. Transaction costs relating to the liability component are included in the carrying amount of the liability component and are amortised over the lives of the convertible bonds using the effective interest method.

Financial liabilities

Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL on initial recognition.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

***Financial liabilities and equity instruments* (Continued)**

Financial liabilities at FVTPL (Continued)

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 *Financial Instruments: Recognition and Measurement* permits the entire combined contract to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the consolidated statement of profit or loss and other comprehensive income.

Other financial liabilities

Other financial liabilities (including trade and other payables, amount due to a non-controlling interest of a subsidiary and convertible bonds) are subsequently measured at amortised cost using the effective interest method.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial liabilities and equity instruments (Continued)

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, (where appropriate), a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis other than financial liabilities classified as at FVTPL.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

On derecognition of a financial asset other than in its entirety, the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Derecognition **(Continued)**

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person,

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

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

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

(vi) the entity is controlled or jointly controlled by a person identified in (a); and

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

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Estimated impairment of concession rights

The carrying amount of concession rights is reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amount of these assets, or, where appropriate, the CGU(s) to which they belong, is calculated as the higher of its fair value less costs of disposal and value in use. Estimating the value in use requires the Group to estimate the expected future cash flows from the CGU(s) and to choose a suitable discount rate in order to calculate the present value of those cash flows (note 17).

As at 31 December 2014, the carrying amount of concession rights related to lottery business is approximately HK$99,324,000 (2013: HK$490,067,000), after deducting the accumulated amortisation and impairment of approximately HK$2,447,209,000 (2013: HK$2,071,899,000) as detailed in note 17.

Significant estimation is required in determining the future cash flows expected to arise from the lottery business. The directors are of the view that there is great potential for its lottery business as there are not many companies providing such similar service. Where the actual future cash flows are less than expected, a material impairment loss may arise.

5. REVENUE

An analysis of the Group's revenue for the year is as follows:

	2014 HK$'000	2013 HK$'000
Sale of lottery equipment	**2,392**	10
Sale of computer hardware and software	**–**	451
Provision of management, marketing, and operating services for lottery system and lottery halls	**1,141**	1,270
	3,533	1,731

6. SEGMENT INFORMATION

Information reported to the board of directors of the Company, being the chief operating decision maker, for the purposes of resource allocation and assessment of segment performance focuses on types of goods or services delivered or provided.

Specifically, the Group's reportable and operating segments under HKFRS 8 are as follows:

(a) Trading of computer hardware and software business – Trading of computer hardware and software in the PRC; and

(b) Lottery business – Development of computer software, hardware and application system, sale of self-developed technology or results, provision of relevant technical consultancy services in the PRC and development and provision of operation system sector of the PRC lottery market.

6. SEGMENT INFORMATION (Continued)

Segment revenue and results

The following is an analysis of the Group's revenue and results by reportable segment:

	Trading of computer hardware and software		Lottery business		Total	
	2014	2013	**2014**	2013	**2014**	2013
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment revenue:						
Sales to external customers	**–**	451	**3,533**	1,280	**3,533**	1,731
Segment loss	**(548)**	(642)	**(405,692)**	(122,211)	**(406,240)**	(122,853)
Interest and other income					**2,462**	2,091
Central administration costs					**(25,766)**	(21,978)
Loss before tax					**(429,544)**	(142,740)

Segment revenue reported above represents revenue generated from external customers. There were no inter-segment sales in the current year (2013: Nil).

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 3. Segment loss represents the loss incurred by each segment without allocation of central administration costs and interest and other income. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

6. SEGMENT INFORMATION (Continued)

Segment assets and liabilities

	Trading of computer hardware and software		Lottery business		Total	
	2014	2013	**2014**	2013	**2014**	2013
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment assets	**405**	705	**106,378**	500,980	**106,783**	501,685
Corporate and unallocated assets					**61,041**	31,823
Consolidated assets					**167,824**	533,508
Segment liabilities	**60**	60	**128,776**	239,029	**128,836**	239,089
Corporate and unallocated liabilities					**2,591**	8,143
Consolidated liabilities					**131,427**	247,232

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

- all assets are allocated to operating segments other than pledged bank deposit and other unallocated head office and corporate assets. Concession rights are allocated to operating segments; and

- all liabilities are allocated to operating segments other than other unallocated head office and corporate liabilities.

6. SEGMENT INFORMATION (Continued)

Other segment information

	Trading of computer hardware and software		Lottery business		Total	
	2014	2013	**2014**	2013	**2014**	2013
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Depreciation	**23**	34	**786**	1,010	**809**	1,044
Unallocated depreciation					**25**	28
Total depreciation					**834**	1,072
Loss on disposal of property, plant and equipment	**–**	–	**160**	720	**160**	720
Unallocated gain on disposal of property, plant and equipment					**(50)**	–
Loss on disposal of property, plant and equipment – net					**110**	720
Share of losses of associates	**–**	–	**–**	484	**–**	484
Loss on early redemption of convertible bonds	**–**	–	**3,235**	–	**3,235**	–
Effective interest on convertible bonds	**–**	–	**10,772**	11,205	**10,772**	11,205
Amortisation of concession rights	**–**	–	**13,578**	14,311	**13,578**	14,311
Impairment loss of concession rights	**–**	–	**374,217**	93,200	**374,217**	93,200
Additions to non-current assets	**–**	–	**408**	211	**408**	211
Unallocated					**115**	19
Total additions to non-current assets					**523**	230

6. SEGMENT INFORMATION (Continued)

Geographical information

The Group operates in two principal geographical areas – the PRC and Hong Kong.

The Group's revenue from external customers by location of operations and information about its non-current assets by location of assets are detailed below:

	Revenue from external customers		Non-current assets	
	2014	2013	**2014**	2013
	HK$'000	HK$'000	**HK$'000**	HK$'000
PRC	**3,533**	1,731	**101,197**	492,535
Hong Kong	**–**	–	**139**	49
	3,533	1,731	**101,336**	492,584

Information about major customers

For the year ended 31 December 2014, there were two customers with revenue of approximately HK$1,140,000 and HK$2,392,000 respectively which accounted for more than 10% of the total revenue related to lottery business segments.

For the year ended 31 December 2013, there were two customers with revenue of approximately HK$451,000 and HK$1,106,000 respectively which accounted for more than 10% of the total revenue related to trading of computer hardware and software and lottery business segments.

7. OTHER INCOME AND GAINS

	2014	2013
	HK$'000	HK$'000
Bank interest income	**2,259**	753
Net foreign exchange gain	**–**	1,179
Gain on disposal/deregistration of associates	**–**	3,781
Gain on disposal of a subsidiary (note 34)	**10**	–
Sundry income	**193**	159
	2,462	5,872

8. FINANCE COSTS

	2014	2013
	HK$'000	HK$'000
Effective interest on convertible bonds	**10,772**	11,205

9. INCOME TAX CREDIT

Income tax recognised in profit or loss

	2014	2013
	HK$'000	HK$'000
Current tax		
PRC Enterprise Income Tax	**–**	–
Deferred tax (note 26)	**(99,463)**	(23,924)
Total income tax credit recognised in profit or loss	**(99,463)**	(23,924)

Hong Kong Profits Tax is calculated at 16.5% (2013: 16.5%) of the estimated assessable profit for both years. No provision for Hong Kong Profits Tax had been made as the Group had no assessable profits arising in or derived from Hong Kong for both years.

