

Notes To Financial Statements

31 December 2000

1. CORPORATE INFORMATION

The head office and principal place of business of Founder Holdings Limited is located at Unit 1408, 14th Floor, Cable TV Tower, 9 Hoi Shing Road, Tsuen Wan, New Territories, Hong Kong.

During the year, the Group was involved in the following principal activities:

- software development and systems integration
- sales of information products
- property investment

2. GROUP REORGANISATION

The Company was incorporated as an exempted company with limited liability in Bermuda under the Companies Act 1981 of Bermuda (as amended) on 24 September 1999. Pursuant to a scheme of arrangement sanctioned by the High Court of Hong Kong which became effective on 31 March 2000, Founder (Hong Kong) Limited ("FHK") became a wholly owned subsidiary of the Company.

Dealing of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") commenced on 31 March 2000 whilst the listing status of FHK was simultaneously withdrawn. Further details of the Group reorganisation are set out in the scheme document dated 3 January 2000.

The comparative balance sheet of the Company as at 31 December 1999 has not been presented as the Company did not have any assets or liabilities at that date.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of investment properties and land and buildings, as further explained below.

Notes To Financial Statements

31 December 2000

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2000. The results of subsidiaries established, acquired or disposed of during the year are consolidated from or to their effective dates of establishment, acquisition or disposal, respectively except for the Group reorganisation which have been accounted for by using merger accounting. In applying the merger accounting, the Company has been treated as the holding company of the Group for both years presented rather than from the effective date of the Group reorganisation.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

In the opinion of the directors, the consolidated financial statements prepared on the above basis more fairly present the results, cash flows and state of affairs of the Group as a whole.

Subsidiaries

A subsidiary is a company, other than a jointly-controlled entity, in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors.

Interests in subsidiaries are stated at cost unless, in the opinion of the directors, there have been permanent diminutions in values, when they are written down to values determined by the directors.

Joint ventures

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity.

Joint venture arrangements which involve the establishment of a separate entity in which the Group and other parties have an interest are referred to as jointly-controlled entities.

The Group's share of the post-acquisition results and reserves of jointly-controlled entities is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in jointly-controlled entities are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting less any provisions for diminutions in values other than temporary in nature deemed necessary by the directors.

Notes To Financial Statements

31 December 2000

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Associates

An associate is a company, not being a subsidiary or a joint venture, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting less any provisions for diminutions in values other than temporary in nature deemed necessary by the directors.

The results of associates are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in associates are stated at cost less any provisions for diminutions in values other than temporary in nature deemed necessary by the directors.

Goodwill

Goodwill arising on consolidation of subsidiaries and on acquisition of associates and jointly-controlled entities represents the excess purchase consideration paid over the fair values ascribed to the net underlying assets acquired and is eliminated against reserves in the year of acquisition. On disposal of subsidiaries, associates or jointly-controlled entities, the relevant portion of attributable goodwill previously eliminated against reserves is written back and included in the calculation of the gain or loss on disposal.

Fixed assets and depreciation

Fixed assets, other than investment properties, are stated at cost or valuation less accumulated depreciation. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of the fixed asset.

Changes in the values of fixed assets, other than investment properties, are dealt with as movements in the revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged. On disposal of a revalued asset, the relevant portion of the revaluation reserve realised in respect of previous valuations is transferred to retained earnings as a movement in reserves.

Notes To Financial Statements

31 December 2000

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Fixed assets and depreciation *(Continued)*

Depreciation is calculated on the straight-line basis to write off the cost or valuation of each asset over its estimated useful life, after taking into account its estimated residual value. The principal annual rates used for this purpose are as follows:

Land and buildings	Over the terms of the leases
Leasehold improvements	20% or over the terms of the leases, if shorter
Furniture, fixtures and equipment	10% — 33 ¹ / ₃ %
Motor vehicles	20% — 30%

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are intended to be held on a long term basis for their investment potential. Such properties are not depreciated and are stated at their open market values on the basis of annual professional valuations performed at the end of each financial year. Changes in the values of investment properties are dealt with as movements in the investment property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on a portfolio basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged.

On disposal of an investment property, the relevant portion of the investment property revaluation reserve realised in respect of previous valuations is released to the profit and loss account.

Research and development costs

All research costs are charged to the profit and loss account as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the projects are clearly defined; the expenditure is separately identifiable and can be measured reliably; there is reasonable certainty that the projects are technically feasible; and the products have commercial value. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are amortised using the straight-line basis over the commercial lives of the underlying products not exceeding three years, commencing from the date when the products are put into commercial production.

Notes To Financial Statements

31 December 2000

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals applicable to such operating leases are charged or credited to the profit and loss account on the straight-line basis over the lease terms.

Long term investments

Long term investments in unlisted equity securities intended to be held for a continuing strategic or long term purpose are stated at cost less any provisions for impairments in values deemed necessary by the directors, other than those considered to be temporary in nature, on an individual basis.

When such impairments in values have occurred, the carrying amounts of the securities are reduced to their fair values, as estimated by the directors, and the amounts of the impairments are charged to the profit and loss account for the period in which they arise. When the circumstances and events which led to the impairments in values cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the amounts of the impairments previously charged is credited to the profit and loss account to the extent of the amounts previously charged.

