

NOTES TO FINANCIAL STATEMENTS

31 December 2001

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
- distribution of information products

2. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPs")

The following recently issued and revised SSAPs and related Interpretations are effective for the first time for the current year's consolidated financial statements:

- SSAP 9 (Revised): "Events after the balance sheet date"
- SSAP 14 (Revised): "Leases"
- SSAP 18 (Revised): "Revenue"
- SSAP 26: "Segment reporting"
- SSAP 28: "Provisions, contingent liabilities and contingent assets"
- SSAP 29: "Intangible assets"
- SSAP 30: "Business combinations"
- SSAP 31: "Impairment of assets"
- SSAP 32: "Consolidated financial statements and accounting for investments in subsidiaries"
- Interpretation 12: "Business combinations — subsequent adjustment of fair values and goodwill initially reported"
- Interpretation 13: "Goodwill — continuing requirements for goodwill and negative goodwill previously eliminated against/credited to reserves"

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2. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPs")

(continued)

These SSAPs prescribe new accounting measurement and disclosure practices. The major effects on the Group's accounting policies and on the amounts disclosed in these financial statements of those SSAPs and Interpretations which have had a significant effect on the financial statements, are summarised as follows:

SSAP 9 (Revised) prescribes which type of events occurring after the balance sheet date require adjustment to the financial statements and which require disclosure, but no adjustment. The SSAP requires that the proposed final dividend which is not declared and approved until after the balance sheet date, is no longer recognised as a liability at the balance sheet date, but is disclosed as an allocation of retained earnings on a separate line within the capital and reserves section of the balance sheet.

SSAP 14 (Revised) prescribes the basis for lessor and lessee accounting for finance and operating leases, and the required disclosures in respect thereof. Certain amendments have been made to the previous accounting measurement treatments, which may be accounted for retrospectively or prospectively, in accordance with the requirements of the SSAP. The revised SSAP requirements have not had a material effect on the amounts previously recorded in the financial statements, therefore no prior year adjustment has been required. The disclosure changes under this SSAP have resulted in changes to the detailed information disclosed for finance leases and operating leases, which are further detailed in note 34 to the financial statements.

SSAP 18 (Revised) prescribes the recognition of revenue and was revised as a consequence of the revision to SSAP 9 described above. Proposed final dividends from subsidiaries that are declared and approved by the subsidiaries after the balance sheet date are no longer recognised in the Company's own financial statements for the year.

SSAP 26 prescribes the principles to be applied for reporting financial information by segment. It requires that management assesses whether the Group's predominant risks or returns are based on business segments or geographical segments and determines one of these bases to be the primary segment information reporting format, with the other as the secondary segment information reporting format. The impact of this SSAP is the inclusion of significant additional segment reporting disclosures which are set out in note 4 to the financial statements.

SSAP 28 prescribes the recognition criteria and measurement bases to apply to provisions, contingent liabilities and contingent assets, together with the required disclosures in respect thereof.

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2. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE (“SSAPs”)

(continued)

SSAP 29 prescribes the recognition and measurement criteria for intangible assets, together with the disclosure requirements. The adoption of this SSAP has resulted in no change to the previously adopted accounting treatment for intangible assets and the additional disclosures that it requires have not been significant for these financial statements. The SSAP does, however, require that impairment losses on intangible assets are aggregated with the accumulated amortisation (see note 14), whereas previously they were deducted from the cost of the relevant asset. This disclosure reclassification has had no effect on the net carrying amount of intangible assets in the balance sheet.

SSAP 30 prescribes the accounting treatment for business combinations, including the determination of the date of acquisition, the method for determining the fair values of the assets and liabilities acquired, and the treatment of goodwill or negative goodwill arising on acquisition. The SSAP requires the disclosures of goodwill in the non-current assets section of the consolidated balance sheet. It requires that goodwill is amortised to the consolidated profit and loss account over its estimated useful life. Interpretation 13 prescribes the application of SSAP 30 to goodwill arising from acquisitions in previous years which remains eliminated against consolidated reserves. The adoption of the SSAP and Interpretation has not resulted in a prior year adjustment, for the reasons detailed in note 15 to the financial statements. The required new additional disclosures are included in notes 15, 16 and 31 to the financial statements.

SSAP 31 prescribes the recognition and measurement criteria for impairments of assets. The SSAP is required to be applied prospectively and therefore, has had no effect on amounts previously reported in prior year financial statements.

SSAP 32 prescribes the accounting treatment and disclosures for the preparation and presentation of consolidated financial statements, and has had no impact on the preparation of these financial statements.

In addition to the above new and revised SSAPs and related Interpretations, certain minor revisions to the following SSAPs are effective for the first time for the current year’s financial statements:

- SSAP 10: “Accounting for investments in associates”
- SSAP 17: “Property, plant and equipment”
- SSAP 21: “Accounting for interests in joint ventures”

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, land and buildings and equity investments, as further explained below.

NOTES TO FINANCIAL STATEMENTS

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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 2001. 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. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Subsidiaries

A subsidiary is a company whose financial and operating policies are under the Company's controls, directly or indirectly, so as to obtain benefits from its activities.

The Company's interests in subsidiaries are stated at cost less any impairment losses.

Jointly-controlled entities

A joint venture company is a company set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture company operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture company's operations and any distributions of surplus assets are shared by the venturers in proportion to their respective capital contributions.

A jointly-controlled entity is a joint venture company which is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

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 impairment losses.

Associates

An associate is a company, not being a subsidiary or a jointly-controlled entity, 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2001

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

Associates *(continued)*

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 impairment losses.

The results of associates of the Company 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 treated as long term assets and are stated at cost less any impairment losses.

Goodwill

Goodwill arising on the acquisition of subsidiaries, associates and jointly-controlled entities represents the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life. In the case of associates and jointly-controlled entities, any unamortised goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

In prior years, goodwill arising on acquisitions was eliminated against consolidated reserves in the year of acquisition. The Group has adopted the transitional provision of SSAP 30 that permits goodwill on acquisitions which occurred prior to 1 January 2001, to remain eliminated against consolidated reserves. Goodwill on subsequent acquisitions is treated according to the new accounting policy above.

On disposal of subsidiaries, associates or jointly-controlled entities, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate. Any attributable goodwill previously eliminated against consolidated reserves at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

The carrying amount of goodwill, including goodwill remaining eliminated against consolidated reserves, is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

NOTES TO FINANCIAL STATEMENTS

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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.

Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated at the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years.

A reversal of an impairment loss is credited to the profit and loss account for the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Fixed assets and depreciation

Fixed assets, other than investment properties, are stated at cost or valuation less accumulated depreciation and any impairment losses. 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 that asset.

NOTES TO FINANCIAL STATEMENTS

31 December 2001

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

Fixed assets and depreciation *(continued)*

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.

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 lease terms |
| Leasehold improvements | 20% or over the lease terms, whichever is shorter |
| Furniture, fixtures and equipment | 10% — 33 $\frac{1}{3}$ % |
| 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.

Intangible assets

Trademark

Purchased trademark is stated at cost less any impairment losses and is amortised on the straight-line basis over its estimated useful life of 5 years.

