

## NOTES TO FINANCIAL STATEMENTS

31 December 2003

### 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 SSAPs

The following new and revised SSAPs and Interpretation are effective for the first time for the current year's financial statements and have had a significant impact thereon:

- SSAP 12 (Revised) : "Income taxes"
- SSAP 35 : "Accounting for government grants and disclosure of government assistance"
- Interpretation 20 : "Income taxes - Recovery of revalued non-depreciable assets"

These SSAPs and Interpretation 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 adoption of these SSAPs and Interpretation which have had a significant effect on the financial statements, are summarised as follows:

SSAP 12 (Revised) prescribes the accounting for income taxes payable or recoverable, arising from the taxable profit or loss for the current period (current tax); and income taxes payable or recoverable in future periods, principally arising from taxable and deductible temporary differences and the carryforward of unused tax losses (deferred tax).

The principal impact of the revision of this SSAP on these financial statements is described below:

Measurement and recognition:

- deferred tax assets and liabilities relating to the differences between capital allowances for tax purposes and depreciation for financial reporting purposes and other taxable and deductible temporary differences are generally fully provided for, whereas previously the deferred tax was recognised for timing differences only to the extent that it was probable that the deferred tax asset or liability would crystallise in the foreseeable future; and
- a deferred tax asset has been recognised for tax losses arising in the current/prior periods to the extent that it is probable that there will be sufficient future taxable profits against which such losses can be utilised.

## NOTES TO FINANCIAL STATEMENTS

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### 2. IMPACT OF NEW AND REVISED SSAPs *(continued)*

Disclosures:

The related note disclosures are now more extensive than previously required. These disclosures are presented in notes 10 and 29 to the financial statements and include a reconciliation between the accounting profit/loss and the tax expense for the year.

Further details of these changes and the prior year adjustment arising from them are included in the accounting policy for deferred tax in notes 3 and 29 to the financial statements.

SSAP 35 prescribes the accounting for government grants and other forms of government assistance. The adoption of this SSAP has had no significant impact for these financial statements on the amounts recorded for government grants. However, additional disclosures are now required and are detailed in notes 3 and 5 to the financial statements.

Interpretation 20 requires that a deferred tax asset or liability that arises from the revaluation of certain non-depreciable assets and investment properties is measured based on the tax consequences that would follow from the recovery of the carrying amount of that asset through sale. This policy has been applied by the Group in the calculation of deferred tax under SSAP 12 (Revised) in respect of the revaluation of its investment properties.

### 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.

#### **Basis of consolidation**

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2003. 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.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company's subsidiaries.

#### **Subsidiaries**

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

The results of subsidiaries are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

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

#### **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. Goodwill arising from the acquisition of jointly-controlled entities, which was not previously eliminated against consolidated reserves, is included as part of the Group's interests in jointly-controlled entities.

#### **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.

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. Goodwill arising from the acquisition of associates, which was not previously eliminated against consolidated reserves, is included as part of the Group's interests in associates.

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 treated as non-current assets and are stated at cost less any impairment losses.

## NOTES TO FINANCIAL STATEMENTS

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

#### **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 subject to a maximum of 20 years. 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.

Prior to the adoption of SSAP 30 "Business combinations" in 2001, goodwill arising on acquisitions was eliminated against consolidated reserves in the year of acquisition. On the adoption of SSAP 30, the Group applied the transitional provision of the SSAP that permitted such goodwill to remain eliminated against consolidated reserves. Goodwill on acquisitions subsequent to the adoption of the SSAP is treated according to the SSAP 30 goodwill 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.

#### **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 an 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.

## NOTES TO FINANCIAL STATEMENTS

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

#### **Impairment of assets** *(continued)*

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 and construction in progress, 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.

Changes in the values of land and buildings, other than investment properties, are dealt with as movements in the land and buildings 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 profits 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
Machinery, equipment and moulds	12 <sup>1</sup> / <sub>2</sub> % - 25%
Furniture, fixtures and equipment	10% - 33 <sup>1</sup> / <sub>3</sub> %
Motor vehicles	20% - 30%

## NOTES TO FINANCIAL STATEMENTS

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

#### **Fixed assets and depreciation** *(continued)*

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.

Construction in progress represents structures, plant and machinery and other fixed assets under construction or installation, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and testing during the period of construction. Construction in progress is reclassified to the appropriate category of fixed assets when completed and ready for use.

#### **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**

##### ***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 accumulated amortisation and 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.