Inventories

Inventories, which principally comprise trading stocks, are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Deferred tax

Deferred tax is provided, using the liability method, on all significant timing differences to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

Foreign currencies

Foreign currency transactions are recorded at the applicable rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable rates of exchange ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of overseas subsidiaries, jointly-controlled entities and associated companies are translated to Hong Kong dollars at the applicable rates of exchange ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

Notes To Financial Statements

31 December 2000

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Retirement benefits scheme

The Group operates defined contribution retirement benefits scheme under the Mandatory Provident Fund Schemes Ordinance, for all those employees who are eligible to participate. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the schemes. The assets of the scheme are held separately from those of the Group in independently administered funds. When an employee leaves the Mandatory Provident Fund Exempted ORSO retirement benefits scheme prior to his/her interest in the Group's employer contributions vesting fully, the ongoing contributions payable by the Group may be reduced by the relevant amount of forfeited contributions. In respect to the Mandatory Provident Fund retirement benefits scheme, the Group's employer contributions vest fully with the employees when contributed into the scheme except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the scheme.

Employees in the People's Republic of China (the "PRC") are enrolled in the mandatory central pension scheme operated by the PRC government. The assets of the schemes are held separately from those of the Group in an independently administered fund. Contributions are made based on a percentage of the participating employees' salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the scheme.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) the rendering of services, when the transactions have been completed in accordance with the terms of the contracts;
- (c) disposal of fixed assets, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group has no further substantial acts and/or continuing involvement to complete under the contracts;
- (d) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable; and
- (e) rental income, on a time proportion basis over the lease terms.

Notes To Financial Statements

31 December 2000

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party, or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

Cash equivalents

For the purpose of the consolidated cash flow statement, cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance. For the purpose of balance sheet classification, cash equivalents represent assets similar in nature to cash, which are not restricted as to use.

4. TURNOVER AND REVENUE

Turnover represents the net invoiced value of goods sold, after allowance for returns and trade discounts and the value of services rendered during the year.

An analysis of turnover and revenue is as follows:

	Group	
	2000	1999
	HK\$'000	HK\$'000
Software development and systems integration	1,492,128	948,760
Sales of information products	595,725	634,313
Turnover	2,087,853	1,583,073
Rental income	1,995	1,458
Interest income	6,819	4,412
Proceeds from disposal of fixed assets	27,487	9,938
Proceeds from disposal of subsidiaries	210	—
Proceeds from partial disposal of a subsidiary	4,338	—
Proceeds from disposal of branch operations	9,084	—
Proceeds from disposal of a jointly-controlled entity	27,811	—
Revenue	2,165,597	1,598,881

Notes To Financial Statements

31 December 2000

5. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

The Group's profit/(loss) from operating activities is arrived at after charging/(crediting):

	Group	
	2000	1999
	HK\$'000	HK\$'000
Research and development costs:		
Current year expenditure	24,576	46,191
Deferred expenditure amortised	—	3,343
Deferred expenditure written off	—	2,162
	24,576	51,696
Staff costs (including directors' remuneration — note 7):		
Wages and salaries	142,202	122,484
Pension contributions*	7,170	4,523
Less: Forfeited contributions	(206)	(92)
	149,166	126,915
Auditors' remuneration	2,300	2,400
Cost of inventories sold	1,589,102	1,345,146
Depreciation	18,675	41,676
Loss/(gain) on disposal of fixed assets	(6,145)	4,785
Loss on disposal of branch operations	8,249	—
Loss on disposal of a jointly-controlled entity	3,398	—
Operating lease rentals in respect of land and buildings	29,073	31,188
Revaluation deficit — land and buildings	2,582	10,978
Revaluation deficit — investment properties	2,280	5,440
Provision for diminution in value of a long term investment	5,626	—
Provision for doubtful trade debts	8,939	55,171
Exchange losses, net	15	10
Gain on disposal of subsidiaries	(79,116)	—
Gain on deemed disposal of a subsidiary	(62,680)	—
Gain on partial disposal of a subsidiary	(3,452)	—
Interest income	(6,819)	(4,412)
Rental income — gross and net	(1,995)	(1,458)

* At 31 December 2000, forfeited contributions available to the Group to reduce its contributions to the pension scheme in future years were not material.

Notes To Financial Statements

31 December 2000

6. FINANCE COSTS

	Group	
	2000	1999
	HK\$'000	HK\$'000
Interest on bank loans and overdrafts	9,065	9,552

7. DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance is as follows:

	Group	
	2000	1999
	HK\$'000	HK\$'000
Fees	824	1,069
Other emoluments:		
Salaries, allowances and benefits in kind	1,163	1,486
Pension scheme contributions	40	40
	1,203	1,526
	2,027	2,595

Fees include HK\$264,000 (1999: HK\$264,000) payable to the independent non-executive directors. There were no other emoluments payable to the independent non-executive directors during the year (1999: Nil).

The remuneration of the directors fell within the following band:

	Number of directors	
	2000	1999
Nil — HK\$1,000,000	8	13

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

Notes To Financial Statements

31 December 2000

8. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included one (1999: one) director, details of whose remuneration is set out in note 7 above. The details of the remuneration of the remaining four (1999: four) non-director, highest paid employees are as follows:

	Group	
	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Salaries, allowances and benefits in kind	3,162	5,272
Pension scheme contributions	43	188
	<u>3,205</u>	<u>5,460</u>

The remuneration of the above non-director, highest paid employees fell within the following bands:

	Number of employees	
	2000	1999
Nil — HK\$1,000,000	3	2
HK\$1,000,001 — HK\$1,500,000	—	1
HK\$1,500,001 — HK\$2,000,000	1	—
HK\$2,500,001 — HK\$3,000,000	—	1
	<u>4</u>	<u>4</u>

9. TAX

	Group	
	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Group:		
Outside Hong Kong	1,033	879
Share of tax attributable to associates	282	—
	<u>1,315</u>	<u>879</u>

Notes To Financial Statements

31 December 2000

9. TAX (Continued)

No Hong Kong profits tax has been provided as no assessable profits are arising in Hong Kong during the year.