NOTES TO FINANCIAL STATEMENTS

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

Intangible assets *(continued)*

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 stated at cost less any impairment losses and 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.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets and rental receivable under the operating leases are credited to the profit and loss account on the straight-line basis over the lease terms. When the Group is the lessee, rental payable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

Long term investments

Long term investments are equity securities intended to be held on a long term basis. The investments are stated at their estimated fair values as determined by the directors, on an individual basis.

Short term investments

Short term investments are investments in equity securities held for trading purposes and are stated at their fair values on the basis of their quoted market prices at the balance sheet date, on an individual investment basis. The gains or losses arising from changes in the fair value of a security are credited or charged to the profit and loss account in the period in which they arise.

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.

NOTES TO FINANCIAL STATEMENTS

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

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.

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.

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) from 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) from 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.

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.

NOTES TO FINANCIAL STATEMENTS

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

Foreign currencies *(continued)*

On consolidation, the financial statements of overseas subsidiaries, jointly-controlled entities and associates are translated into 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.

Retirement benefits scheme

The Group operates defined contribution retirement benefits schemes under the Mandatory Provident Fund Schemes Ordinance for all those employees who are eligible to participate in the schemes. 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 schemes are held separately from those of the Group in independently administered funds.

When an employee leaves the Mandatory Provident Fund Exempted Occupational Retirement Schemes Ordinance retirement benefits scheme prior to his/her interest in the Group's employer contributions vesting fully, the ongoing contributions payable by the Group will be reduced by the relevant amount of forfeited employer's contributions. In respect to the Mandatory Provident Fund retirement benefits scheme, the Group's employer mandatory 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.

The employees of the Group's subsidiaries which operate in the People's Republic of China (the "PRC") are required to participate in a central pension scheme operated by the local municipal 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.

4. SEGMENT INFORMATION

SSAP 26 was adopted during the year, as detailed in note 2 to these financial statements. Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

NOTES TO FINANCIAL STATEMENTS

31 December 2001

4. SEGMENT INFORMATION *(continued)*

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of other business segments. Summary details of the business segments are as follows:

- (a) the software development and systems integration for media business segment provides electronic publishing systems to media companies.
- (b) the software development and systems integration for non-media business segment provides banking and information systems to banks and financial institutions.
- (c) the distribution of information products segment relates to the distribution of computer hardware.

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then current market prices.

NOTES TO FINANCIAL STATEMENTS

31 December 2001

4. SEGMENT INFORMATION (continued)

a) Business segments

The following tables present revenue, profit/(loss) and certain assets, liabilities, amortisation, depreciation, impairment loss and capital expenditure information for the Group's business segments.

| Group | Software development and systems integration for media business | | Software development and systems integration for non-media business | | Distribution of information products | | Corporate and others | | Consolidated | |
|---|---|----------------|---|----------------|--------------------------------------|-----------------|----------------------|-----------------|------------------|------------------|
| | 2001 | 2000 | 2001 | 2000 | 2001 | 2000 | 2001 | 2000 | 2001 | 2000 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Segment revenue: | | | | | | | | | | |
| Sales to external customers | <u>530,111</u> | <u>645,971</u> | <u>243,793</u> | <u>586,189</u> | <u>895,776</u> | <u>855,461</u> | <u>203</u> | <u>232</u> | <u>1,669,883</u> | <u>2,087,853</u> |
| Segment results | <u>(53,682)</u> | <u>109,211</u> | <u>(172,106)</u> | <u>115,679</u> | <u>(77,324)</u> | <u>(16,363)</u> | <u>(53,103)</u> | <u>(21,607)</u> | <u>(356,215)</u> | 186,920 |
| Interest income | | | | | | | | | <u>3,159</u> | <u>6,819</u> |
| Profit/(loss) from operating activities | | | | | | | | | <u>(353,056)</u> | 193,739 |
| Finance costs | | | | | | | | | <u>(12,104)</u> | (9,065) |
| Share of profits less losses of: | | | | | | | | | | |
| Jointly-controlled entity | | | | | | | | | <u>1,371</u> | 1,445 |
| Associates | | | | | | | | | <u>(27,962)</u> | (6,499) |
| Profit/(loss) before tax | | | | | | | | | <u>(391,751)</u> | 179,620 |
| Tax | | | | | | | | | <u>(1,539)</u> | <u>(1,315)</u> |
| Profit/(loss) before minority interests | | | | | | | | | <u>(393,290)</u> | 178,305 |
| Minority interests | | | | | | | | | <u>9,324</u> | <u>2,701</u> |
| Net profit/(loss) from ordinary activities attributable to shareholders | | | | | | | | | <u>(383,966)</u> | <u>181,006</u> |

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4. SEGMENT INFORMATION (continued)

a) Business segments (continued)

| Group | Software development and systems integration for media business | | Software development and systems integration for non-media business | | Distribution of information products | | Eliminations | | Consolidated | |
|---|---|----------|---|----------|--------------------------------------|----------|------------------|-----------|------------------|-----------|
| | 2001 | 2000 | 2001 | 2000 | 2001 | 2000 | 2001 | 2000 | 2001 | 2000 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Segment assets | 794,467 | 930,387 | 256,087 | 278,629 | 213,290 | 333,576 | (290,025) | (187,972) | 973,819 | 1,354,620 |
| Interests in associates | 6,808 | 8,698 | — | — | — | — | — | — | 81,273 | 112,918 |
| Interest in a jointly-controlled entity | 6,834 | 5,463 | — | — | — | — | — | — | 6,834 | 5,463 |
| Unallocated assets | — | — | — | — | — | — | — | — | 34,033 | 11,112 |
| Total assets | 808,109 | 944,548 | 256,087 | 278,629 | 213,290 | 333,576 | (290,025) | (187,972) | 1,095,959 | 1,484,113 |
| Segment liabilities | 297,789 | 442,494 | 270,216 | 119,669 | 239,504 | 314,960 | (325,089) | (330,086) | 482,420 | 547,037 |
| Unallocated liabilities | — | — | — | — | — | — | — | — | 179,353 | 139,009 |
| Total liabilities | 297,789 | 442,494 | 270,216 | 119,669 | 239,504 | 314,960 | (325,089) | (330,086) | 661,773 | 686,046 |
| Other segment information: | | | | | | | | | | |
| Amortisation | 959 | — | — | — | — | — | — | — | 959 | — |
| Depreciation | 17,163 | 14,589 | 5,120 | 3,536 | 908 | 550 | — | — | 23,191 | 18,675 |
| Impairment loss recognised in the profit and loss account | — | — | — | — | — | — | — | — | 30,295 | — |
| Capital expenditure | 15,858 | 34,150 | 8,102 | 9,789 | 2,667 | 3,652 | — | — | 26,627 | 47,591 |

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4. SEGMENT INFORMATION (continued)

b) Geographical segments

The following tables present revenue, profit/(loss) and certain assets and capital expenditure information for the Group's geographical segments.