Under the prevailing tax law in the PRC, the Enterprise Income Tax rate of the PRC subsidiaries is 25% for both years. Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

9. INCOME TAX CREDIT (Continued)

Income tax recognised in profit or loss (Continued)

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

	2014 **HK$'000**	2013 HK$'000
Loss before tax	**(429,544)**	(142,740)
Tax at the Hong Kong Profits Tax rate of 16.5% (2013: 16.5%)	**(70,875)**	(23,552)
Tax effect of share of losses of associates	**–**	80
Tax effect of expenses not deductible for tax purpose	**3,267**	1,795
Tax effect of income not taxable for tax purpose	**(768)**	(1,499)
Tax effect of tax losses not recognised	**1,093**	–
Tax effect on different tax rate of group entities operating in other jurisdictions	**(32,180)**	(748)
Income tax credit for the year	**(99,463)**	(23,924)

10. LOSS FOR THE YEAR

	2014 HK$'000	2013 HK$'000
Loss for the year has been arrived at after charging:		
Cost of inventories recognised as an expense (included in cost of sales)	**1,602**	420
Auditors' remuneration	**900**	900
Employee benefits expense (excluding directors' emoluments) (Note (i)):		
– Salaries and other benefits	**4,356**	5,292
– Contributions to retirement benefits schemes	**309**	186
Directors' emoluments	**9,172**	13,396
Total staff costs	**13,837**	18,874
Minimum lease payments paid under operating leases in respect of land and buildings	**1,530**	1,554
Net foreign exchange loss	**1,621**	–
Depreciation of property, plant and equipment	**834**	1,072
Expense in relation to share options granted to consultants	**7,500**	418
Loss on early redemption of convertible bonds	**3,235**	–
Amortisation of concession rights (Note (ii))	**13,578**	14,311
Loss on disposal of property, plant and equipment – net (Note (ii))	**110**	720

Notes:

(i) Employee benefits expense (excluding directors' emoluments) included equity-settled share-based payments of Nil (2013: approximately HK$529,000) disclosed above.

(ii) Amortisation of concession rights and loss on disposal of property, plant and equipment are included in other operating expenses.

11. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the seven (2013: eight) directors were as follows:

	Fees HK$'000	Salaries and other benefits HK$'000	Contributions to retirement benefits schemes HK$'000	Equity-settled share-based payments HK$'000	Discretionary bonuses HK$'000	Total HK$'000
2014						
Executive directors						
Leung Ngai Man	–	6,500	17	–	–	6,517
Ng Kwok Chu, Winfield (Note (v))	–	240	6	–	–	246
Wu Wei Hua	–	870	17	1,452	–	2,339
Sung Kin Man (Note(iv))	–	–	–	–	–	–
Independent non-executive directors						
Xuan Hong (Note (ii))	–	–	–	–	–	–
Qi Ji	–	–	–	–	–	–
Cai Wei Lun	70	–	–	–	–	70
	70	7,610	40	1,452	–	9,172

11. DIRECTORS' EMOLUMENTS (Continued)

	Fees HK$'000	Salaries and other benefits HK$'000	Contributions to retirement benefits schemes HK$'000	Equity-settled share-based payments HK$'000	Discretionary bonuses HK$'000	Total HK$'000
2013						
Executive directors						
Leung Ngai Man	–	6,500	15	–	5,000	11,515
Ng Kwok Chu, Winfield (Note (v))	–	624	15	59	100	798
Wu Wei Hua	–	868	15	–	100	983
Non-executive director						
Gao Shikui (Note (i))	30	–	–	–	–	30
Independent non-executive directors						
Xuan Hong (Note (ii))	–	–	–	–	–	–
Qi Ji	–	–	–	–	–	–
Cai Wei Lun	70	–	–	–	–	70
Niu Zhihui (Note (iii))	–	–	–	–	–	–
	100	7,992	45	59	5,200	13,396

Notes:

(i) Retired on 28 June 2013

(ii) Appointed on 3 December 2013

(iii) Resigned on 3 December 2013

(iv) Appointed on 26 May 2014 and resigned on 2 March 2015

(v) Resigned on 26 May 2014

During the years ended 31 December 2014 and 2013, since the appointment of chief executive officer of the Company remains outstanding, no emoluments were paid to the chief executive officer of the Company.

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2013: Nil).

12. EMPLOYEES' EMOLUMENTS

Employee benefits expense (excluding directors' emoluments)

	2014	2013
	HK$'000	HK$'000
Salaries and other benefits	**4,356**	4,763
Equity-settled share-based payments	**–**	529
Contributions to retirement benefits schemes	**309**	186
	4,665	5,478

Five highest paid individuals

Of the five individuals with the highest emoluments in the Group, three (2013: three) were directors of the Company whose emoluments are included in the disclosure in note 11 above. The emoluments of the remaining two (2013: two) individuals were as follows:

	2014	2013
	HK$'000	HK$'000
Salaries and other benefits	**832**	920
Equity-settled share-based payments	**–**	529
Contributions to retirement benefits schemes	**29**	27
Discretionary bonuses	**44**	56
	905	1,532

Their emoluments fell within the following bands:

	Number of individuals	
	2014	2013
Emolument bands		
Nil – HK$1,000,000	**2**	1
HK$1,000,001 – HK$1,500,000	**–**	1

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

13. LOSS PER SHARE

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

	2014 **HK$'000**	2013 HK$'000
Loss		
Loss for the year attributable to owners of the Company for the purposes of basic and diluted loss per share	**(186,051)**	(75,325)

Number of shares

	2014 **'000**	2013 '000
Weighted average number of ordinary shares for the purposes of basic and diluted loss per share	**2,178,881**	1,854,235

The computation of diluted loss per share did not assume the exercise of the Company's potential ordinary shares granted under the Company's share option scheme, non-redeemable convertible preferred shares, convertible bonds and outstanding warrants since their exercise and conversion would have an anti-dilutive effect.

14. LOSS ATTRIBUTABLE TO OWNERS OF THE COMPANY

Of the consolidated loss for the year attributable to owners of the Company of approximately HK$186,051,000 (2013: HK$75,325,000), a loss of approximately HK$23,382,000 (2013: HK$12,771,000) has been dealt with in the financial statements of the Company.