Beijing Founder Electronics Company Limited, a wholly owned PRC subsidiary of the Group, is subject to PRC profits tax at 50% of its standard tax rate for the three fiscal years commenced on 1 January 1998 and ended on 31 December 2000. Beijing Founder Order Computer System Company Limited, a wholly owned PRC subsidiary of the Group, is exempted from PRC profits tax for the three fiscal years commenced in 1999 and ending on 31 December 2001 and, thereafter, will be taxable at 50% of its standard tax rate in the fourth to sixth years, inclusive. At present, the standard tax rate applicable to the PRC subsidiaries is 15%. No provision for PRC profits tax has been made as the relevant PRC subsidiaries were either under the tax free period or incurred losses during the year.

Taxes on profits assessable elsewhere have been calculated at the applicable rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

There was no significant unprovided deferred tax in respect of the year (1999: Nil).

10. NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders dealt with in the financial statements of the Company is HK\$2,126,000.

11. EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings/(loss) per share is based on the net profit attributable to shareholders for the year of HK\$181,006,000 (1999: loss of HK\$223,071,000), and the weighted average of 1,116,405,000 (1999: 951,275,000) ordinary shares in issue during the year.

The calculation of diluted earnings per share is based on the net profit attributable to shareholders for the year of HK\$181,006,000. The weighted average number of ordinary shares used in the calculation is 1,116,405,000 ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average of 23,986,000 ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options during the year.

Diluted loss per share for the year ended 31 December 1999 has not been calculated as the impact of the outstanding share options was anti-dilutive.

Notes To Financial Statements

31 December 2000

12. FIXED ASSETS

Group

	Investment properties HK\$'000	Land and buildings in Hong Kong HK\$'000	Land and buildings in the PRC HK\$'000	Leasehold improvements HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Cost or valuation:							
At 1 January 2000	18,480	25,300	14,551	6,312	109,632	23,814	198,089
Additions	—	—	—	6,405	40,725	526	47,656
Disposals	—	—	—	—	(60,562)	(4,697)	(65,259)
Disposal of branch operations	—	—	(136)	—	(2,494)	(542)	(3,172)
Disposal of subsidiaries	—	—	—	(1,669)	(5,958)	—	(7,627)
Revaluation deficit	(2,280)	(3,600)	—	—	—	—	(5,880)
Exchange adjustments	—	—	56	(13)	173	83	299
At 31 December 2000	16,200	21,700	14,471	11,035	81,516	19,184	164,106
Accumulated depreciation:							
At 1 January 2000	—	—	124	5,964	65,839	11,084	83,011
Provided during the year	—	1,018	297	166	14,135	3,059	18,675
Disposals	—	—	—	—	(41,042)	(2,875)	(43,917)
Disposal of branch operations	—	—	(22)	—	(1,564)	(245)	(1,831)
Disposal of subsidiaries	—	—	—	—	(707)	—	(707)
Written back on revaluation	—	(1,018)	—	—	—	—	(1,018)
Exchange adjustments	—	—	—	(1)	133	39	171
At 31 December 2000	—	—	399	6,129	36,794	11,062	54,384
Net book value:							
At 31 December 2000	16,200	21,700	14,072	4,906	44,722	8,122	109,722
At 31 December 1999	18,480	25,300	14,427	348	43,793	12,730	115,078
Analysis of cost and valuation:							
At cost	—	—	14,471	11,035	81,516	19,184	126,206
At 31 December 2000 valuation	16,200	21,700	—	—	—	—	37,900
	16,200	21,700	14,471	11,035	81,516	19,184	164,106

The Group's land and buildings in Hong Kong were revalued at 31 December 2000 by Centaline Surveyors Ltd., independent professional valuers, on an open market, existing use basis.

Had the Group's land and buildings in Hong Kong been carried at historical cost less accumulated depreciation, their carrying values would have been approximately HK\$38,649,000 (1999: HK\$39,541,000).

Notes To Financial Statements

31 December 2000

12. FIXED ASSETS (Continued)

The Group's land and buildings included above are held under the following lease terms:

	Hong Kong <i>HK\$'000</i>	PRC <i>HK\$'000</i>	Total <i>HK\$'000</i>
At cost:			
Long term leases	—	14,471	14,471
At valuation:			
Medium term leases	21,700	—	21,700
	<u>21,700</u>	<u>14,471</u>	<u>36,171</u>

The Group's investment properties are situated in Hong Kong and are held under medium term leases.

The Group's investment properties were revalued at 31 December 2000 by Centaline Surveyors Ltd., independent professional valuers, on an open market, existing use basis.

Particulars of the Group's investment properties are included on page 73 of the annual report.

All the land and buildings in Hong Kong and certain investment properties of the Group were pledged to banks to secure banking facilities (note 25).