| Group | Hong Kong | | Elsewhere in the PRC | | Overseas | | Corporate and others | | Eliminations | | Consolidated | |
|-----------------------------|----------------|----------|-------------------------|-----------|-----------------|----------|-------------------------|----------|------------------|-----------|------------------|-----------|
| | 2001 | 2000 | 2001 | 2000 | 2001 | 2000 | 2001 | 2000 | 2001 | 2000 | 2001 | 2000 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Segment revenue: | | | | | | | | | | | | |
| Sales to external customers | 249,089 | 194,397 | 1,333,766 | 1,829,998 | 86,825 | 63,226 | 203 | 232 | — | — | 1,669,883 | 2,087,853 |
| Intersegment sales | 434,983 | 607,328 | — | — | — | — | — | — | (434,983) | (607,328) | — | — |
| | 684,072 | 801,725 | 1,333,766 | 1,829,998 | 86,825 | 63,226 | 203 | 232 | (434,983) | (607,328) | 1,669,883 | 2,087,853 |
| Segment results | (7,994) | (13,338) | (266,832) | 187,259 | (25,127) | 41,425 | (53,103) | (21,607) | | | (353,056) | 193,739 |
| Other segment information: | | | | | | | | | | | | |
| Segment assets | | | | | 276,729 | 429,256 | 713,677 | 945,976 | 105,553 | 108,881 | 1,095,959 | 1,484,113 |
| Capital expenditure | | | | | 835 | 1,091 | 18,267 | 35,901 | 7,525 | 10,599 | 26,627 | 47,591 |

NOTES TO FINANCIAL STATEMENTS

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5. TURNOVER, REVENUE AND GAINS

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, other revenue and gains is as follows:

| | Group | |
|---|-------------------------|------------------|
| | 2001 | 2000 |
| | HK\$'000 | HK\$'000 |
| Turnover | | |
| Software development and systems integration | 773,904 | 1,232,160 |
| Distribution of information products | 895,776 | 855,461 |
| Corporate and others | 203 | 232 |
| | <u>1,669,883</u> | <u>2,087,853</u> |
| Other revenue | | |
| Rental income | 1,439 | 1,995 |
| Interest income | 3,159 | 6,819 |
| Others | 26,112 | 14,134 |
| | <u>30,710</u> | <u>22,948</u> |
| Gains | | |
| Gain on disposal of fixed assets | — | 6,145 |
| Gain on disposal of subsidiaries | — | 79,116 |
| Gain on deemed partial disposal of a subsidiary | 2,074 | 62,680 |
| Gain on partial disposal of a subsidiary | — | 3,452 |
| Others | 6,359 | 19,267 |
| | <u>8,433</u> | <u>170,660</u> |
| | <u>1,709,026</u> | <u>2,281,461</u> |

NOTES TO FINANCIAL STATEMENTS

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6. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

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

| | 2001 | Group |
|---|------------------|-----------------|
| | HK\$'000 | 2000 |
| | | HK\$'000 |
| Amortisation of trademark* | 959 | — |
| Auditors' remuneration | 2,300 | 2,300 |
| Cost of inventories sold | 1,371,640 | 1,589,102 |
| Cost of services provided | 15,449 | 9,273 |
| Depreciation | 23,191 | 18,675 |
| Impairment of goodwill | 30,295 | — |
| Loss/(gain) on disposal of fixed assets | 1,395 | (6,145) |
| Loss on disposal of branch operations | — | 8,249 |
| Loss on disposal of a jointly-controlled entity | — | 3,398 |
| Minimum lease payments under operating leases in respect of land and buildings | 40,362 | 29,073 |
| Revaluation deficits — land and buildings | 2,790 | 2,582 |
| Revaluation deficits — investment properties | 2,250 | 2,280 |
| Impairment of a long term investment | 1,647 | 5,626 |
| Provisions and write-off of doubtful trade debts | 22,085 | 8,939 |
| Provisions and write-off of obsolete stock | 83,931 | 8,125 |
| Research and development costs: | | |
| Current year expenditure | 29,954 | 24,576 |
| Deferred expenditure written off | 1,215 | — |
| | 31,169 | 24,576 |
| Staff costs (including directors' remuneration — note 8): | | |
| Wages and salaries | 197,065 | 142,202 |
| Pension contributions | 7,144 | 7,170 |
| Less: Forfeited contributions** | (48) | (206) |
| | 204,161 | 149,166 |
| Exchange losses/(gains), net | (1,414) | 15 |
| Loss/(gain) on disposal of subsidiaries | 55 | (79,116) |
| Gain on deemed partial disposal of a subsidiary | (2,074) | (62,680) |
| Gain on partial disposal of a subsidiary | — | (3,452) |
| Interest income | (3,159) | (6,819) |
| Net rental income | (1,439) | (1,995) |
| Unrealised gains on revaluation of short term investments | (52) | — |

* The amortisation of trademark for the year is included in "Cost of sales" on the face of the consolidated profit and loss account.

** At 31 December 2001, 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 2001

7. FINANCE COSTS

| | Group | |
|---------------------------------------|----------------------|--------------|
| | 2001 | 2000 |
| | HK\$'000 | HK\$'000 |
| Interest on bank loans and overdrafts | <u>12,104</u> | <u>9,065</u> |

8. DIRECTORS' REMUNERATION

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

| | Group | |
|---|---------------------|--------------|
| | 2001 | 2000 |
| | HK\$'000 | HK\$'000 |
| Fees | <u>1,054</u> | <u>824</u> |
| Other emoluments: | | |
| Salaries, allowances and benefits in kind | 1,346 | 1,163 |
| Pension scheme contributions | <u>40</u> | <u>40</u> |
| | <u>1,386</u> | <u>1,203</u> |
| | <u>2,440</u> | <u>2,027</u> |

Fees include HK\$264,000 (2000: 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 (2000: Nil).

The remuneration of the directors fell within the following band:

| | Number of directors | |
|---------------------|----------------------------|----------|
| | 2001 | 2000 |
| Nil — HK\$1,000,000 | <u>9</u> | <u>8</u> |

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

NOTES TO FINANCIAL STATEMENTS

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9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two (2000: one) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining three (2000: four) non-director, highest paid employees are as follows:

| | Group | |
|---|---------------------|-----------------|
| | 2001 | 2000 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Salaries, allowances and benefits in kind | 2,743 | 3,162 |
| Pension scheme contributions | 67 | 43 |
| | <u>2,810</u> | <u>3,205</u> |

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

| | Number of employees | |
|-------------------------------|----------------------------|----------|
| | 2001 | 2000 |
| Nil — HK\$1,000,000 | 2 | 3 |
| HK\$1,500,001 — HK\$2,000,000 | 1 | 1 |
| | <u>3</u> | <u>4</u> |

10. TAX

| | Group | |
|---|---------------------|-----------------|
| | 2001 | 2000 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Group: | | |
| Outside Hong Kong | 974 | 1,033 |
| Share of tax attributable to associates | 565 | 282 |
| | <u>1,539</u> | <u>1,315</u> |
| Tax charge for the year | | |

NOTES TO FINANCIAL STATEMENTS

31 December 2001

10. TAX (continued)

No Hong Kong profits tax has been provided as no assessable profits are arising in Hong Kong 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 (2000: Nil).

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

The net loss from ordinary activities attributable to shareholders for the year ended 31 December 2001 dealt with in the financial statements of the Company is approximately HK\$195,594,000 (2000: approximately HK\$2,126,000).

12. EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings/(loss) per share is based on the net loss attributable to shareholders for the year ended 31 December 2001 of approximately HK\$383,966,000 (2000: profit of approximately HK\$181,006,000), and the weighted average of approximately 1,123,800,000 (2000: approximately 1,116,405,000) ordinary shares in issue during the year.

Diluted loss per share for the year ended 31 December 2001 has not been calculated as the impact of the outstanding share options was anti-dilutive.

The calculation of diluted earnings per share for the year ended 31 December 2000 is based on the net profit attributable to shareholders for the year of approximately HK\$181,006,000 and the weighted average of approximately 1,116,405,000 ordinary shares in issue during that year, as used in the calculation of the basic earnings per share, and the weighted average of approximately 23,986,000 ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options during that year.

NOTES TO FINANCIAL STATEMENTS

31 December 2001

13. FIXED ASSETS

Group

| | Investment properties HK\$'000 | Land and buildings in Hong Kong HK\$'000 | Land and buildings elsewhere 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 2001 | 16,200 | 21,700 | 14,471 | 11,035 | 81,516 | 19,184 | 164,106 |
| Additions | — | — | — | 1,746 | 22,770 | 2,111 | 26,627 |
| Disposals | — | — | (49) | (732) | (12,066) | (2,254) | (15,101) |
| Revaluation deficit | (2,250) | (3,800) | — | — | — | — | (6,050) |
| Exchange realignment | — | — | (9) | (19) | (1,511) | (26) | (1,565) |
| At 31 December 2001 | <u>13,950</u> | <u>17,900</u> | <u>14,413</u> | <u>12,030</u> | <u>90,709</u> | <u>19,015</u> | <u>168,017</u> |
| Accumulated depreciation: | | | | | | | |
| At 1 January 2001 | — | — | 399 | 6,129 | 36,794 | 11,062 | 54,384 |
| Provided during the year | — | 1,010 | 311 | 1,747 | 17,603 | 2,520 | 23,191 |
| Disposals | — | — | — | — | (9,917) | (1,471) | (11,388) |
| Written back on revaluation | — | (1,010) | — | — | — | — | (1,010) |
| Exchange realignment | — | — | — | (1) | (233) | (8) | (242) |
| At 31 December 2001 | <u>—</u> | <u>—</u> | <u>710</u> | <u>7,875</u> | <u>44,247</u> | <u>12,103</u> | <u>64,935</u> |
| Net book value: | | | | | | | |
| At 31 December 2001 | <u>13,950</u> | <u>17,900</u> | <u>13,703</u> | <u>4,155</u> | <u>46,462</u> | <u>6,912</u> | <u>103,082</u> |
| At 31 December 2000 | <u>16,200</u> | <u>21,700</u> | <u>14,072</u> | <u>4,906</u> | <u>44,722</u> | <u>8,122</u> | <u>109,722</u> |
| Analysis of cost or valuation: | | | | | | | |
| At cost | — | — | 14,413 | 12,030 | 90,709 | 19,015 | 136,167 |
| At 31 December 2001 valuation | <u>13,950</u> | <u>17,900</u> | <u>—</u> | <u>—</u> | <u>—</u> | <u>—</u> | <u>31,850</u> |
| | <u>13,950</u> | <u>17,900</u> | <u>14,413</u> | <u>12,030</u> | <u>90,709</u> | <u>19,015</u> | <u>168,017</u> |

NOTES TO FINANCIAL STATEMENTS

31 December 2001

13. FIXED ASSETS (continued)

The Group's land and buildings in Hong Kong were revalued at 31 December 2001 by Centaline Surveyors Ltd., independent professional valuers, at open market value, based on their existing use.

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\$37,757,000 (2000: HK\$38,649,000).

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

| | Hong Kong | Elsewhere | Total |
|--------------------|----------------------|----------------------|----------------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| At cost: | | | |
| Long term leases | — | 14,413 | 14,413 |
| At valuation: | | | |
| Medium term leases | <u>17,900</u> | <u>—</u> | <u>17,900</u> |
| | <u><u>17,900</u></u> | <u><u>14,413</u></u> | <u><u>32,313</u></u> |

The Group's investment properties were revalued on 31 December 2001 by Centaline Surveyors Ltd., independent professional valuers, at open market value, based on their existing use. The investment properties are leased to third parties under operating leases, further summary details of which are included in note 34 to these financial statements.

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

Particulars of the Group's investment properties are included on page 79 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 28).

NOTES TO FINANCIAL STATEMENTS

31 December 2001

14. INTANGIBLE ASSETS

Group

| | Trademark | Deferred development costs | Total |
|---------------------------|------------------|---|-----------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Cost: | | | |
| At beginning of year | — | 13,112 | 13,112 |
| Additions | 4,950 | — | 4,950 |
| Written off | — | (13,104) | (13,104) |
| Exchange realignment | — | (8) | (8) |
| | <u>4,950</u> | <u>—</u> | <u>4,950</u> |
| At 31 December 2001 | 4,950 | — | 4,950 |
| Accumulated amortisation: | | | |
| At beginning of year | — | 11,897 | 11,897 |
| Provided during the year | 959 | — | 959 |
| Written off | — | (11,889) | (11,889) |
| Exchange realignment | — | (8) | (8) |
| | <u>959</u> | <u>—</u> | <u>959</u> |
| At 31 December 2001 | 959 | — | 959 |
| Net book value: | | | |
| At 31 December 2001 | <u>3,991</u> | <u>—</u> | <u>3,991</u> |
| At 31 December 2000 | <u>—</u> | <u>1,215</u> | <u>1,215</u> |

15. GOODWILL

As detailed in note 3 to these financial statements, the Group has adopted the transitional provision of SSAP 30 which permits goodwill in respect of acquisitions occurred prior to 1 January 2001, to remain eliminated against consolidated reserves.

Due to the adoption of SSAP 31, the Group has adopted a policy to assess goodwill eliminated against consolidated reserves for impairment. As a result, the Group has recognised an impairment of part of the goodwill previously eliminated against consolidated reserves of HK\$30,295,000 during the year.

NOTES TO FINANCIAL STATEMENTS

31 December 2001

15. GOODWILL (continued)

The amount of the goodwill remaining in consolidated reserves, arising from the acquisition of a subsidiary prior to 1 January 2001, is as follows:

| | Group |
|--|---|
| | Goodwill eliminated against consolidated contributed surplus |
| | <i>HK\$'000</i> |
| Cost: | |
| At beginning of year and at 31 December 2001 | 284,700 |
| Accumulated impairment: | |
| At beginning of year | — |
| Impairment provided during the year | 30,295 |
| At 31 December 2001 | 30,295 |
| Net amount: | |
| At 31 December 2001 | 254,405 |
| At 31 December 2000 | 284,700 |

16. INTERESTS IN SUBSIDIARIES

| | Company | |
|--------------------------|------------------|-----------------|
| | 2001 | 2000 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Unlisted shares, at cost | 559,088 | 559,088 |
| Due from subsidiaries | — | 11,610 |
| Due to subsidiaries | (298,221) | (307,660) |
| | 260,867 | 263,038 |
| Provision for impairment | (35,335) | — |
| | 225,532 | 263,038 |

The amounts due from/to subsidiaries are unsecured, interest-free and have no fixed terms of repayment. Included therein are amounts due from/to subsidiaries, in respect of balances which, although technically currently repayable under the original terms of the transactions giving rise thereto, have been deferred or subordinated for the longer term and are therefore classified as non-current.