15. PROPERTY, PLANT AND EQUIPMENT

Group

	Furniture, fixtures and fittings HK$'000	Computer and office equipment HK$'000	Motor vehicles HK$'000	Leasehold improvements HK$'000	Total HK$'000
Cost					
Balance at 1 January 2013	733	3,946	309	1,680	6,668
Additions	58	172	–	–	230
Disposals	(41)	(119)	–	(1,058)	(1,218)
Effect of foreign currency exchange differences	20	114	–	43	177
Balance at 31 December 2013	770	4,113	309	665	5,857
Additions	–	408	–	–	408
Disposals	(19)	(100)	(309)	(430)	(858)
Effect of foreign currency exchange differences	(4)	(21)	–	(4)	(29)
Balance at 31 December 2014	747	4,400	–	231	5,378
Accumulated depreciation and impairment					
Balance at 1 January 2013	(598)	(1,512)	(309)	(264)	(2,683)
Eliminated on disposals of assets	9	106	–	365	480
Depreciation expense	(92)	(614)	–	(366)	(1,072)
Effect of foreign currency exchange differences	(17)	(39)	–	(9)	(65)
Balance at 31 December 2013	(698)	(2,059)	(309)	(274)	(3,340)
Eliminated on disposals of assets	14	74	309	282	679
Depreciation expense	(23)	(626)	–	(185)	(834)
Effect of foreign currency exchange differences	3	9	–	2	14
Balance at 31 December 2014	(704)	(2,602)	–	(175)	(3,481)
Carrying amounts					
Balance at 31 December 2014	**43**	**1,798**	**–**	**56**	**1,897**
Balance at 31 December 2013	72	2,054	–	391	2,517

15. PROPERTY, PLANT AND EQUIPMENT (Continued)

Company

	Motor vehicle HK$'000
Cost	
Balance at 1 January 2013 and 31 December 2013	309
Disposal	(309)
Balance at 31 December 2014	–
Accumulated depreciation and impairment	
Balance at 1 January 2013 and 31 December 2013	(309)
Eliminated on disposal of an asset	309
Balance at 31 December 2014	–
Carrying amounts	
Balance at 31 December 2014 and 2013	**–**

16. INVESTMENTS IN SUBSIDIARIES

Company

	2014 HK$'000	2013 HK$'000
Unlisted shares, at cost	**–**	–
Capital contributions	**2,661,276**	2,661,276
Impairment losses recognised	**(2,661,276)**	(2,607,000)
	–	54,276

Impairment loss on investments in subsidiaries and amounts due from subsidiaries, amounting approximately HK$54,276,000 (2013: HK$267,000,000) and HK$74,724,000 (2013: Nil) respectively, were recognised in the statement of profit or loss of the Company for the year ended 31 December 2014 because certain of these subsidiaries have been making losses for years.

16. INVESTMENTS IN SUBSIDIARIES (Continued)

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

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

Name of subsidiary	Place of incorporation/ registration/ operations	Particulars of issued and fully paid share capital/ registered capital	Proportion of ownership interest held by the Company Directly	Indirectly	Principal activities
E-silkroad.net Corporation	British Virgin Islands ("BVI")	1 ordinary share of 1 United States dollar ("US$")	100%	–	Investment holding
Easywin International Holdings Limited	BVI	1 ordinary share of US$1	100%	–	Investment holding
Pearl Sharp Limited	BVI	1 ordinary share of US$1	–	100%	Investment holding
E-silkroad.net Online Exhibition Limited	Hong Kong	Ordinary shares HK$10,000	–	100%	Development of e-commerce business, provision of web page design and website maintenance services and provision of administrative services
Greatest Profit Investment Limited	Hong Kong	Ordinary shares HK$1	–	100%	Investment holding
大連兆忠科技有限公司 ("Dalian Merit Billion")	PRC*	RMB3,000,000 (2013: RMB2,800,000)	–	100%	Trading of computer hardware and software
深圳環彩普達科技有限公司 (transliterated as Shenzhen Huancai Puda Technology Company Limited#) ("Huancai Puda")	PRC**	RMB41,819,548 (2013: RMB41,819,548)	–	51%	Development of computer software, hardware and application system, sale of self-developed technology or results and provision of relevant technical consultancy services

English names for identification purpose only

* Dalian Merit Billion is a wholly-foreign owned enterprise established in the PRC.

** Huancai Puda is a Sino-foreign equity joint venture established in the PRC.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

16. INVESTMENTS IN SUBSIDIARIES (Continued)

Information about the composition of the Group at the end of reporting period is as follows:

Principal activities	Place of incorporation/ establishments	Number of subsidiaries 2014	Number of subsidiaries 2013
Investment holding or inactive	BVI	**9**	8
Investment holding or inactive	Hong Kong	**8**	8
Development of e-commerce business, provision of web page design and website maintenance services and provision of administrative services	Hong Kong	**1**	2
Provision of loan financing services	Hong Kong	**–**	1
Trading of computer hardware and software	PRC	**1**	1
Development of computer software, hardware and application system, sale of self-developed technology or results and provision of relevant technical consultancy services	PRC	**2**	2
		21	22

16. INVESTMENTS IN SUBSIDIARIES (Continued)

The table below shows details of non-wholly-owned subsidiaries of the Group that have material non-controlling interests:

Name of subsidiary	Place of incorporation/ establishment and principal place of business	Proportion of ownership interests held by the non-controlling interests		Loss allocated to non-controlling interests		Accumulated non-controlling interests	
		2014	2013	**2014**	2013	**2014**	2013
				HK$'000	HK$'000	**HK$'000**	HK$'000
Huancai Puda	PRC	**49%**	49%	**(144,025)**	(43,487)	**35,338**	180,813
Individually immaterial subsidiary with non-controlling interest						**(44)**	(38)
						35,294	180,775

Summarised financial information in respect of the Group's subsidiary that has material non-controlling interests is set out below. The summarised financial information below represents amounts before intragroup eliminations.

Huancai Puda

	2014	2013
	HK$'000	HK$'000
Current assets	**4,741**	8,025
Non-current assets	**101,105**	492,419
Current liabilities	**(8,314)**	(8,333)
Non-current liabilities	**(24,831)**	(122,517)

16. INVESTMENTS IN SUBSIDIARIES (Continued)

	Year ended 31 December 2014 HK$'000	Year ended 31 December 2013 HK$'000
Revenue	**3,533**	1,280
Other income and gains	**66**	3,958
Expenses	**(297,531)**	(93,991)
Loss for the year	**(293,932)**	(88,753)
Loss attributable to owners of the Company	**(149,907)**	(45,266)
Loss attributable to the non-controlling interests	**(144,025)**	(43,487)
Loss for the year	**(293,932)**	(88,753)
Other comprehensive (expense)/income for the year	**(2,959)**	19,506
Total comprehensive expense attributable to owners of the Company	**(151,416)**	(35,355)
Total comprehensive expense attributable to the non-controlling interests	**(145,475)**	(33,892)
Total comprehensive expense for the year	**(296,891)**	(69,247)
Dividends paid to non-controlling interests	**–**	–
Net cash outflow from operating activities	**(937)**	(7,000)
Net cash (outflow)/inflow from investing activities	**(156)**	10,557
Net cash inflow from financing activities	**–**	–
Net (decrease)/increase in cash and cash equivalents	**(1,093)**	3,557

17. CONCESSION RIGHTS

Group

	HK$'000
Cost	
Balance at 1 January 2013	2,478,863
Effect of foreign currency exchange differences	83,103
Balance at 31 December 2013	2,561,966
Effect of foreign currency exchange differences	(15,433)
Balance at 31 December 2014	2,546,533
Accumulated amortisation and impairment	
Balance at 1 January 2013	(1,900,494)
Amortisation expense	(14,311)
Impairment loss recognised in profit or loss	(93,200)
Effect of foreign currency exchange differences	(63,894)
Balance at 31 December 2013	(2,071,899)
Amortisation expense	(13,578)
Impairment loss recognised in profit or loss	(374,217)
Effect of foreign currency exchange differences	12,485
Balance at 31 December 2014	(2,447,209)
Carrying amounts	
Balance at 31 December 2014	**99,324**
Balance at 31 December 2013	490,067

17. CONCESSION RIGHTS (Continued)

Group (Continued)

Note:

The amount of concession rights represents the value in use of contractual rights stated in the cooperation agreements that Huancai Puda and its subsidiary entered into with several lottery issuing centres for providing software system and technical service. The fair value of the concession rights on initial recognition was arrived at on the basis of a valuation carried out by an independent professionally qualified valuer not connected with the Group. The valuation was determined by reference to discounted cash flow projections. At the end of each reporting period, the concession rights is measured using the cost model subject to impairment.