13. DEFERRED DEVELOPMENT COSTS

	Group	
	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Cost:		
At beginning of year	11,868	13,969
Additions	1,215	—
Written off	—	(2,162)
Exchange adjustments	29	61
At 31 December	<u>13,112</u>	<u>11,868</u>
Accumulated amortisation:		
At beginning of year	11,868	8,482
Provided during the year	—	3,343
Exchange adjustments	29	43
At 31 December	<u>11,897</u>	<u>11,868</u>
Net book value:		
At 31 December	<u>1,215</u>	<u>—</u>

Notes To Financial Statements

31 December 2000

14. INTERESTS IN SUBSIDIARIES

	Company 2000 HK\$'000
Unlisted shares, at cost	559,088
Due from subsidiaries	11,610
Due to a subsidiary	(307,660)
	<u>263,038</u>

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

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Founder (Hong Kong) Limited	Hong Kong	Ordinary HK\$110,879,989	100%	—	Systems integration and sales of information products
Beijing Founder Electronics Company Limited	People's Republic of China	Registered HK\$130 million	—	100%	Software development, systems integration and sales of information products
Sparkling Idea Limited	British Virgin Islands/ Hong Kong	Ordinary US\$1	—	100%	Investment holding
Founder Systems (B.V.I.) Limited	British Virgin Islands/ Hong Kong	Ordinary US\$1	—	100%	Systems integration and sales of information products
Beijing Founder Order Computer System Company Limited	People's Republic of China	Registered HK\$8 million	—	100%	Software development and systems integration

Notes To Financial Statements

31 December 2000

14. INTERESTS IN SUBSIDIARIES (Continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Royal Bright Limited	Hong Kong	Ordinary HK\$2	—	100%	Property holding
Royal Leader Limited	Hong Kong	Ordinary HK\$2	—	100%	Property holding
Royal Power Limited	Hong Kong	Ordinary HK\$2	—	100%	Property holding
Sharp Century Limited	Hong Kong	Ordinary HK\$2	—	100%	Property holding
True Luck Group Limited	British Virgin Islands	Ordinary US\$1	—	100%	Investment holding
Founder Technology (Canada) Corp.*	Canada	Ordinary CAN\$100	—	100%	Systems integration
PUC Founder (M) Sdn. Bhd.*	Malaysia	Ordinary RM500,000	—	100%	Investment holding
PUC Founder (S) Pte. Ltd.*	Republic of Singapore	Ordinary S\$200,000	—	100%	Systems integration
Founder International Inc.* (formerly known as Founder Inc.)	Japan	Ordinary JP¥62,150,000	—	79.4%	Systems integration
Power Print Inc.*	Japan	Ordinary JP¥400 million	—	52.72% **	Printing
Founder Info Service Limited*	British Virgin Islands	Ordinary US\$2 million	—	75.17% **	Investment holding
Beijing Founder International Co., Limited*	People's Republic of China	Ordinary USD500,000	—	79.4% **	Publishing of magazine
Founder Information Limited *	Taiwan	Ordinary NT\$40 million	—	70%	Systems integration
Hope Information Technology Co., Ltd.*	Taiwan	Ordinary NT\$21,021,730	—	35.7% **	Publishing

Notes To Financial Statements

31 December 2000

14. INTERESTS IN SUBSIDIARIES (Continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Fitan Holding Co. Limited*	Samoa Islands/ Taiwan	Ordinary US\$6 million	—	35.7% **	Investment holding

* not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms

** incorporated during the year

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

15. INTERESTS IN A JOINTLY-CONTROLLED ENTITY

	Group	
	2000 HK\$'000	1999 HK\$'000
Share of net assets	5,463	35,227
Due to a jointly-controlled entity	—	(8,553)
	<u>5,463</u>	<u>26,674</u>

Particulars of the jointly-controlled entity are as follows:

Name	Business structure	Place of incorporation and operations	Percentage of			Principal activities
			Ownership interest	Voting power	Profit sharing	
Beijing PeCan Information System Inc.	PRC equity joint venture	People's Republic of China	30%	30%	30%	Software development and trading of information products

The above investment in a jointly-controlled entity is indirectly held by the Company.

Notes To Financial Statements

31 December 2000

16. INTERESTS IN ASSOCIATES

	Group		Company	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Listed shares in Hong Kong, at cost	—	—	323,692	—
Share of net assets	105,694	—	—	—
Due from associates	11,122	—	—	—
Due to associates	(3,898)	—	—	—
	112,918	—	323,692	—
Market value of listed shares at balance sheet date	388,430	—	388,430	—

The amounts due from/to associates are unsecured, interest-free and have no fixed terms of repayment.

Particulars of the associates are as follows:

Name	Business structure	Place of incorporation/ registration and operations	Percentage of ownership interest attributable to the Group		Principal activities
			2000	1999	
EC-Founder (Holdings) Company Limited	Corporate	Bermuda/ Hong Kong and People's Republic of China	39.45%	—	Design, manufacture and marketing of consumer and industrial electronic products, provision of management services, provision of software solution and e-commerce services
PUC Founder (MSC) Berhad*	Corporate	Malaysia	49%	100%	Provision of computer related software and development services
飛網科技股份有限公司 *	Corporate	Taiwan	16.07%	—	Design of websites and systems integration

* not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms

Except for EC-Founder (Holdings) Company Limited, which is held directly by the Company, the shareholdings in the above associates are held through subsidiaries.

Notes To Financial Statements

31 December 2000

16. INTERESTS IN ASSOCIATES (Continued)

Included in the Group's share of net assets of its associates is the share of net assets of EC-Founder (Holdings) Company Limited, a company listed on the Stock Exchange, which in the opinion of the directors, is material in the context of the Group's financial statements. Further summary details of the consolidated net assets of EC-Founder (Holdings) Company Limited as at 31 December 2000 and of its consolidated results for the year then ended are as follows:

	<i>HK\$'000</i>
Fixed assets	110,387
Interests in associates	32,318
Long term investments	1,075
Deferred development costs	4,980
Current assets	277,124
Current liabilities	(164,512)
Long term liabilities	(4,619)
Minority interests	(3,331)
	<hr/>
Share of net assets	253,422
	<hr/> <hr/>
	<i>HK\$'000</i>
Turnover	258,664
	<hr/> <hr/>
Loss before tax	(36,761)
Tax	(3,075)
	<hr/>
Loss before minority interests	(39,836)
Minority interests	(5)
	<hr/>
Net loss attributable to shareholders	(39,841)
	<hr/> <hr/>