NOTES TO FINANCIAL STATEMENTS

31 December 2001

16. INTERESTS IN SUBSIDIARIES (continued)

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 distribution of information products |
| Beijing Founder Electronics Company Limited | People's Republic of China | Registered HK\$130 million | — | 100% | Software development, systems integration and distribution of information products |
| Sparkling Idea Limited | British Virgin Islands | Ordinary US\$1 | — | 100% | Investment holding |
| Founder Systems (BVI) Limited | British Virgin Islands | Ordinary US\$1 | — | 100% | Systems integration and distribution 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 |
| Royal Bright Limited | Hong Kong | Ordinary HK\$2 | — | 100% | Property holding |

NOTES TO FINANCIAL STATEMENTS

31 December 2001

16. 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 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 |
| Founder Information Technology (HK) Limited | Hong Kong | Ordinary HK\$2 | — | 100% ** | Distribution of information products |
| Founder Electronics (HK) Limited | Hong Kong | Ordinary HK\$2 | — | 100% | Distribution of information products |
| 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 |
| Founder International Inc.* | Japan | Ordinary JPY62,650,000 | — | 78.8% | Systems integration |
| Power Print Inc.* | Japan | Ordinary JPY400 million | — | 52.3% | Printing |

NOTES TO FINANCIAL STATEMENTS

31 December 2001

16. 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 | |
| Beijing Founder International Co., Limited* | People's Republic of China | Registered USD500,000 | — | 78.8% | Systems integration |
| Beijing Founder Information Co., Ltd* | People's Republic of China | Registered RMB8 million | — | 55.2% ** | Publishing of magazines |
| Founder Information Limited * | Taiwan | Ordinary NT\$57 million | — | 73.7% | Systems integration |

* 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 for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

NOTES TO FINANCIAL STATEMENTS

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17. INTEREST IN A JOINTLY-CONTROLLED ENTITY

| | Group | |
|---------------------|-----------------|-----------------|
| | 2001 | 2000 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Share of net assets | <u>6,834</u> | <u>5,463</u> |

Particulars of the jointly-controlled entity are as follows:

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

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

18. INTERESTS IN ASSOCIATES

| | Group | | Company | |
|---|-----------------|-----------------|------------------|-----------------|
| | 2001 | 2000 | 2001 | 2000 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Listed shares in Hong Kong, at cost | — | — | 323,690 | 323,692 |
| Share of net assets | 79,222 | 105,694 | — | — |
| Due from associates | 2,886 | 11,122 | — | — |
| Due to associates | (835) | (3,898) | — | — |
| | 81,273 | 112,918 | 323,690 | 323,692 |
| Provision for impairment | — | — | (158,608) | — |
| | 81,273 | 112,918 | 165,082 | 323,692 |
| Market value of listed shares at balance sheet date | 165,082 | 388,430 | 165,082 | 388,430 |

NOTES TO FINANCIAL STATEMENTS

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18. INTERESTS IN ASSOCIATES (continued)

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

Particulars of the principal associates are as follows:

| Name | Business structure | Place of incorporation/ registration and operations | Percentage of ownership interest attributable to the Group | | Principal activities |
|---------------------------------------|--------------------|---|--|--------|--|
| | | | 2001 | 2000 | |
| EC-Founder (Holdings) Company Limited | Corporate | Bermuda/ Hong Kong and People's Republic of China | 39.45% | 39.45% | Design, manufacture and distribution of electronic products and electronic components, provision of management services, provision of software solutions and e-Commerce services |
| PUC Founder (MSC) Berhad* | Corporate | Malaysia | 49% | 49% | Provision of computer related software and development services |

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

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

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 2001

18. 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 ("EC-Founder"), 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 as at 31 December 2001 and of its consolidated results for the year then ended are as follows:

| | 2001 | 2000 |
|---------------------------------------|------------------|------------|
| | HK\$'000 | HK\$'000 |
| | | (Restated) |
| Fixed assets | 71,910 | 110,387 |
| Intangible assets | 1,270 | 4,980 |
| Interests in associates | 22,527 | 32,318 |
| Long term investments | 1,075 | 1,075 |
| Current assets | 279,316 | 277,124 |
| Current liabilities | (187,346) | (164,512) |
| Long term liabilities | (2,043) | (4,619) |
| Minority interests | (2,336) | (3,331) |
| | <hr/> | <hr/> |
| Net assets | 184,373 | 253,422 |
| | <hr/> | <hr/> |
| Turnover | 331,455 | 258,664 |
| | <hr/> | <hr/> |
| Loss before tax | (69,279) | (489,020) |
| Tax | (1,432) | (3,075) |
| | <hr/> | <hr/> |
| Loss before minority interests | (70,711) | (492,095) |
| Minority interests | 1,670 | (5) |
| | <hr/> | <hr/> |
| Net loss attributable to shareholders | (69,041) | (492,100) |
| | <hr/> | <hr/> |

EC-Founder has adopted a policy to assess goodwill eliminated against consolidated reserves for impairment. As a result, EC-Founder has recognised an impairment of part of the goodwill previously eliminated against consolidated reserves, of approximately HK\$452,259,000 during the year. This change of accounting policy has been accounted for retrospectively as a prior year adjustment in accordance with the transitional provisions of SSAP 30.

NOTES TO FINANCIAL STATEMENTS

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18. INTERESTS IN ASSOCIATES *(continued)*

The net consolidated loss attributable to the Group for the year (2000: for the period from 28 September 2000 to 31 December 2000) had been accounted for using the equity method in the Group's financial statements as follows:

| | 2001 | 2000 |
|-------------------------------|------------------------|----------------|
| | HK\$'000 | HK\$'000 |
| Share of loss of an associate | (27,487) | (7,288) |
| Share of tax | (565) | (282) |
| | <u>(28,052)</u> | <u>(7,570)</u> |

19. LONG TERM INVESTMENTS

| | Group | |
|--------------------------------------|-----------------|--------------|
| | 2001 | 2000 |
| | HK\$'000 | HK\$'000 |
| Unlisted equity investments, at cost | 7,273 | 7,273 |
| Provision for impairment | (7,273) | (5,626) |
| | <u>—</u> | <u>1,647</u> |

20. INVENTORIES

| | Group | |
|----------------|-----------------------|----------------|
| | 2001 | 2000 |
| | HK\$'000 | HK\$'000 |
| Trading stocks | <u>303,366</u> | <u>382,864</u> |

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

21. TRADE RECEIVABLES

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally for a period of 1 month, extending up to 3 months for major customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management.