The amount of concession rights is amortised on a straight-line method over the period over three to eight years in accordance with the terms of the cooperation agreements.

As at 31 December 2014, the recoverable amount of the concession rights was assessed by the directors with reference to the professional valuation as at 31 December 2014 performed by an independent professionally qualified valuer. The recoverable amount of the lottery business's CGU has been determined based on value in use calculation. That calculation uses cash flow projections based on most recent financial budgets after taking into account the operation environment and market conditions at that point of time approved by the management covering a five-year period with growth rate of 20.00% (2013: 21.87%) per annum, and pre-tax discount rate of 28.07% (2013: 27.19%). The cash flows beyond the five year period are extrapolated using zero growth rate. The key assumptions for the value in use calculation are those regarding the discount rate, growth in revenue and direct costs during the periods. The management estimates discount rate that reflects current market assessments of the time value of money and the risk specific to the CGU. In performing the impairment testing, the directors of the Company have made reference to a valuation performed by an independent professionally qualified valuer. During the year ended 31 December 2014, the Group recognised impairment losses of approximately HK$374,217,000 (2013: HK$93,200,000) in relation to concession rights allocated to the CGU associated with the lottery business.

The impairment of the concession rights in 2014 was approximately HK$374,217,000 (2013: HK$93,200,000) mainly due to the termination of a cooperation agreement in the first quarter of 2015 as agreed after negotiations between one of the lottery issuing centre and Huancai Puda in the wake of the industry integration in the PRC during the second half of 2014.

18. INTERESTS IN ASSOCIATES

Group

Details of the Group's interests in associates are as follows:

	2014	2013
	HK$'000	HK$'000
Unlisted investments at cost	**–**	–
Share of post-acquisition losses and other comprehensive expense, net of dividends received	**–**	–
	–	–

In May 2013, the Group disposed of its 30% equity interest in 深圳市精彩明天科技有限公司 to an independent third party at a consideration of approximately RMB8,571,000. The Group realised a gain on disposal of an associate of approximately HK$3,772,000 in the year ended 31 December 2013, within the "other income and gains" line item in the consolidated statement of profit or loss and other comprehensive income (note 7).

During the year ended 31 December 2013, an associate of the Group established in the PRC, 安徽環彩信息科技有限公司, has been deregistered.

Summarised financial information in respect of the Group's associates that are not individually material is set out below. The summarised financial information below represents amounts shown in the associate's financial statements prepared in accordance with HKFRSs.

All of these associates are accounted for using the equity method in these consolidated financial statements.

18. INTERESTS IN ASSOCIATES (Continued)

Group (Continued)

Summarised financial information in respect of the Group's associates

	At 31 December 2014 HK$'000	At 31 December 2013 HK$'000
Total assets	–	–
Total liabilities	–	–
Net assets	–	–
Group's share of net assets of associates	–	–

	Year ended 31 December 2014 HK$'000	Year ended 31 December 2013 HK$'000
The Group's share of losses	–	(484)
The Group's share of other comprehensive income	–	165
The Group's share of total comprehensive expense	–	(319)
Aggregate carrying amount of the Group's interests in these associates	–	–

19. INVENTORIES

Group

	2014 HK$'000	2013 HK$'000
Lottery equipment	–	1,612

20. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2014	2013	**2014**	2013
	HK$'000	HK$'000	**HK$'000**	HK$'000
Prepayments	**149**	1,045	**48**	76
Deposits and other receivables	**4,095**	3,828	**58**	27
	4,244	4,873	**106**	103

21. AMOUNT DUE FROM A NON-CONTROLLING INTEREST OF A SUBSIDIARY

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

22. CASH AND BANK BALANCES/PLEDGED BANK DEPOSIT

	Group		Company	
	2014	2013	**2014**	2013
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash at banks and in hand	**62,004**	34,198	**58,572**	23,272
Less: Pledged bank deposit	**(214)**	(213)	**–**	–
Cash and cash equivalents	**61,790**	33,985	**58,572**	23,272

Pledged bank deposit represents deposit pledged to bank for obtaining the corporate card services.

Bank balances carry interest at floating rates based on daily bank deposit rates. The pledged bank deposit carries fixed interest rate of 0.50% (2013: 0.50%) per annum.

Included in cash at banks and in hand of the Group is approximately HK$2,734,000 (2013: HK$4,020,000) of bank balances denominated in RMB and placed with banks in the PRC. RMB is not freely convertible into other currencies, however, under the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

23. TRADE AND OTHER PAYABLES

	Group		Company	
	2014	2013	**2014**	2013
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade payables	**4**	4	**–**	–
Other payables and accruals	**8,172**	8,225	**1,154**	1,303
Accrued salaries and other benefits	**1,485**	6,998	**11**	11
	9,661	15,227	**1,165**	1,314

Group

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

	2014	2013
	HK$'000	HK$'000
Over 90 days	**4**	4

24. AMOUNT DUE TO A NON-CONTROLLING INTEREST OF A SUBSIDIARY

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

25. CONVERTIBLE BONDS – GROUP AND COMPANY

On 27 August 2010, the Company issued approximately 664,580,000 (after adjusted for the share consolidation as effected on 27 February 2012) zero-coupon HK dollar denominated convertible bonds at a total principal amount of HK$797.5 million to Mr. Leung Ngai Man ("Mr. Leung"), a substantial shareholder, the chairman and executive director of the Company. The convertible bonds have a maturity period of 5 years from the issue date and can be convertible into one ordinary share of the Company at HK$0.005 each for every HK$1.20 convertible bonds at the holder's option (after adjusted for the share consolidation as effected on 27 February 2012). Conversion may occur at any time between 27 August 2010 and 26 August 2015.

The convertible bonds contain two components: liability and equity elements. The equity element on initial recognition amounted to HK$439,210,000 was presented in equity as part of the "convertible bonds equity reserve". The effective interest rate of the liability component for the convertible bonds on initial recognition was 17.35% per annum.

No convertible bonds were converted during the years ended 31 December 2014 and 2013.

On 10 October 2014, the Company early redeemed 20,833,333 convertible bonds (after adjusted for the share consolidation as effected on 27 February 2012) at a total consideration of HK$25,000,000 from Mr. Leung, pursuant to the terms and conditions of the convertible bonds. The difference between the redemption amount and the total carrying amounts of liability component and equity component amounting to approximately HK$3,235,000 has been charged to the consolidated statement of profit or loss and other comprehensive income and amounting to approximately HK$11,278,000 has been charged to the accumulated losses, respectively. Subsequent to the end of the reporting period, Mr. Leung has entered into a deed of undertaking to undertake that he will not, without the prior written consent of the Company, redeem the convertible bonds issued to him before the maturity date (i.e. 26 August 2015) and request the Company to repay the outstanding amount of the convertible bonds within 12 months after the maturity date.