## NOTES TO FINANCIAL STATEMENTS

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### 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. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets and rentals 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, rentals payable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

#### **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 are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

#### **Systems integration contracts**

Contract revenue comprises the agreed contract amounts and appropriate amounts from variation orders, claims and incentive payments. Contract costs incurred comprise direct materials, the costs of subcontracting, direct labour and an appropriate proportion of variable and fixed overheads.

Revenue from fixed price systems integration contracts is recognised on the percentage of completion method, measured by reference to the percentage of certified work performed to date to the estimated total contract sum of the relevant contracts.

Provision is made for foreseeable losses as soon as they are anticipated by management.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers.

Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

## NOTES TO FINANCIAL STATEMENTS

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

#### Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheet, cash and cash equivalents comprise cash on hand and at banks, including short term deposits, and assets similar in nature to cash, which are not restricted as to use.

#### Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the profit and loss account or in equity if it relates to items that are recognised, in the same or a different period, directly in equity.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences:

- except where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax assets and unused tax losses can be utilised:

- except where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in jointly-controlled entities, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.



## NOTES TO FINANCIAL STATEMENTS

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

#### **Income tax** *(continued)*

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

#### **Government grants**

Government grants are recognised at their fair value when there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

#### **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 systems integration contracts, on the percentage of completion basis, as further explained in the accounting policy for "Systems integration contracts" above;
- (c) from the rendering of services, when the transactions have been completed in accordance with the terms of the relevant contracts;
- (d) from the 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;
- (e) rental income, on a time proportion basis over the lease terms; and
- (f) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

## NOTES TO FINANCIAL STATEMENTS

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

#### **Employee benefits**

##### ***Paid leave carried forward***

The Group provides paid annual leave to its employees under their employment contracts on a calendar year basis. Under certain circumstances, such leave which remains untaken as at the balance sheet date is permitted to be carried forward and utilised by the respective employees in the following year. An accrual is made at the balance sheet date for the expected future cost of such paid leave earned during the year by the employees and carried forward.

##### ***Retirement benefits schemes***

The Group operates defined contribution retirement benefits schemes for 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 respective 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 contributions. In respect of 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 Mainland of the People's Republic of China ("Mainland China" or the "PRC") are required to participate in a central pension scheme operated by the local municipal government. 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 central pension scheme.

##### ***Share option schemes***

The Group operates share option schemes for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under the share option schemes is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company or the subsidiaries as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company or the subsidiaries in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

## NOTES TO FINANCIAL STATEMENTS

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

#### Foreign currencies

Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable exchange rates 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 associates are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries, jointly-controlled entities and associates are translated into Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

### 4. SEGMENT INFORMATION

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.

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 the 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 and broadcasting 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;
- (d) the corporate segment comprises corporate income and expense items; and
- (e) the "others" segment comprises principally the Group's design, manufacture and distribution of electronic products, internet printing services and publishing of newspapers and magazines.

## NOTES TO FINANCIAL STATEMENTS

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### 4. SEGMENT INFORMATION (continued)

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 prevailing market prices.

#### (a) Business segments

The following tables present revenue, profit/(loss) and certain asset, liability and 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		Others		Eliminations		Consolidated	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Segment revenue:														
Sales to external customers	571,947	573,941	175,798	302,083	756,799	514,574	—	—	49,252	51,417	—	—	1,553,796	1,442,015
Intersegment sales	—	—	1,078	—	13,448	—	—	—	—	—	(14,526)	—	—	—
Total	<u>571,947</u>	<u>573,941</u>	<u>176,876</u>	<u>302,083</u>	<u>770,247</u>	<u>514,574</u>	<u>—</u>	<u>—</u>	<u>49,252</u>	<u>51,417</u>	<u>(14,526)</u>	<u>—</u>	<u>1,553,796</u>	<u>1,442,015</u>
Segment results	<u>23,936</u>	<u>6,674</u>	<u>2,509</u>	<u>(8,407)</u>	<u>6,930</u>	<u>(20,741)</u>	<u>(18,962)</u>	<u>(26,766)</u>	<u>(4,018)</u>	<u>(19,979)</u>			<u>10,395</u>	<u>(69,219)</u>
Interest income													2,552	1,582
Impairment of fixed assets													(3,777)	—
Impairment of goodwill													(2,528)	(189,070)
Loss on disposal of subsidiaries													(13,260)	(560)
Loss from operating activities													(6,618)	(257,267)
Finance costs													(2,071)	(4,607)
Share of profits and losses of:														
Jointly-controlled entity													1,028	1,896
Associates													3,836	(18,485)
Loss before tax													(3,825)	(278,463)
Tax													(3,790)	(2,538)
Loss before minority interests													(7,615)	(281,001)
Minority interests													14,830	5,157
Net profit/(loss) from ordinary activities attributable to shareholders													<u>7,215</u>	<u>(275,844)</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		Others		Eliminations		Consolidated	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000 (Restated)
Segment assets	322,594	352,471	140,683	117,225	365,633	215,019	14,646	21,937	(6,678)	(2,280)	836,878	704,372
Interest in a jointly-controlled entity	9,518	8,588	—	—	—	—	—	—	—	—	9,518	8,588
Interests in associates	17,015	16,883	—	—	—	—	172	—	—	—	38,660	71,127
Unallocated assets	—	—	—	—	—	—	—	—	—	—	75,646	36,108
											960,702	820,195
Segment liabilities	167,858	186,761	95,088	102,708	253,744	153,466	17,217	13,435	(19,940)	(17,770)	513,967	438,600
Unallocated liabilities	—	—	—	—	—	—	—	—	—	—	18,084	33,336
											532,051	471,936
Other segment information:												
Amortisation	—	—	—	—	—	—	—	922	—	—	784	922
Depreciation	8,067	11,730	5,333	5,015	930	3,426	2,780	2,092	—	—	17,110	22,263
Impairment losses recognised in the profit and loss account	2,528	—	—	189,070	—	—	3,777	—	—	—	6,305	189,070
Capital expenditure	9,782	3,027	5,619	1,027	1,799	4,752	2,559	1,394	—	—	19,759	10,200