NOTES TO FINANCIAL STATEMENTS

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21. TRADE RECEIVABLES (continued)

An aged analysis of the trade receivables as at the balance sheet date and net of provisions is as follows:

| | Group | |
|----------------|------------------|------------------|
| | 2001 HK\$'000 | 2000 HK\$'000 |
| 1-6 months | 168,852 | 301,043 |
| 7-12 months | 30,905 | 28,497 |
| 13-24 months | 24,854 | 14,898 |
| Over 24 months | 6,450 | 1,433 |
| | <u>231,061</u> | <u>345,871</u> |

22. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

| | Group | | Company | |
|----------------------------|------------------|------------------|------------------|------------------|
| | 2001 HK\$'000 | 2000 HK\$'000 | 2001 HK\$'000 | 2000 HK\$'000 |
| Prepayments | 25,316 | 85,028 | — | — |
| Deposits and other debtors | 28,876 | 80,820 | 178 | 172 |
| | <u>54,192</u> | <u>165,848</u> | <u>178</u> | <u>172</u> |

23. SHORT TERM INVESTMENTS

| | Group | |
|-------------------------------------|------------------|------------------|
| | 2001 HK\$'000 | 2000 HK\$'000 |
| Overseas mutual fund, at fair value | 5,754 | — |

NOTES TO FINANCIAL STATEMENTS

31 December 2001

24. PLEDGED TIME DEPOSITS

| | Group | |
|---------------------------------------|-------------------------|-------------------------|
| | 2001 <i>HK\$'000</i> | 2000 <i>HK\$'000</i> |
| Pledged for bank loans | 42,572 | 42,009 |
| Pledged for bank overdraft facilities | 187 | — |
| | <u>42,759</u> | <u>42,009</u> |

25. CASH AND CASH EQUIVALENTS

| | Group | | Company | |
|------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| | 2001 <i>HK\$'000</i> | 2000 <i>HK\$'000</i> | 2001 <i>HK\$'000</i> | 2000 <i>HK\$'000</i> |
| Cash and bank balances | 261,159 | 300,784 | 57 | — |
| Time deposits | 2,488 | 15,772 | — | — |
| | <u>263,647</u> | <u>316,556</u> | <u>57</u> | <u>—</u> |

26. TRADE AND BILLS PAYABLES

An aged analysis of the trade and bills payables as at the balance sheet date is as follows:

| | Group | |
|--------------|-------------------------|-------------------------|
| | 2001 <i>HK\$'000</i> | 2000 <i>HK\$'000</i> |
| 1-6 months | 43,751 | 225,791 |
| 7-12 months | 39,552 | 60,545 |
| 1-2 years | 27,825 | 1,036 |
| Over 2 years | 1,085 | 141 |
| | <u>112,213</u> | <u>287,513</u> |

NOTES TO FINANCIAL STATEMENTS

31 December 2001

27. OTHER PAYABLES AND ACCRUALS

| | Group | | Company | |
|-----------------------------|------------------|------------------|------------------|------------------|
| | 2001 HK\$'000 | 2000 HK\$'000 | 2001 HK\$'000 | 2000 HK\$'000 |
| Accruals | 127,421 | 88,388 | 320 | 779 |
| Other payables | 17,507 | 37,163 | — | — |
| Trading receipts in advance | 223,600 | 109,275 | — | — |
| | <u>368,528</u> | <u>234,826</u> | <u>320</u> | <u>779</u> |

28. INTEREST-BEARING BANK BORROWINGS

| | Group | |
|--|------------------|------------------|
| | 2001 HK\$'000 | 2000 HK\$'000 |
| Bank overdrafts: | | |
| Secured | <u>187</u> | <u>1,196</u> |
| Bank loans: | | |
| Secured | <u>3,984</u> | <u>4,730</u> |
| Unsecured | <u>136,619</u> | <u>141,420</u> |
| | <u>140,603</u> | <u>146,150</u> |
| Trust receipt loans: | | |
| Secured | <u>40,150</u> | <u>14,859</u> |
| | <u>180,940</u> | <u>162,205</u> |
| Bank overdrafts repayable within one year or on demand | <u>187</u> | <u>1,196</u> |
| Bank loans and trust receipt loans repayable: | | |
| Within one year or on demand | <u>177,614</u> | <u>157,017</u> |
| In the second year | <u>899</u> | <u>824</u> |
| In the third to fifth years, inclusive | <u>2,240</u> | <u>3,059</u> |
| Beyond five years | <u>—</u> | <u>109</u> |
| | <u>180,753</u> | <u>161,009</u> |
| | <u>180,940</u> | <u>162,205</u> |
| Portion classified as current liabilities | <u>(177,801)</u> | <u>(158,213)</u> |
| Long term portion | <u>3,139</u> | <u>3,992</u> |

NOTES TO FINANCIAL STATEMENTS

31 December 2001

28. INTEREST-BEARING BANK BORROWINGS (continued)

- (a) The Group's secured bank loans and overdrafts at the balance sheet date 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\$5,950,000 (2000: HK\$6,600,000).
 - (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\$17,900,000 (2000: HK\$21,700,000).
 - (iii) the pledge of certain of the Group's time deposits amounting to approximately HK\$42,759,000 (2000: HK\$42,009,000).
- (b) The Group's unsecured bank loans at the balance sheet date of approximately HK\$136,619,000 (2000: HK\$141,420,000) were guaranteed by Peking University Founder Group Corporation ("Peking Founder"), a substantial shareholder of the Group.

29. DEFERRED TAX

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

| | Not provided | |
|-------------------------------------|----------------------|----------------------|
| | 2001 | 2000 |
| | HK\$'000 | HK\$'000 |
| Accelerated depreciation allowances | 845 | — |
| Tax losses | 39,733 | 16,199 |
| | <u>40,578</u> | <u>16,199</u> |

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 2001

30. SHARE CAPITAL

Shares

| | Group and Company | |
|--|--------------------------|----------------|
| | 2001 | 2000 |
| | HK\$'000 | HK\$'000 |
| Authorised: | | |
| 2,100,000,000 ordinary shares of HK\$0.10 each | <u>210,000</u> | <u>210,000</u> |
| Issued and fully paid: | | |
| 1,123,799,893 ordinary shares of HK\$0.10 each | <u>112,380</u> | <u>112,380</u> |

Share options

The Company operates a share option scheme (the "Scheme"), further details of which are set out under the heading "Share option scheme" in the Report of the Directors on pages 22 to 25.

At the beginning of the year and at balance sheet date, the Company had 31,060,000 share options outstanding under the Scheme, with exercise periods ranging from 21 December 1998 to 6 December 2005 and exercise prices ranging from HK\$0.912 to HK\$1.944. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 31,060,000 additional shares of HK\$0.10 each and proceeds of approximately HK\$48,424,000.