The net consolidated loss attributable to the Group subsequent to 28 September 2000 had been accounted for using the equity method in the Group's financial statements as follows:

	<i>HK\$'000</i>
Share of loss of an associate	(7,288)
Share of tax	(282)
	<hr/>
	(7,570)
	<hr/> <hr/>

Notes To Financial Statements

31 December 2000

17. LONG TERM INVESTMENTS

	Group	
	2000	1999
	HK\$'000	HK\$'000
Unlisted equity investments, at cost	7,273	—
Provision for impairment in values	(5,626)	—
	<u>1,647</u>	<u>—</u>
Unlisted equity investments, at fair value	<u>1,647</u>	<u>—</u>

18. INVENTORIES

	Group	
	2000	1999
	HK\$'000	HK\$'000
Trading stocks	<u>382,864</u>	<u>282,801</u>

The carrying amount of inventories carried at net realisable value included in the above was immaterial.

19. TRADE RECEIVABLES

	Group	
	2000	1999
	HK\$'000	HK\$'000
Trade receivables	<u>345,871</u>	<u>310,840</u>

Notes To Financial Statements

31 December 2000

19. TRADE RECEIVABLES *(Continued)*

Trading terms with customers are largely on credit, except for new customers, where payment in advance is normally required. Invoices are normally payable within 30 to 90 days of issuance. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are regularly reviewed by senior management.

The aged analysis of trade receivables is as follows:

	Group	
	2000	1999
	HK\$'000	HK\$'000
1-6 months	301,043	258,718
7-12 months	28,497	24,848
13-24 months	14,898	26,811
Over 24 months	1,433	463
	345,871	310,840

20. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company
	2000	1999	2000
	HK\$'000	HK\$'000	HK\$'000
Prepayments	85,028	38,952	—
Deposits and other debtors	80,820	38,560	172
	165,848	77,512	172

21. PLEDGED TIME DEPOSITS

	Group	
	2000	1999
	HK\$'000	HK\$'000
Time deposits	42,009	40,000

At 31 December 2000, certain time deposits of the Group were pledged to banks for the banking facilities granted.

Notes To Financial Statements

31 December 2000

22. CASH AND CASH EQUIVALENTS

	Group	
	2000	1999
	<i>HK\$'000</i>	<i>HK\$'000</i>
Cash and bank balances	300,784	251,975
Time deposits	15,772	54,237
	<u>316,556</u>	<u>306,212</u>

23. TRADE PAYABLES

	Group	
	2000	1999
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade payables	<u>287,513</u>	<u>182,572</u>

The aged analysis of trade payables is as follows:

	Group	
	2000	1999
	<i>HK\$'000</i>	<i>HK\$'000</i>
1-6 months	225,791	93,737
7-12 months	60,545	47,664
1-2 years	1,036	34,670
Over 2 years	141	6,501
	<u>287,513</u>	<u>182,572</u>

24. OTHER PAYABLES AND ACCRUALS

	Group		Company
	2000	1999	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Accruals	88,388	56,886	779
Other liabilities	37,163	21,321	—
Trading receipts in advance	109,275	160,584	—
	<u>234,826</u>	<u>238,791</u>	<u>779</u>

Notes To Financial Statements

31 December 2000

25. INTEREST-BEARING BANK BORROWINGS

	Group	
	2000	1999
	HK\$'000	HK\$'000
Bank overdrafts:		
Secured	<u>1,196</u>	<u>302</u>
Bank loans:		
Secured	4,730	5,359
Unsecured	<u>141,420</u>	<u>148,785</u>
	<u>146,150</u>	<u>154,144</u>
Trust receipt loans:		
Secured	<u>14,859</u>	<u>23,050</u>
	<u>162,205</u>	<u>177,496</u>
Bank overdrafts repayable within one year or on demand	<u>1,196</u>	<u>302</u>
Bank loans and trust receipt loans repayable:		
Within one year or on demand	157,017	172,476
In the second year	824	711
In the third to fifth years, inclusive	3,059	2,639
Beyond five years	<u>109</u>	<u>1,368</u>
	<u>161,009</u>	<u>177,194</u>
	162,205	177,496
Portion classified as current liabilities	<u>(158,213)</u>	<u>(172,778)</u>
Long term portion	<u>3,992</u>	<u>4,718</u>

Notes To Financial Statements

31 December 2000

25. INTEREST-BEARING BANK BORROWINGS *(Continued)*

- (a) Certain of the Group's bank loans and overdrafts are secured by:
- (i) Mortgages over certain of the Group's investment properties which had an aggregate carrying value at the balance sheet date of approximately HK\$6,600,000 (1999: HK\$7,880,000).
 - (ii) Mortgages over the Group's land and buildings in Hong Kong which had an aggregate net book value at the balance sheet date of approximately HK\$21,700,000 (1999: HK\$25,300,000).
 - (iii) Charges over the Group's bank balances of approximately HK\$42,009,000 (1999: HK\$40,000,000).
- (b) Approximately HK\$141,420,000 (1999: HK\$140,785,000) of the Group's unsecured bank loans at the balance sheet date were guaranteed by Peking University Founder Group Corporation ("Peking Founder"), a substantial shareholder of the Group.

26. DEFERRED TAX

The principal components of the Group's deferred tax asset not recognised in the financial statements are as follows:

	Not provided	
	2000	1999
	HK\$'000	HK\$'000
Accelerated depreciation allowances	—	234
Tax losses	16,199	19,371
	16,199	19,605

The revaluation of the Group's investment properties does not constitute a timing difference and, consequently, the amount of potential deferred tax thereon has not been quantified.