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## 4. SEGMENT INFORMATION (continued)

## (b) Geographical segments

The following table presents revenue and certain asset and expenditure information for the Group's geographical segments.

## Group

	Hong Kong		Mainland China		Overseas		Eliminations		Consolidated	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	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	<b>172,084</b>	130,601	<b>1,235,026</b>	1,212,716	<b>146,686</b>	98,698	—	—	<b>1,553,796</b>	1,442,015
Intersegment sales	<b>177,289</b>	156,739	—	—	—	—	<b>(177,289)</b>	(156,739)	—	—
Total	<b>349,373</b>	287,340	<b>1,235,026</b>	1,212,716	<b>146,686</b>	98,698	<b>(177,289)</b>	(156,739)	<b>1,553,796</b>	1,442,015
	Hong Kong		Mainland China		Overseas		Consolidated			
	2003	2002	2003	2002	2003	2002	2003	2002		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Other segment information:										
Segment assets	<b>242,595</b>	248,284	<b>635,856</b>	499,420	<b>82,251</b>	72,491	<b>960,702</b>	820,195		
Capital expenditure	<b>2,444</b>	361	<b>16,922</b>	7,917	<b>393</b>	1,922	<b>19,759</b>	10,200		

(Restated)

(Restated)

## NOTES TO FINANCIAL STATEMENTS

31 December 2003

### 5. TURNOVER, REVENUE AND GAINS

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts; an appropriate proportion of contract revenue of systems integration contracts; and the value of services rendered during the year.

An analysis of turnover, other revenue and gains is as follows:

	Group	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Turnover</b>		
Software development and systems integration	747,745	876,024
Distribution of information products	756,799	514,574
Others	49,252	51,417
	<u>1,553,796</u>	<u>1,442,015</u>
<b>Other revenue</b>		
Interest income	2,552	1,582
Rental income	2,145	1,696
Government grants ( <i>Note</i> )	27,885	20,904
Others	3,356	5,575
	<u>35,938</u>	<u>29,757</u>
<b>Gains</b>		
Gain on partial disposal of a subsidiary ( <i>note 33(b)</i> )	3,496	—
Gain on deemed partial disposal of an associate	—	3,685
Others	22,417	11,310
	<u>25,913</u>	<u>14,995</u>
	<u>61,851</u>	<u>44,752</u>

*Note:* Various government grants have been received for sales of self-developed software approved by the PRC tax authority and development of software in Mainland China. The government grants have been recognised upon the sales of approved self-developed software and completion of development of related software, respectively. There are no unfulfilled conditions or contingencies relating to these grants.