NOTES TO FINANCIAL STATEMENTS

31 December 2001

31. RESERVES

| | Share premium account HK\$'000 | Contributed surplus HK\$'000 | Capital reserve HK\$'000 | Goodwill reserve HK\$'000 | Land and buildings revaluation reserve HK\$'000 | Exchange fluctuation reserve HK\$'000 | General reserve HK\$'000 | Retained profits/ (accumulated losses) HK\$'000 | Total HK\$'000 |
|--|---|------------------------------------|--------------------------------|---------------------------------|---|--|--------------------------------|---|-------------------|
| Group | | | | | | | | | |
| At 1 January 2000 | 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 realignment | — | — | — | — | — | 296 | — | — | 296 |
| At 31 December 2000 and beginning of year | 27,660 | 582,334 | 62,680 | — | 601 | 2,453 | 42,866 | (62,529) | 656,065 |
| Impairment of goodwill remaining eliminated against contributed surplus | — | 30,295 | — | — | — | — | — | — | 30,295 |
| Impairment of goodwill of an associate remaining eliminated against contributed surplus | — | 816 | — | — | — | — | — | — | 816 |
| Loss for the year | — | — | — | — | — | — | — | (383,966) | (383,966) |
| Transfer to general reserve | — | — | — | — | — | — | 133 | (133) | — |
| Transfer to capital reserve | — | — | 2,074 | — | — | — | — | (2,074) | — |
| Exchange realignment | — | — | — | — | — | (7,254) | — | — | (7,254) |
| At 31 December 2001 | <u>27,660</u> | <u>613,445</u> | <u>64,754</u> | <u>—</u> | <u>601</u> | <u>(4,801)</u> | <u>42,999</u> | <u>(448,702)</u> | <u>295,956</u> |
| Reserves retained by: | | | | | | | | | |
| Company and subsidiaries | 27,660 | 612,629 | 64,754 | — | 601 | (4,955) | 42,999 | (418,546) | 325,142 |
| Jointly-controlled entities | — | — | — | — | — | 82 | — | 5,152 | 5,234 |
| Associates | — | 816 | — | — | — | 72 | — | (35,308) | (34,420) |
| 31 December 2001 | <u>27,660</u> | <u>613,445</u> | <u>64,754</u> | <u>—</u> | <u>601</u> | <u>(4,801)</u> | <u>42,999</u> | <u>(448,702)</u> | <u>295,956</u> |
| 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> |

The contributed surplus of the Group originally represented the difference between the nominal value of the shares and the share premium account of Founder (Hong Kong) Limited acquired pursuant to the Group reorganisation effective on 31 March 2000, over the nominal value of the Company's shares issued in exchange therefor. Goodwill arising on the acquisition of a subsidiary remains eliminated against contributed surplus, further details of which are included in note 15 to these financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2001

31. RESERVES (continued)

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

In accordance with the relevant PRC regulations, each of the Group's PRC subsidiaries and jointly-controlled entity 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 entity in accordance with their articles of association.

No such transfer was made during the year as the Group's PRC subsidiaries and jointly-controlled entity either incurred losses during the year or the transfer of profit after tax to general reserve already reached 50% of the registered capital.

In accordance with the relevant Taiwanese regulations, each of the Group's Taiwanese subsidiaries is required to transfer not less than 10% of its profit after tax, as determined in accordance with Taiwanese accounting standards and regulations, to a general reserve. During the year, certain Taiwanese subsidiaries transferred in total approximately HK\$133,000 (2000: Nil), which represented 10% of their profit after tax, to the general reserve.

Company

| | Share premium account <i>HK\$'000</i> | Contributed surplus <i>HK\$'000</i> | Accumulated losses <i>HK\$'000</i> | Total <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) |
| At 31 December 2000 | 27,660 | 448,209 | (2,126) | 473,743 |
| Loss for the year | — | — | (195,594) | (195,594) |
| At 31 December 2001 | <u>27,660</u> | <u>448,209</u> | <u>(197,720)</u> | <u>278,149</u> |

The contributed surplus of the Company represents the excess of the fair value of the shares of Founder (Hong Kong) Limited acquired pursuant to the Group reorganisation effective on 31 March 2000, 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 2001

32. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

| | 2001 <i>HK\$'000</i> | 2000 <i>HK\$'000</i> |
|--|-------------------------|-------------------------|
| Profit/(loss) from operating activities | (353,056) | 193,739 |
| Interest income | (3,159) | (6,819) |
| Loss/(gain) on disposal of subsidiaries | 55 | (79,116) |
| Gain on deemed partial disposal of a subsidiary | (2,074) | (62,680) |
| Gain on partial disposal of a subsidiary | — | (3,452) |
| Unrealised gain on revaluation of short term investments | (52) | — |
| Loss on disposal of branch operations | — | 8,249 |
| Loss on disposal of a jointly-controlled entity | — | 3,398 |
| Depreciation | 23,191 | 18,675 |
| Amortisation of trademark | 959 | — |
| Impairment of goodwill | 30,295 | — |
| Write-off of deferred development costs | 1,215 | — |
| Loss/(gain) on disposal of fixed assets | 1,395 | (6,145) |
| Revaluation deficits of land and buildings | 2,790 | 2,582 |
| Revaluation deficits of investment properties | 2,250 | 2,280 |
| Impairment of a long term investment | 1,647 | 5,626 |
| Decrease in tax recoverable | — | 367 |
| Decrease/(increase) in inventories | 79,498 | (102,368) |
| Decrease/(increase) in trade receivables | 114,810 | (46,963) |
| Decrease/(increase) in prepayments | 59,712 | (47,033) |
| Decrease/(increase) in deposits and other debtors | 51,889 | (48,034) |
| Increase/(decrease) in trade and bills payables | (175,300) | 106,377 |
| Increase in accruals | 39,033 | 32,885 |
| Increase/(decrease) in other payables | (19,656) | 58,628 |
| Increase/(decrease) in trading receipts in advance | 114,325 | (49,807) |
| Increase/(decrease) in trust receipt loans | 25,291 | (8,191) |
| Exchange differences | (3,835) | (837) |
| | <hr/> | <hr/> |
| Net cash outflow from operating activities | <u>(8,777)</u> | <u>(28,639)</u> |

NOTES TO FINANCIAL STATEMENTS

31 December 2001

32. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(b) Analysis of changes in financing during the year

| | Issued capital (including share premium account) | Bank loans (with maturity of over 3 months) | Minority interests |
|---|---|--|-------------------------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| At 1 January 2000 | 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 partial disposal of a subsidiary | — | — | (62,680) |
| Disposal of subsidiaries | — | — | (4,390) |
| Transfer to contributed surplus | (867,094) | — | — |
| Exchange differences | — | (190) | — |
| At 31 December 2000 and beginning of year | 140,040 | 146,150 | 29,622 |
| Cash inflow/(outflow) from financing activities, net | — | (5,457) | 11,162 |
| Share of losses after tax of subsidiaries | — | — | (9,324) |
| Share of exchange reserve of subsidiaries | — | — | (3,536) |
| Deemed partial disposal of a subsidiary | — | — | (2,074) |
| Exchange differences | — | (90) | — |
| At 31 December 2001 | <u>140,040</u> | <u>140,603</u> | <u>25,850</u> |

NOTES TO FINANCIAL STATEMENTS

31 December 2001

32. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(c) Disposal of subsidiaries

| | 2001 | 2000 |
|--|-----------------|-------------|
| | HK\$'000 | 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 | 55 | 5,013 |
| Accounts payable and other accrued liabilities | — | (44,852) |
| Minority interests | — | (4,390) |
| | <hr/> | <hr/> |
| | 55 | 5,566 |
| Gain/(loss) on disposal | (55) | 79,116 |
| | <hr/> | <hr/> |
| | — | 84,682 |
| | <hr/> <hr/> | <hr/> <hr/> |
| Satisfied by: | | |
| Cash | — | 210 |
| Shares | — | 84,472 |
| | <hr/> | <hr/> |
| | — | 84,682 |
| | <hr/> <hr/> | <hr/> <hr/> |

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

| | 2001 | 2000 |
|---|-----------------|-------------|
| | HK\$'000 | HK\$'000 |
| Cash consideration | — | 210 |
| Cash and bank balances disposed of | — | (31,223) |
| | <hr/> | <hr/> |
| Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries | — | (31,013) |
| | <hr/> <hr/> | <hr/> <hr/> |

NOTES TO FINANCIAL STATEMENTS

31 December 2001

32. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(c) Disposal of subsidiaries (continued)

In respect of the cash flows for the year ended 31 December 2001, the subsidiary disposed of in that year contributed approximately HK\$90,000 to the Group's net operating cash flows, but had no significant impact in respect of the cash flows for investing activities, financing activities, net returns on investments and servicing of finance and tax.