Notes To Financial Statements

31 December 2000

27. SHARE CAPITAL

Shares

	Company 2000 HK\$'000
Authorised:	
1,600,000,000 ordinary shares of HK\$0.10 each	<u>160,000</u>
Issued and fully paid:	
1,123,799,893 ordinary shares of HK\$0.10 each	<u>112,380</u>

The following changes in the Company's ordinary share capital took place between 24 September 1999 (date of incorporation) and 31 December 2000:

- (a) On incorporation, the Company had an authorised share capital of HK\$100,000 divided into 1,000,000 shares of HK\$0.10 each, all of which were allotted and issued nil paid on 27 September 1999.
- (b) On 31 March 2000, the authorised share capital of the Company was increased to HK\$160,000,000 by the creation of 1,599,000,000 additional shares of HK\$0.10 each ranking pari passu with the then existing shares in all respects.
- (c) On 31 March 2000, pursuant to the Group reorganisation, the Company (i) allotted and issued 1,107,799,893 new shares of HK\$0.10 each credited as fully paid and (ii) credited as fully paid at par of the 1,000,000 shares allotted and issued at nil paid as set out in (a) above, in consideration for the acquisition of the entire issued share capital of FHK.
- (d) The subscription rights attaching to 15,000,000 share options were exercised at the subscription price of HK\$1.944 per share, resulting in the issue a total of 15,000,000 ordinary shares of HK\$0.10 each for a total cash consideration, before expenses, of approximately HK\$29,160,000.

Notes To Financial Statements

31 December 2000

27. SHARE CAPITAL (Continued)

A summary of the transactions during the year with reference to the above movements of the Company's authorised and issued share capital is as follows:

	Number of shares authorised	Number of shares issued	Nominal value of shares issued <i>HK\$'000</i>
Shares issued nil paid on incorporation	1,000,000	1,000,000	100
Increase in authorised share capital	1,599,000,000	—	—
Shares issued in consideration for the acquisition of 100% interest in the issued share capital of FHK	—	1,107,799,893	110,780
Shares issued on exercise of options	—	15,000,000	1,500
	<u>1,600,000,000</u>	<u>1,123,799,893</u>	<u>112,380</u>

The issued share capital of FHK outstanding at the time of Group reorganisation included 1,108,799,893 ordinary shares of HK\$0.10 each.

The comparative share capital of HK\$110,865,000 shown in the consolidated balance sheet represents the share capital of FHK, the then holding company of the Group prior to the Group reorganisation. The amount represented 1,108,649,893 ordinary shares of HK\$0.10 each.

Notes To Financial Statements

31 December 2000

27. SHARE CAPITAL (Continued)

Share options

On 7 December 1995, FHK adopted a share option scheme (the "Scheme") under which the directors may, at their discretion, grant options to directors and employees of the Company and its subsidiaries to subscribe for shares in FHK. The maximum number of shares in respect of which options may be granted may not exceed 10% of the share capital of FHK in issue from time to time. The Scheme will remain in force for a period of 10 years from the date of its adoption. The Scheme was cancelled and replaced by the share option scheme of the Company with same terms with effect from 31 March 2000 pursuant to the Group reorganisation.

Movements in share options to subscribe for ordinary shares in the Company during the year are as follows:

At beginning of year	Exercised on 10 January 2000	Exercised on 2 March 2000	Exercised on 28 June 2000	Lapsed on 30 March 2000	At 31 December 2000	Exercise price	Exercise period
20,160,000	—	—	—	—	20,160,000	HK\$1.397	21 December 1998 to 6 December 2005
1,050,600	(50,000)	(100,000)	—	(600)	900,000	HK\$0.912	16 April 1999 to 6 December 2005
25,000,000	—	—	(15,000,000)	—	10,000,000	HK\$1.944	1 November 1999 to 6 December 2005
<u>46,210,600</u>	<u>(50,000)</u>	<u>(100,000)</u>	<u>(15,000,000)</u>	<u>(600)</u>	<u>31,060,000</u>		

The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of additional 31,060,000 ordinary shares of HK\$0.10 each for a total cash consideration of HK\$48,424,320 before the related issue expenses.

Notes To Financial Statements

31 December 2000

28. RESERVES

Group

	Share premium account <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Goodwill reserve <i>HK\$'000</i>	Land and buildings revaluation reserve <i>HK\$'000</i>	Exchange fluctuation reserve <i>HK\$'000</i>	General reserve <i>HK\$'000</i>	Retained profits/ (accumulated losses) <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 1999	506,153	—	—	—	601	833	38,838	46,244	592,669
Issue of shares	360,885	—	—	—	—	—	—	—	360,885
Share issue expenses	(65)	—	—	—	—	—	—	—	(65)
Goodwill on acquisition	—	—	—	(284,760)	—	—	—	—	(284,760)
Loss for the year	—	—	—	—	—	—	—	(223,071)	(223,071)
Exchange realignments	—	—	—	—	—	1,324	—	—	1,324
At 31 December 1999	866,973	—	—	(284,760)	601	2,157	38,838	(176,827)	446,982
and beginning of year	866,973	—	—	(284,760)	601	2,157	38,838	(176,827)	446,982
Issue of shares	27,781	—	—	—	—	—	—	—	27,781
Arising on Group reorganisation	(867,094)	867,094	—	—	—	—	—	—	—
Transfer	—	(284,760)	—	284,760	—	—	—	—	—
Profit for the year	—	—	—	—	—	—	—	181,006	181,006
Transfer to general reserve	—	—	—	—	—	—	4,028	(4,028)	—
Transfer to capital reserve	—	—	62,680	—	—	—	—	(62,680)	—
Exchange realignments	—	—	—	—	—	296	—	—	296
31 December 2000	<u>27,660</u>	<u>582,334</u>	<u>62,680</u>	<u>—</u>	<u>601</u>	<u>2,453</u>	<u>42,866</u>	<u>(62,529)</u>	<u>656,065</u>
Reserves retained by:									
Company and subsidiaries	27,660	582,334	62,680	—	601	2,293	42,866	(59,530)	658,904
Jointly-controlled entities	—	—	—	—	—	85	—	3,782	3,867
Associates	—	—	—	—	—	75	—	(6,781)	(6,706)
31 December 2000	<u>27,660</u>	<u>582,334</u>	<u>62,680</u>	<u>—</u>	<u>601</u>	<u>2,453</u>	<u>42,866</u>	<u>(62,529)</u>	<u>656,065</u>
Company and subsidiaries	866,973	—	—	(284,760)	601	2,087	38,838	(179,164)	444,575
Jointly-controlled entities	—	—	—	—	—	70	—	2,337	2,407
Associates	—	—	—	—	—	—	—	—	—
31 December 1999	<u>866,973</u>	<u>—</u>	<u>—</u>	<u>(284,760)</u>	<u>601</u>	<u>2,157</u>	<u>38,838</u>	<u>(176,827)</u>	<u>446,982</u>