## NOTES TO FINANCIAL STATEMENTS

31 December 2003

### 6. LOSS FROM OPERATING ACTIVITIES

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

		<b>Group</b>	
	<i>Notes</i>	<b>2003</b> <b>HK\$'000</b>	2002 <i>HK\$'000</i>
Amortisation of trademark*		—	922
Auditors' remuneration		<b>2,330</b>	2,500
Cost of inventories sold		<b>1,183,471</b>	1,100,486
Cost of services provided		<b>13,239</b>	10,103
Depreciation	<i>13</i>	<b>17,110</b>	22,263
Goodwill:	<i>15</i>		
Amortisation for the year**		<b>784</b>	—
Impairment arising during the year		<b>2,528</b>	189,070
		<b>3,312</b>	189,070
Impairment of fixed assets	<i>13</i>	<b>3,777</b>	—
Loss on disposal of fixed assets		<b>210</b>	3,446
Loss on disposal of subsidiaries	<i>33(b)</i>	<b>13,260</b>	560
Operating lease rentals in respect of land and buildings		<b>30,237</b>	29,824
Provision and write-off of doubtful trade debts		<b>1,934</b>	27,548
Reversal of provision and write-back of obsolete inventories		<b>(8,189)</b>	(7,484)
Revaluation deficit/(surplus) of:			
Land and buildings		<b>(1,588)</b>	1,125
Investment properties		<b>(290)</b>	1,750
Research and development costs:			
Current year expenditure		<b>33,095</b>	28,803
Staff costs (including directors' remuneration - note 8):			
Wages and salaries		<b>168,396</b>	176,301
Pension scheme contributions		<b>12,678</b>	7,769
Less: Forfeited contributions***		<b>(4)</b>	(87)
		<b>181,070</b>	183,983
Exchange losses/(gains), net		<b>(2,130)</b>	452
Gain on partial disposal of a subsidiary	<i>33(b)</i>	<b>(3,496)</b>	—
Gain on deemed partial disposal of an associate		—	(3,685)
Interest income		<b>(2,552)</b>	(1,582)
Net rental income		<b>(2,145)</b>	(1,696)
Unrealised gains on revaluation of short term investments		<b>(71)</b>	(7)

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

\*\* The amortisation of goodwill for the year is included in "Other operating expenses, net" on the face of the consolidated profit and loss account.

\*\*\* At 31 December 2003, the forfeited contributions available to the Group to reduce its contributions to the pension schemes in future years were not material.



## NOTES TO FINANCIAL STATEMENTS

31 December 2003

### 7. FINANCE COSTS

	Group	
	2003 HK\$'000	2002 HK\$'000
Interest on bank loans and overdrafts	2,050	4,607
Interest on finance leases	21	—
	<u>2,071</u>	<u>4,607</u>

### 8. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
Fees	744	974
Other emoluments:		
Salaries, allowances and benefits in kind	2,639	1,602
Performance related bonuses	600	—
Pension scheme contributions	79	40
	<u>3,318</u>	<u>1,642</u>
	<u>4,062</u>	<u>2,616</u>

Fees include HK\$264,000 (2002: 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 (2002: Nil).

The remuneration of the above directors fell within the following bands:

	Number of directors	
	2003	2002
Nil - HK\$1,000,000	4	9
HK\$1,500,001 - HK\$2,000,000	2	—
	<u>6</u>	<u>9</u>

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

## NOTES TO FINANCIAL STATEMENTS

31 December 2003

### 9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two (2002: two) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining three (2002: three) non-director, highest paid employees for the year are as follows:

	<b>Group</b>	
	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Salaries, allowances and benefits in kind	<b>2,456</b>	2,897
Performance related bonuses	<b>1,593</b>	—
Pension scheme contributions	<b>35</b>	71
	<b>4,084</b>	2,968

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

	<b>Number of employees</b>	
	<b>2003</b>	2002
Nil - HK\$1,000,000	—	2
HK\$1,000,001 - HK\$1,500,000	<b>2</b>	—
HK\$1,500,001 - HK\$2,000,000	<b>1</b>	1
	<b>3</b>	3

### 10. TAX

	<b>Group</b>	
	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
		<i>(Restated)</i>
Group:		
Current - Hong Kong	<b>8</b>	17
Current - Elsewhere	<b>710</b>	438
Deferred ( <i>note 29</i> )	<b>1,715</b>	1,351
	<b>2,433</b>	1,806
Share of tax attributable to:		
Jointly-controlled entity	<b>98</b>	142
Associates	<b>1,259</b>	590
	<b>1,357</b>	732
Total tax charge for the year	<b>3,790</b>	2,538

## NOTES TO FINANCIAL STATEMENTS

31 December 2003

### 10. TAX (continued)

Hong Kong profits tax has been provided at the rate of 17.5% (2002: 16%) on the estimated assessable profits arising in Hong Kong during the year. The increased Hong Kong profits tax rate became effective from the year of assessment 2003/2004, and so is applicable to the assessable profits arising in Hong Kong for the whole of the year ended 31 December 2003.

Taxes on overseas profits 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.