The movement of the liability component of the convertible bonds for the year is set out below:

	HK$'000
At 1 January 2013	91,118
Effective interest expense charged	11,205
At 31 December 2013 and 1 January 2014	102,323
Effective interest expense charged	10,772
Redemption	(19,275)
At 31 December 2014	**93,820**

26. DEFERRED TAXATION

The following are the major deferred tax liabilities balances recognised and movements thereon during the current and prior years:

Group

	Concession rights HK$'000	Convertible bonds HK$'000	Total HK$'000
At 1 January 2013	144,592	8,785	153,377
Credit to profit or loss	(22,075)	(1,849)	(23,924)
At 31 December 2013 and 1 January 2014	122,517	6,936	129,453
Credit directly to equity	–	(2,272)	(2,272)
Credit to profit or loss	(97,686)	(1,777)	(99,463)
At 31 December 2014	**24,831**	**2,887**	**27,718**

Under the PRC Enterprise Income Tax Law of the PRC, withholding tax is imposed on dividends declared in respect of profits earned by the PRC subsidiaries from 1 January 2008 onwards. At 31 December 2014 and 2013, no deferred tax liabilities for withholding tax have been recognised as the Group's PRC subsidiaries incurred accumulated losses for the period since 1 January 2008.

At the end of the reporting period, the Group had estimated unused tax losses of approximately HK$30,397,000 (2013: HK$31,883,000) arising from subsidiaries operating outside Hong Kong which is available for setting off against future taxable profit of that subsidiary is due to expire within one to five years and estimated unused tax losses of approximately HK$51,046,000 (2013: HK$53,048,000) available for offset against future profits that may be carried forward indefinitely. No deferred tax asset has been recognised in respect of the estimated unused tax losses due to the unpredictability of future profit streams.

26. DEFERRED TAXATION (Continued)

Company

	Convertible bonds HK$'000
At 1 January 2013	8,785
Credit to profit and loss	(1,849)
At 31 December 2013 and 1 January 2014	6,936
Credit directly to equity	(2,272)
Credit to profit and loss	(1,777)
At 31 December 2014	**2,887**

27. SHARE CAPITAL – ORDINARY SHARES

	Number of shares '000	Share capital HK$'000
Authorised:		
At 1 January 2013, 31 December 2013 and 2014, ordinary shares of HK$0.005 each	**20,000,000**	**100,000**
Issued and fully paid:		
At 1 January 2013 and 31 December 2013, ordinary shares of HK$0.005 each	1,854,235	9,271
Issue of new ordinary shares (Note (i))	232,800	1,164
Exercise of share options (Note (ii))	30,000	150
Conversion of non-redeemable convertible preferred shares (Note (iii))	100,000	500
At 31 December 2014, ordinary shares of HK$0.005 each	**2,217,035**	**11,085**

27. SHARE CAPITAL – ORDINARY SHARES (Continued)

Notes:

(i) On 3 January 2014, Mr. Leung, the Company and the joint placing agents entered into the placing and subscription agreement pursuant to which (i) the joint placing agents have agreed to act as agents for Mr. Leung to place, on a best effort basis, and Mr. Leung has agreed to sell, a total of up to 360,000,000 placing shares to not less than six placees who and whose ultimate beneficial owners will be third parties independent of and not acting in concert with Mr. Leung, the Company and their respective associates and connected persons, at the placing price of HK$0.320 per placing share; and (ii) Mr. Leung has conditionally agreed to subscribe for up to 360,000,000 new subscription shares at the subscription price of HK$0.320 per subscription share.

Completion of the placing took place on 7 January 2014 in accordance with the placing and subscription agreement and an aggregate of 232,800,000 placing shares were placed to not less than six placees who are independent third parties, at the placing price of HK$0.320 per placing share.

On 15 January 2014, an aggregate of 232,800,000 ordinary shares of HK$0.005 each in the capital of the Company were allotted and issued to Mr. Leung at HK$0.320 per subscription share. The exercise gave rise to an aggregate net proceed of approximately HK$72,553,000.

(ii) During the year ended 31 December 2014, subscription rights attaching to options subscribe for 30,000,000 shares of the Company were exercised at the subscription price of HK$0.063 per share (note 31), resulting in the issuance of 30,000,000 shares of HK$0.005 each for a total cash consideration of approximately HK$1,890,000.

(iii) On 8 April 2014, 100,000,000 ordinary shares of HK$0.005 each in the capital of the Company were issued to Mr. Leung upon conversion of non-redeemable convertible preferred shares issued by the Company to Mr. Leung on 17 December 2012. (note 28)

28. SHARE CAPITAL – NON-REDEEMABLE CONVERTIBLE PREFERRED SHARES

	Number of shares '000	Share capital HK$'000
Authorised:		
At 1 January 2013, 31 December 2013 and 2014, preferred shares of HK$0.005 each	**2,000,000**	**10,000**
Issued and fully paid:		
At 1 January 2013 and 31 December 2013, preferred shares of HK$0.005 each	1,563,333	7,817
Conversion of non-redeemable convertible preferred shares (note 27)	(100,000)	(500)
At 31 December 2014, preferred shares of HK$0.005 each	**1,463,333**	**7,317**

29. 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 pages 39 and 40 of the consolidated financial statements.

The capital redemption reserve of the Group represents the nominal value of the share capital of the Company repurchased and cancelled.

Other reserve represents the difference between the consideration paid for the additional interest in the subsidiary and the non-controlling interest's share of the assets and liabilities reflected in the consolidated statement of financial position at the date of the acquisition of the non-controlling interests.

29. RESERVES (Continued)

Company

	Share premium account HK$'000 (Note (i))	Warrants reserve HK$'000	Capital redemption reserve HK$'000 (Note (ii))	Convertible bonds equity reserve HK$'000	Share options reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
Balance at 1 January 2013	3,213,139	1,740	1	66,267	13,341	(2,927,670)	366,818
Loss for the year	–	–	–	–	–	(279,778)	(279,778)
Total comprehensive expense for the year	–	–	–	–	–	(279,778)	(279,778)
Recognition of equity- settled share-based payments	–	–	–	–	1,006	–	1,006
Balance at 31 December 2013	3,213,139	1,740	1	66,267	14,347	(3,207,448)	88,046
Loss for the year	–	–	–	–	–	(152,386)	(152,386)
Total comprehensive expense for the year	–	–	–	–	–	(152,386)	(152,386)
Recognition of equity-settled share-based payments	–	–	–	–	8,952	–	8,952
Issue of new ordinary shares	73,332	–	–	–	–	–	73,332
Transaction costs attributable to issue of new ordinary shares	(1,943)	–	–	–	–	–	(1,943)
Issue of ordinary shares under share option scheme	2,327	–	–	–	(587)	–	1,740
Release of reserve upon share options lapsed	–	–	–	–	(994)	994	–
Redemption of convertible bonds	–	–	–	(13,768)	–	11,278	(2,490)
Deferred tax relating to convertible bonds	–	–	–	2,272	–	–	2,272
Balance at 31 December 2014	**3,286,855**	**1,740**	**1**	**54,771**	**21,718**	**(3,347,562)**	**17,523**

29. RESERVES (Continued)

Company (Continued)

Notes:

(i) The share premium account of the Group and Company arises on shares issued at a premium. In accordance with the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, the share premium account is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be able to pay its debts as they fall due in the ordinary course of business. The share premium account may also be distributed in the form of fully paid bonus shares.

(ii) The capital redemption reserve of the Company represents the nominal value of the share capital of the Company repurchased and cancelled.