The contributed surplus of the Group originally represented the difference between the nominal value of the shares and the share premium account of FHK acquired pursuant to the Group reorganisation, over the nominal value of the Company's shares issued in exchange therefor.

The capital reserve of the Group arose from the increase in non-distributable reserve of a subsidiary.

Notes To Financial Statements

31 December 2000

28. RESERVES (Continued)

In accordance with the relevant PRC regulations, each of the Group's PRC subsidiaries and jointly-controlled entities is required to transfer not less than 10% of its profit after tax, as determined in accordance with PRC accounting standards and regulations, to a general reserve until such reserve reaches 50% of its registered capital. The quantum of the annual transfer is subject to the approval of the board of directors of the PRC subsidiaries and jointly-controlled entities in accordance with their articles of association.

During the year, a PRC subsidiary transferred approximately RMB4.26 million (HK\$4 million), which represented 50% of its registered capital, to the general reserve.

Company

	Share premium account	Contributed surplus	Accumulated losses	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Arising on Group reorganisation	—	448,209	—	448,209
Issue of shares	27,660	—	—	27,660
Loss for the year	—	—	(2,126)	(2,126)
	<u>27,660</u>	<u>448,209</u>	<u>(2,126)</u>	<u>473,743</u>

The contributed surplus of the Company represents the excess of the fair value of the shares of FHK acquired pursuant to the Group reorganisation over the nominal value of the Company's shares issued in exchange therefor. Under the Companies Act 1981 of Bermuda (as amended), the Company may make distributions to its members out of contributed surplus in certain circumstances.

Notes To Financial Statements

31 December 2000

29. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit/(loss) from operating activities to net cash outflow from operating activities

	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Profit/(loss) from operating activities	193,739	(218,501)
Interest income	(6,819)	(4,412)
Gain on disposal of subsidiaries	(79,116)	—
Gain on deemed disposal of a subsidiary	(62,680)	—
Gain on partial disposal of a subsidiary	(3,452)	—
Loss on disposal of branch operations	8,249	—
Loss on disposal of a jointly-controlled entity	3,398	—
Depreciation	18,675	41,676
Loss/(gain) on disposal of fixed assets	(6,145)	4,785
Revaluation deficits of land and buildings	2,582	10,978
Revaluation deficits of investment properties	2,280	5,440
Amortisation of deferred development costs	—	3,343
Write off of deferred development costs	—	2,162
Provision for diminution in value of a long term investment	5,626	—
Decrease in tax recoverable	367	—
Increase in inventories	(102,368)	(19,838)
Decrease/(increase) in trade receivables	(46,963)	13,315
Decrease/(increase) in prepayments	(47,033)	17,071
Decrease/(increase) in deposits and other debtors	(48,034)	10,207
Increase/(decrease) in trade payables	106,377	(4,863)
Increase in accruals	32,885	15,851
Increase/(decrease) in other liabilities	58,628	(13,951)
Increase/(decrease) in trading receipts in advance	(49,807)	82,655
Decrease in trust receipt loans	(8,191)	(108,101)
Exchange differences	(837)	637
	<hr/>	<hr/>
Net cash outflow from operating activities	(28,639)	(161,546)

Notes To Financial Statements

31 December 2000

29. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

(b) Analysis of changes in financing during the year

	Share capital (including share premium) <i>HK\$'000</i>	Bank loans (with maturity of over 3 months) <i>HK\$'000</i>	Minority interests <i>HK\$'000</i>
Balance at 1 January 1999	586,140	13,336	—
Cash inflow from financing activities, net	71,698	140,182	2,683
Issue of ordinary shares for acquisition of a subsidiary	320,000	—	—
Share of losses after tax of subsidiaries	—	—	(259)
Exchange differences	—	626	—
Balance at 31 December 1999 and beginning of year	977,838	154,144	2,424
Cash inflow/(outflow) from financing activities, net	29,296	(7,804)	96,249
Interests acquired by minority interests	—	—	881
Share of losses after tax of subsidiaries	—	—	(2,701)
Share of exchange reserve of subsidiaries	—	—	(161)
Deemed disposal of a subsidiary	—	—	(62,680)
Disposal of subsidiaries	—	—	(4,390)
Transfer to contributed surplus	(867,094)	—	—
Exchange differences	—	(190)	—
Balance at 31 December 2000	<u>140,040</u>	<u>146,150</u>	<u>29,622</u>