The results of the subsidiary disposed of in the year ended 31 December 2001 had no significant impact on the Group's consolidated turnover or loss after tax for that year.

In respect of the cash flows for the year ended 31 December 2000, the subsidiaries disposed of in that year 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 for that year.

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

(d) Disposal of branch operations

| | 2001 | 2000 |
|--|-----------------|--------------|
| | HK\$'000 | 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 | — | (2,255) |
| | — | 17,333 |
| Loss on disposal of branch operations | — | (8,249) |
| | <u>—</u> | <u>9,084</u> |
| Satisfied by: | | |
| Cash | <u>—</u> | <u>9,084</u> |

NOTES TO FINANCIAL STATEMENTS

31 December 2001

32. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(d) Disposal of branch operations (continued)

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of branch operations is as follows:

| | 2001 <i>HK\$'000</i> | 2000 <i>HK\$'000</i> |
|--|-------------------------|-------------------------|
| Cash consideration | — | 9,084 |
| Cash and bank balances disposed of | — | (3,105) |
| | <hr/> | <hr/> |
| Net inflow of cash and cash equivalents in respect of the disposal of branch operations | <u>—</u> | <u>5,979</u> |

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

33. CONTINGENT LIABILITIES

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

| | Company | |
|--|-------------------------|-------------------------|
| | 2001 <i>HK\$'000</i> | 2000 <i>HK\$'000</i> |
| Guarantees given to banks in connection with facilities granted to subsidiaries | <u>59,140</u> | <u>42,000</u> |

As at 31 December 2001, the guarantees given to banks in connection with facilities granted to subsidiaries by the Company were utilised to the extent of approximately HK\$27,100,000 (2000: HK\$42,000,000).

34. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties (note 13 to these financial statements) under operating lease arrangements, with leases negotiated for terms ranging from 1 to 2 years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

NOTES TO FINANCIAL STATEMENTS

31 December 2001

34. OPERATING LEASE ARRANGEMENTS (continued)

(a) As lessor (continued)

At 31 December 2001, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

| | Group | |
|---|--------------|--------------|
| | 2001 | 2000 |
| | HK\$'000 | HK\$'000 |
| Within one year | 1,370 | 1,308 |
| In the second to fifth years, inclusive | 832 | 1,931 |
| | <u>2,202</u> | <u>3,239</u> |

(b) As lessee

The Group leases certain of its office properties under operating lease arrangements, which are negotiated for terms ranging from 1 to 4 years.

At 31 December 2001, the Group had total future minimum lease payments under the non-cancellable operating leases falling due as follows:

| | Group | |
|---|---------------|---------------|
| | 2001 | 2000 |
| | HK\$'000 | HK\$'000 |
| Within one year | 30,481 | 20,735 |
| In the second to fifth years, inclusive | 49,511 | 61,766 |
| | <u>79,992</u> | <u>82,501</u> |

SSAP 14 (Revised), which was adopted during the year, requires lessors under operating leases to disclose the total future minimum operating lease receivables under non-cancellable operating leases, as detailed in note (a) above. This disclosure was not previously required. SSAP 14 (Revised) also requires lessees under operating leases to disclose the total future minimum operating lease payments, rather than only the payments to be made during the next year as was previously required. Accordingly, the prior year comparative amounts for operating leases as lessee in note (b) above, have been restated to accord with the current year's presentation.

NOTES TO FINANCIAL STATEMENTS

31 December 2001

35. COMMITMENTS

In addition to the operating lease commitments detailed in note 34 above, the Group had the following commitments at the balance sheet date:

| | Group | |
|--------------------------------------|----------------------|----------|
| | 2001 | 2000 |
| | HK\$'000 | HK\$'000 |
| Authorised, but not contracted for: | | |
| Capital contribution payable | | |
| to a joint venture to be established | <u>37,688</u> | <u>—</u> |

36. POST BALANCE SHEET EVENTS

- (a) On 8 April 2002, PUC Founder (MSC) Berhad, an associate of the Group was listed on the Malaysian Exchange of Securities Dealing & Automated Quotation Bhd by way of a new issue of shares thereon. The interest of the Group in the share capital of the associate was consequently diluted from 49% to 35.9% after the listing. Further details of this transaction are set out in the Company's announcement dated 4 March 2002.
- (b) On 20 March 2002, Beijing Founder Century Information System Co., Ltd. ("Founder Century"), a wholly owned subsidiary of the Company, was set up to participate in the hardware distribution business in China. Pursuant to a memorandum entered into between the Group and Shenzhen Fiyta Holdings Limited ("Shenzhen Fiyta") on 19 March 2002, Shenzhen Fiyta will invest RMB60 million for a 60% interest in Founder Century. Up to the date of this report, the transaction has not been completed. Further details of this transaction are set out in the Company's announcement dated 19 March 2002.

NOTES TO FINANCIAL STATEMENTS

31 December 2001

37. RELATED PARTY TRANSACTIONS

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

| | <i>Notes</i> | 2001 HK\$'000 | Group 2000 HK\$'000 |
|--|--------------|--------------------------------|---|
| Rental expenses paid to Peking Founder | <i>(i)</i> | 14,133 | 14,142 |
| Sales of goods to associates | <i>(ii)</i> | 2,370 | 48,402 |
| Purchases of goods from associates | <i>(iii)</i> | 10,048 | — |
| Sales of technical knowhow to a company in which three directors of the company were directors | <i>(iv)</i> | 20,132 | — |
| Sales of goods to a company in which three directors of the company were directors | <i>(ii)</i> | 33,677 | — |
| Purchases of goods from a company in which three directors of the Company were directors | <i>(iii)</i> | 2,962 | — |
| Bank loan guarantees given by Peking Founder | <i>(v)</i> | 136,619 | 141,420 |
| Bank facilities guarantee given by Peking Founder | <i>(vi)</i> | 28,266 | — |

Notes:

- (i) The rental expenses were paid in accordance with the terms of the agreement governing such transaction.
- (ii) The sales of goods 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 goods were made according to the published prices and conditions similar to those offered to other customers of the Group.
- (iv) The transaction was conducted at prices determined between the two parties.
- (v) The bank loan guarantees were given to PRC banks for the loans granted to a subsidiary.
- (vi) The bank facilities guarantee was given to a PRC bank for bills discounted by a supplier of a subsidiary.

38. COMPARATIVE AMOUNTS

As further explained in note 2 to these financial statements, due to the adoption of certain new and revised SSAPs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been reclassified to conform with the current year's presentation.

39. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 23 April 2002.