30. WARRANTS

On 13 July 2012, an aggregate of 362,000,000 unlisted warrants were successfully placed by the Company to not less than six placees, who are third parties independent of and not connected to the Company and its connected persons at the placing price of HK$0.005 per warrant and the subscription price of HK$0.30 per warrant share. The subscription period for the warrants is 30 months from the date of issue of the warrants.

Upon the exercise in full of the subscription rights attached to the warrants, a maximum of 362,000,000 shares will be allotted and issued. The net proceeds from the placing (without taking into account of the exercise of the subscription rights attaching to the warrants) of unlisted warrants is approximately HK$1.6 million.

As at 31 December 2014 and 2013, the Company had 362,000,000 warrants outstanding. The exercise in full of such warrants would, under the present capital structure of the Company, result in the issue of 362,000,000 additional shares of HK$0.005 each.

All the above warrants expired subsequently in January 2015 and no warrant holders exercised their subscription rights attaching to the warrants to convert into ordinary shares of the Company.

31. SHARE-BASED PAYMENT TRANSACTIONS

The Company's share option scheme (the "Scheme") was adopted on 29 June 2007 for employee compensation.

The directors may at their absolute discretion, invite any person belonging to any of the following classes of participants ("Eligible Participants") to take up options to subscribe for shares:

- any employee (whether full time or part time, including any director) of the Company, any of its subsidiaries or any entity ("Invested Entity") in which any member of the Group holds an equity interest;
- any directors (including non-executive directors and independent non-executive directors) of the Company, any subsidiary or any Invested Entity;
- any supplier of goods or services to any member of the Group or any Invested Entity;
- any customer of any member of the Group or any Invested Entity;
- any person or entity that provides research, development or other technological support to any member of the Group or any Invested Entity;
- any shareholder of 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;
- any adviser (professional or otherwise), consultant, individual or entity who in the opinion of the directors of the Company has contributed or will contribute to the growth and development of the Group;
- any other group or classes of participants who have contributed or may contribute by way of joint venture, business alliance or other business arrangement to the development and growth of the Group; and
- for the purposes of the Scheme, the offer may be made to any company wholly owned by one or more Eligible Participants.

The share option scheme became effective on 2 July 2007 and, unless otherwise cancelled or amended, will remain in force for 10 years from its date of adoption on 29 June 2007.

31. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

Under the Scheme, the maximum 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 share option schemes adopted by the Group shall not exceed 30% of the share capital of the Company in issue from time to time. No options may be granted under the Scheme or any other share option scheme adopted by the Group if the grant of such option will result in the limit being exceeded. Subject to the approval of the Company's shareholders, the aggregate number of the Company's shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other share option schemes of the Company shall not exceed 30% of the Company's shares in issue from time to time.

The total number of shares which may be allotted and issued upon exercise of all options excluding, options which have lapsed in accordance with the terms of this Scheme and any other option schemes of the Group must not in aggregate exceed 10% of the shares in issue as at the date of passing the relevant resolution adopting the Scheme without prior approval from the Company's shareholders.

The total number of shares issued and which may fall to be issued upon exercise of the options and the options granted under any other share option scheme of the Group (including both exercised or outstanding options) to each grantee in any 12-month period shall not exceed 1% of the issued share capital of the Company for the time being. Where any further grant of options to a grantee under the Scheme would result in the shares issued and to be issued upon exercise of all options granted and proposed to be granted to such person (including exercised, cancelled and outstanding options) under the Scheme and any other share option schemes of the Group in the 12-month period up to and including the date of such further grant representing in aggregate over 1% of the shares in issue, such further grant must be separately approved by shareholders of the Company in general meeting with such grantee and his associates abstaining from voting.

The maximum number of shares issued and to be issued upon exercise of the options granted under the share option scheme and any other share option schemes of the Company to each of any eligible persons (including those cancelled, exercised and outstanding options), in any twelve months period up to the date of the latest grant shall not exceed 1% of the Company's shares in issue provided that the number of shares issued and to be issued upon exercise of all options granted and to be granted to each of the independent non-executive directors or substantial shareholders of the Company or any of their respective associates in the twelve months period up to the date of such grant in excess of 0.1% of the Company's shares in issue and with a value in excess of HK$5 million must be approved in advance by the Company's independent shareholders. Any further grant of options in excess of such limit must be separately approved by shareholders in general meeting in accordance with the requirements of the GEM Listing Rules.

The offer of a grant of share options might be accepted in writing within 21 days from the date of the offer. The exercise period of the share options granted is determinable by the directors, and should not be later than ten years from the date of the offer of the share options or the expiry date of the Scheme, if earlier.

31. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

The subscription price is equal to the higher of (i) the nominal value of the shares of the Company; (ii) the closing price per share of the Company as stated in the Stock Exchange's daily quotation sheet on the date of grant; and (iii) the average closing price per share as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant.

The fair value of share options granted is recognised in the statement of profit or loss and other comprehensive income taking into account the probability that the options will vest over the vesting period. Upon the exercise of the options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. At the time when the share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are forfeited or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to accumulated losses. Options which lapsed, if any, prior to their exercise date are deleted from the outstanding options.

All equity-settled share-based payments will be settled in equity. The Group has no legal or constructive obligation to repurchase or settle the options.

Details of specific categories of share options are as follows:

Option type	Date of grant	Exercise period	Exercise price HK$	Weight average fair value at grant date HK$
2007 (a)	9 July 2007	9 July 2007 to 29 June 2017	1.4250*	0.4540*
2007 (b)	22 August 2007	22 August 2007 to 29 June 2017	2.0300*	0.6375*
2008	10 July 2008	10 July 2008 to 29 June 2017	1.3280*	0.3555*
2013 (a)	21 May 2013	21 May 2013 to 29 June 2017	0.0630	0.0196
2013 (b)	10 October 2013	10 October 2013 to 29 June 2017	0.0870	0.0261
2014 (c)	10 July 2014	10 July 2014 to 29 June 2017	0.2800	0.0726

The Company measures the fair value of share options granted to consultant by reference to the fair values of services rendered.

The fair value of the share options granted to employees and directors during the year ended 31 December 2014 was determined using the Black-Scholes Option Pricing Model. Where relevant, the expected life used in the model has been adjusted based on management's best estimate for the effects of non-transferability, exercise restrictions (including the probability of meeting market conditions attached to the option), and behavioural considerations. Expected volatility is based on the historical volatility of the comparable companies' share price, adjusted for any expected changes to future volatility based on publicly available information.

31. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

54,700,000 share options were granted under the Scheme during the year ended 31 December 2014 (2013: 46,000,000).

The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. The value of an option varies with different variables of certain subjective assumptions.