Notes To Financial Statements

31 December 2000

29. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(c) Acquisition of a subsidiary

	1999 HK\$'000
Net assets acquired:	
Cash and bank balances	35,240
Goodwill on acquisition	<u>284,760</u>
	<u><u>320,000</u></u>
Satisfied by:	
Issue of shares	<u><u>320,000</u></u>

Analysis of the net inflow of cash and cash equivalents in respect of the acquisition of the subsidiary:

	1999 HK\$'000
Cash consideration	—
Cash and bank balances acquired	<u>35,240</u>
Net inflow of cash and cash equivalents in respect of the acquisition of a subsidiary	<u><u>35,240</u></u>

The subsidiary acquired in 1999 contributed approximately HK\$89,284,000 to turnover and approximately a profit of HK\$9,262,000 to the consolidated loss after tax for the year ended 31 December 1999.

In respect of cash flows, the subsidiary acquired in 1999 paid approximately HK\$9,618,000 to the Group's net operating cash flows, contributed approximately HK\$48,000 to the net returns on investments and servicing of finance, paid approximately HK\$11,101,000 in respect of the net investing activities, and contributed approximately HK\$35,243,000 to financing activities, but had no significant impact in respect of tax.

Notes To Financial Statements

31 December 2000

29. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(d) Disposal of subsidiaries

	2000 HK\$'000
Net assets disposed of:	
Fixed assets	6,920
Interests in associates	10,839
Cash and bank balances	31,223
Trade receivables	261
Inventories	552
Prepayments and other receivables	5,013
Accounts payable and other accrued liabilities	(44,852)
Minority interests	(4,390)
	<u>5,566</u>
Gain on disposal	<u>79,116</u>
	<u>84,682</u>
Satisfied by:	
Cash	210
Shares	84,472
	<u>84,682</u>

Analysis of the net inflow of cash and cash equivalents in respect of the disposal of subsidiaries:

	2000 HK\$'000
Cash consideration	210
Cash and bank balances disposed of	(31,223)
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	<u>(31,013)</u>

The subsidiaries disposed of in 2000 contributed approximately HK\$3,953,000 to the turnover and approximately HK\$11,605,000 loss to the consolidated profit after tax for the year ended 31 December 2000.

In respect of cash flows, the subsidiaries disposed of in 2000 contributed approximately HK\$15,237,000 to the Group's net operating cash flow, contributed approximately HK\$10,271,000 in respect of net returns on investments and servicing of finance, paid approximately HK\$16,864,000 for investing activities, contributed approximately HK\$22,255,000 in respect of financing activities and had no significant impact in respect of tax.

Notes To Financial Statements

31 December 2000

29. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(e) Disposal of branch operations

	2000 HK\$'000
Net assets disposed of:	
Fixed assets	1,341
Cash and bank balances	3,105
Trade receivables	11,671
Inventories	1,753
Prepayments and other receivables	1,718
Accounts payable and other accrued liabilities	<u>(2,255)</u>
	17,333
Loss on disposal of branch operations	<u>(8,249)</u>
	9,084
	<u>9,084</u>
Satisfied by:	
Cash	<u>9,084</u>

Analysis of the net inflow of cash and cash equivalents in respect of the disposal of branch operations:

	2000 HK\$'000
Cash consideration	9,084
Cash and bank balances disposed of	<u>(3,105)</u>
Net inflow of cash and cash equivalents in respect of the disposal of branch operations	<u>5,979</u>

The branch operations disposed of in 2000 had no significant impact on the cash flows, the turnover and the consolidated profit after tax for the year ended 31 December 2000.

Notes To Financial Statements

31 December 2000

30. CONTINGENT LIABILITIES

At the balance sheet date, contingent liabilities not provided for in the financial statements were as follows:

	Company 2000 HK\$'000
Guarantees given to banks in connection with facilities granted to subsidiaries	<u>42,000</u>

As at 31 December 2000, the guarantees given to banks in connection with facilities granted to subsidiaries by the Company were fully utilised.

31. COMMITMENTS

Commitments under operating leases

At 31 December 2000, the Group had commitments under non-cancellable operating leases to make payments in the following year as follows:

	Group	
	2000	1999
	HK\$'000	HK\$'000
Land and buildings expiring:		
Within one year	2,424	3,434
In the second to fifth years, inclusive	4,229	6,954
After five years	14,142	15,377
	<u>20,795</u>	<u>25,765</u>

Save as disclosed above, at the balance sheet date, the Company and the Group had no other significant commitments.

Notes To Financial Statements

31 December 2000

32. RELATED PARTY TRANSACTIONS

The Group had the following transactions with related parties during the year:

		Group	
		2000	1999
	Notes	HK\$'000	HK\$'000
Rental expenses paid to Peking Founder	(i)	14,142	14,088
Research and development fees paid to Peking Founder	(i)	—	4,039
Sales of stocks to a jointly-controlled entity	(ii)	—	5,824
Sales of stocks to associates	(ii)	48,402	—
Purchases of stocks from a jointly-controlled entity	(iii)	—	8,739
Bank guarantee given by Peking Founder	(iv)	141,420	140,785

Notes:

- (i) The expenses were paid in accordance with the terms of the agreements governing such transactions.
- (ii) The sales of stocks were made according to the published prices and conditions similar to those offered to other customers of the Group.
- (iii) The directors consider that the purchases of stocks were made according to the published prices and conditions similar to those offered to other customers of the supplier.
- (iv) The guarantee is given to PRC banks for the loans granted to a subsidiary.

33. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 24 April 2001.