Inputs into the model

	Option type 2014 (c)
Grant date share price	HK$0.2800
Exercise price	HK$0.2800
Expected volatility	72.079%
Expected exercise date	10 July 2015
Risk-free interest rate	0.11%
Expected dividend yield	Nil

The following table discloses movements of the Company's share options during the year:

Option type	**Outstanding at 1/1/2014**	**Granted during the year**	**Exercised during the year**	**Lapsed during the year**	**Outstanding at 31/12/2014**
2007 (a)	9,600,000*	–	–	–	9,600,000*
2007 (b)	8,200,000*	–	–	–	8,200,000*
2008	11,200,000*	–	–	(2,000,000)	9,200,000*
2013 (a)	30,000,000	–	(30,000,000)	–	–
2013 (b)	16,000,000	–	–	–	16,000,000
2014 (a)	–	32,000,000	–	–	32,000,000
2014 (b)	–	2,700,000	–	–	2,700,000
2014 (c)	–	20,000,000	–	–	20,000,000
	75,000,000	54,700,000	(30,000,000)	(2,000,000)	97,700,000
Exercisable at the end of the year					97,700,000
Weighted average exercise price	HK$0.6464	HK$0.3333	HK$0.0630	HK$1.3280	HK$0.6363

31. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

The following table discloses movements of the Company's share options during prior year:

Option type	Outstanding at 1/1/2013	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at 31/12/2013
2007 (a)	9,600,000*	–	–	–	9,600,000*
2007 (b)	8,200,000*	–	–	–	8,200,000*
2008	11,200,000*	–	–	–	11,200,000*
2013 (a)	–	30,000,000	–	–	30,000,000
2013 (b)	–	16,000,000	–	–	16,000,000
	29,000,000*	46,000,000	–	–	75,000,000
Exercisable at the end of the year					75,000,000
Weighted average exercise price	HK$1.5586*	HK$0.0713	–	–	HK$0.6464

The following share options granted under the Scheme were exercised in the current year:

Option type	Number exercised	Exercised date	Share Price at exercise date HK$
2013 (a)	18,000,000	22 January 2014	0.35
2013 (a)	9,000,000	23 January 2014	0.34
2013 (a)	3,000,000	8 April 2014	0.38
	30,000,000		

No option has been exercised under the Scheme during the year ended 31 December 2013.

Options granted are fully vested at the date of grant. During the year ended 31 December 2014, approximately HK$1,452,000 (2013: HK$588,000) of equity-settled share-based payments to employees and directors has been included in the consolidated statement of profit or loss and other comprehensive income, the corresponding amount of which has been credited to share options reserve (note 29). No liabilities were recognised on the equity-settled share-based payment transactions.

31. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

The fair value of the share options granted to suppliers of service amounted to approximately HK$7,500,000 (2013: HK$418,000) has been included in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2014, the corresponding amount of which has been credited to share options reserve (note 29).

The total consideration received during the year from grant of share options amounted to HK$4 (2013: HK$4).

All share options have been accounted for under HKFRS 2. The share options outstanding at the end of the year had a weighted average remaining contractual life of 2.5 years (2013: 3.5 years).

* The above information has been adjusted to reflect the effect of the share consolidation on 27 February 2012 pursuant to which every 5 of the existing issued and unissued shares of HK$0.001 each in the share capital of the Company were consolidated into 1 consolidated share of HK$0.005 each. Every 5 of the options were consolidated into 1 consolidated option and the exercise prices were adjusted accordingly.

32. CAPITAL MANAGEMENT

The Group's capital management objectives are:

– to ensure the Group's ability to continue as a going concern;

– to provide an adequate return to shareholders; and

– to maintain an optimal capital structure to reduce cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend paid to shareholders, return capital to shareholders and issue new shares to reduce its debt level.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as total borrowings divided by total capital. Total borrowings are calculated as current and non-current borrowings as shown in the consolidated statement of financial position and total capital is calculated as "total equity", as shown in the consolidated statement of financial position.

32. CAPITAL MANAGEMENT (Continued)

Gearing ratio

The gearing ratio at the end of the reporting period was as follows:

	2014 **HK$'000**	2013 HK$'000
Total borrowings	**93,820**	102,323
Total equity	**36,397**	286,276
Gearing ratio	**258%**	36%

33. FINANCIAL INSTRUMENTS

33.1 Categories of financial instruments

Group

Financial assets

	2014 **HK$'000**	2013 HK$'000
Loans and receivables:		
Financial assets included in deposits and other receivables	**4,095**	3,828
Amount due from a non-controlling interest of a subsidiary	**240**	241
Cash and bank balances (including pledged bank deposit)	**62,004**	34,198

Financial liabilities

	2014 **HK$'000**	2013 HK$'000
Financial liabilities at amortised cost:		
Financial liabilities included in trade and other payables	**9,657**	15,223
Amount due to a non-controlling interest of a subsidiary	**227**	228
Convertible bonds	**93,820**	102,323

33. FINANCIAL INSTRUMENTS (Continued)

33.1 Categories of financial instruments (Continued)

Company

Financial assets

	2014 HK$'000	2013 HK$'000
Loans and receivables:		
Financial assets included in other receivables	**58**	27
Amounts due from subsidiaries	**101,734**	164,655
Bank balances	**58,572**	23,272

Financial liabilities

	2014 HK$'000	2013 HK$'000
Financial liabilities at amortised cost:		
Financial liabilities included in other payables and accruals	**1,165**	1,314
Amounts due to subsidiaries	**26,615**	26,599
Convertible bonds	**93,820**	102,323

33.2 Financial risk management objectives and policies

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 foreign currency risk, interest rate risk and other price risk), credit risk and liquidity risk.

Financial risk management is coordinated at the Group's headquarters, in close co-operation with the board of directors. 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 treasury department works under the policies approved by the board of directors. It identifies ways to access financial markets and monitors the Group's financial risk exposures. Regular reports are provided to the board of directors.

There has been no change to the types of the Group's exposure in respect of financial instruments or the manner in which it manages and measures the risks.

33. FINANCIAL INSTRUMENTS (Continued)

33.2 Financial risk management objectives and policies (Continued)

33.2.1 Market risk

Foreign currency risk management

Transactional currency exposures arise from revenue or cost of sales by operating units in currencies other than the unit's functional currency. Substantially all the Group's revenue and cost of sales are denominated in the functional currency of the operating units making the revenue, and substantially all the cost of sales are denominated in the operating unit's functional currency. Accordingly, the directors consider the Group is not exposed to significant foreign currency risk. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

At the end of the reporting period, the carrying amounts of the Group's major monetary assets denominated in currencies other than the functional currencies of the relevant group entities are as follows:

	2014 **HK$'000**	2013 HK$'000
Assets		
RMB	**45,986**	22,560

Foreign currency sensitivity analysis

The following table details the Group's sensitivity to a 5% increase and decrease in the RMB against HK$. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign exchange rate. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the reporting period for a 5% change in foreign currency rate. A positive number below indicates a decrease in loss where RMB strengthens against HK$. For a 5% weakening of RMB against HK$, there would be an equal and opposite impact on the loss.

	2014 **HK$'000**	2013 HK$'000
RMB	**2,299**	1,128

In management's opinion, the sensitivity analysis is unrepresentative of the inherent exchange risk as the year end exposure does not reflect the exposure during the year.

33. FINANCIAL INSTRUMENTS (Continued)

33.2 Financial risk management objectives and policies (Continued)

33.2.1 Market risk (Continued)

Interest rate risk management

The Group and the Company does not have material exposure to interest rate risk. A reasonably possible change in interest rate in the twelve months is assessed; which could have immaterial change in the Group's and the Company's loss after tax and accumulated losses. Changes in interest rates have no material impact on the Group's and the Company's other components of equity. The Group adopts centralised treasury policies in cash and financial management and focuses on reducing the Group's overall interest expenses.

The directors are of the opinion that the Group's sensitivity to the change in interest rate is low.

Other price risks

As the Group has no significant investments in financial assets at FVTPL, the Group is not exposed to significant other price risks.

33.2.2 Credit risk management

At 31 December 2014, the Group's and the Company's maximum exposure to credit risk which will cause a financial loss to the Group and the Company due to failure to discharge an obligation by the counterparties is arising from the carrying amounts of the respective recognised financial assets as stated in the consolidated and company statement of financial position.

In order to minimise the credit risk, the management of the Group has 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 debt and debt investment at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's and the Company's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

Other than concentration of credit risk on liquid funds which are deposited with several banks with high credit ratings, the Group and the Company do not have any other significant concentration of credit risk.

33. FINANCIAL INSTRUMENTS (Continued)

33.2 Financial risk management objectives and policies (Continued)

33.2.3 Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework to meet the Group's short, medium and long-term funding and liquidity management requirements.

The Group manages liquidity risk by maintaining adequate reserves, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The maturity profile of the Group's and the Company's financial liabilities at the end of the reporting period, based on the contractual undiscounted payments, was as follows:

Group

	On demand or less than 1 year HK$'000	1-5 years HK$'000	Total contractual undiscounted cash flows HK$'000	Total carrying amounts HK$'000
At 31 December 2014				
Non-derivative financial liabilities				
Trade and other payables	9,657	–	9,657	9,657
Amount due to a non-controlling of a subsidiary	227	–	227	227
Convertible bonds	119,100	–	119,100	93,820
	128,984	**–**	**128,984**	**103,704**
At 31 December 2013				
Non-derivative financial liabilities				
Trade and other payables	15,223	–	15,223	15,223
Amount due to a non-controlling of a subsidiary	228	–	228	228
Convertible bonds	–	144,100	144,100	102,323
	15,451	144,100	159,551	117,774

33. FINANCIAL INSTRUMENTS (Continued)

33.2 Financial risk management objectives and policies (Continued)

33.2.3 Liquidity risk management (Continued)

Company

	On demand or less than 1 year HK$'000	1-5 years HK$'000	Total contractual undiscounted cash flows HK$'000	Total carrying amounts HK$'000
At 31 December 2014				
Non-derivative financial liabilities				
Other payables and accruals	1,165	–	1,165	1,165
Amounts due to subsidiaries	26,615	–	26,615	26,615
Convertible bonds	119,100	–	119,100	93,820
	146,880	**–**	**146,880**	**121,600**
At 31 December 2013				
Non-derivative financial liabilities				
Other payables and accruals	1,314	–	1,314	1,314
Amounts due to subsidiaries	26,599	–	26,599	26,599
Convertible bonds	–	144,100	144,100	102,323
	27,913	144,100	172,013	130,236

33. FINANCIAL INSTRUMENTS (Continued)

33.3 Fair value measurements

Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis (but fair value disclosures are required)

Except as detailed in the following table, the directors consider that the carrying amounts of financial assets and financial liabilities recognised in the consolidated financial statements approximate to their fair values.

Group and Company

	2014		2013	
	Carrying amount HK$'000	**Fair value HK$'000**	Carrying amount HK$'000	Fair value HK$'000
Financial liabilities				
Convertible bonds (Note)	**93,820**	**109,980**	102,323	115,170

Note:

The fair value of the liability component of convertible bonds has been calculated by using effective interest rate of 12.98% (2013: 14.50%) per annum with reference to the Hong Kong Exchange Fund Note and credit risk margin.

Fair value hierarchy as at 31 December 2014

Group and Company

Liabilities for which fair values are disclosed:

	Level 1 HK$'000	**Level 2** HK$'000	**Level 3** HK$'000	**Total** HK$'000
Convertible bonds	–	–	109,980	109,980

The fair value of the financial liability included in the Level 3 category above has been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis.

34. DISPOSAL OF A SUBSIDIARY

In June 2014, the Group disposed of its 100% equity interest in Golden Rich Million Limited to an independent third party at consideration of HK$10,000.

Gain on disposal of a subsidiary

	HK$'000
Satisfied by:	
Cash consideration	10
Net assets disposed of	–
	10
Net cash inflow on disposal of a subsidiary:	
Cash consideration	10

35. OPERATING LEASES COMMITMENTS

Group

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2014 **HK$'000**	2013 HK$'000
Within one year	**321**	1,508
In the second to fifth years inclusive	**139**	486
	460	1,994

Operating leases relate to rented premises with lease terms of between 1 to 5 years (2013: 1 to 5 years), with no option to renew the lease terms at the expiry date. The lease does not include contingent rental.

Company

The Company had no significant operating lease commitments at 31 December 2014 and 2013.

36. CAPITAL COMMITMENTS

At 31 December 2014, the Group had the following significant commitments which were not provided for in the consolidated financial statements:

	2014 HK$'000	2013 HK$'000
Authorised and contracted for:		
Capital commitment to the registered capital of a PRC subsidiary payable by the Group (Note)	**2,565**	2,580
Purchase of property, plant and equipment	**106**	8,811
	2,671	11,391

Note:

Greatest Profit Investment Limited, an indirect wholly-owned subsidiary of the Company and the non-controlling interests of Huancai Puda have agreed to increase the registered capital of Huancai Puda in proportion to their equity interests from RMB40,810,000 to RMB45,810,000. At 31 December 2014, approximately RMB515,000 (2013: RMB515,000) have been contributed by Greatest Profit Investment Limited for such increase.

At the end of the reporting period, the Company had no significant capital commitments.

37. RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in these consolidated financial statements, the Group had the following significant transactions with related parties during the year:

	2014 HK$'000	2013 HK$'000
Early redemption of convertible bonds (note 25)	**25,000**	–

37. RELATED PARTY TRANSACTIONS (Continued)

Compensation of key management personnel

The remuneration of directors and other members of key management during the year was as follows:

Group

	2014 HK$'000	2013 HK$'000
Short-term benefits	**7,680**	13,292
Post-employment benefits	**40**	45
Equity-settled share-based payments	**1,452**	59
	9,172	13,396

38. EVENTS AFTER THE REPORTING PERIOD

Save as disclosed in note 25 and note 30, there were no significant events after the reporting period.

FINANCIAL SUMMARY

	For the year ended 31 December				
	2010	2011	2012	2013	**2014**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
RESULTS					
Revenue					
– continuing operations	2,582	2,014	2,248	1,731	**3,533**
– discontinued operation	93	–	–	–	**–**
Total	2,675	2,014	2,248	1,731	**3,533**
Loss for the year	(2,583,638)	(639,514)	(386,607)	(118,816)	**(330,081)**
Loss attributable to:					
Owners of the Company	(1,887,273)	(618,778)	(290,861)	(75,325)	**(186,051)**
Non-controlling interests	(696,365)	(20,736)	(95,746)	(43,491)	**(144,030)**
	(2,583,638)	(639,514)	(386,607)	(118,816)	**(330,081)**

	At 31 December				
	2010	2011	2012	2013	**2014**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
ASSETS AND LIABILITIES					
Total asset	1,501,998	941,766	640,087	533,508	**167,824**
Total liabilities	(790,061)	(791,203)	(255,605)	(247,232)	**(131,427)**
	711,937	150,563	384,482	286,276	**36,397**
Equity attributable to owners of the Company	400,964	(154,377)	169,819	105,501	**1,103**
Non-controlling interests	310,973	304,940	214,663	180,775	**35,294**
	711,937	150,563	384,482	286,276	**36,397**