Beijing Founder Electronics Co., Ltd. ("Founder Electronics") is subject to PRC profits tax at a rate of 10% on its assessable profits for the three fiscal years which commenced in 2001 and ended on 31 December 2003. Beijing Founder Order Computer System Co., Ltd. ("Founder Order") is exempted from PRC profits tax for the three fiscal years which commenced in 1999 and ended on 31 December 2001 and, thereafter, is taxed at 50% of its standard tax rate in the fourth to sixth years, inclusive. Beijing Founder Century Information System Co., Ltd. ("PRC Century") is exempted from PRC profits tax for the three fiscal years which commenced in 2002 and ending on 31 December 2004 and, thereafter, will be taxed at 50% of its standard tax rate in the fourth to sixth years, inclusive. EC-Founder Co., Ltd. is exempted from PRC profits tax for the three fiscal years which commenced in 2001 and ended on 31 December 2003 and, thereafter, is taxed at 50% of its standard tax rate in the fourth to sixth years, inclusive. At present, the standard tax rate applicable to Founder Electronics, Founder Order, PRC Century and EC-Founder Co., Ltd. is 15%. No provision for PRC profits tax has been made for the year as the relevant PRC subsidiaries were either under their tax exemption period or had sufficient tax losses brought forward to offset against the assessable profits arising during the year.

A reconciliation of the tax expense applicable to profit/(loss) before tax using the statutory rates for the countries in which the Company, its subsidiaries, jointly-controlled entity and associates are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e. the statutory tax rates) to the effective tax rates, are as follows:

NOTES TO FINANCIAL STATEMENTS

31 December 2003

10. TAX (continued)

Group - 2003

	Hong Kong		Mainland China		Overseas		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
Profit/(loss) before tax	<u>(36,605)</u>		<u>40,788</u>		<u>(8,008)</u>		<u>(3,825)</u>	
Tax at the statutory tax rate	(6,406)	17.5	13,460	33.0	(3,203)	40.0	3,851	(100.7)
Lower tax rate for specific provinces or local authority	—	—	(9,695)	(23.8)	(140)	1.8	(9,835)	257.1
Tax effect of unused tax losses not recognised	2,782	(7.6)	93	0.2	—	—	2,875	(75.1)
Income not subject to tax	(1,430)	3.9	(3,495)	(8.6)	—	—	(4,925)	128.8
Expenses not deductible for tax	4,397	(12.0)	1,450	3.6	4,266	(53.3)	10,113	(264.4)
Loss not subject to tax	1,953	(5.3)	—	—	—	—	1,953	(51.1)
Tax losses utilised from previous periods	<u>(242)</u>	<u>0.6</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(242)</u>	<u>6.3</u>
Tax charge at the Group's effective rate	<u>1,054</u>	<u>(2.9)</u>	<u>1,813</u>	<u>4.4</u>	<u>923</u>	<u>(11.5)</u>	<u>3,790</u>	<u>(99.1)</u>

Group - 2002

Profit/(loss) before tax	<u>(262,282)</u>		<u>5,031</u>		<u>(21,212)</u>		<u>(278,463)</u>	
Tax at the statutory tax rate	(41,965)	16.0	1,660	33.0	(8,484)	40.0	(48,789)	17.5
Lower tax rate for specific provinces or local authority	—	—	(1,393)	(27.7)	19	—	(1,374)	0.5
Tax effect of unused tax losses not recognised	7,054	(2.7)	1,184	23.5	—	—	8,238	(2.9)
Income not subject to tax	(1,976)	0.8	(3,159)	(62.8)	(1,127)	5.3	(6,262)	2.2
Expenses not deductible for tax	34,787	(13.2)	3,201	63.7	10,030	(47.3)	48,018	(17.2)
Loss not subject to tax	2,777	(1.1)	—	—	—	—	2,777	(1.0)
Tax losses utilised from previous periods	<u>(70)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(70)</u>	<u>—</u>
Tax charge at the Group's effective rate	<u>607</u>	<u>(0.2)</u>	<u>1,493</u>	<u>29.7</u>	<u>438</u>	<u>(2.0)</u>	<u>2,538</u>	<u>(0.9)</u>

## NOTES TO FINANCIAL STATEMENTS

31 December 2003

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

The net profit from ordinary activities attributable to shareholders for the year ended 31 December 2003 dealt with in the financial statements of the Company was approximately HK\$62,943,000 (2002: net loss of approximately HK\$96,647,000) (*note 32(b)*).

### 12. EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings/(loss) per share is based on the net profit attributable to shareholders for the year ended 31 December 2003 of approximately HK\$7,215,000 (2002 (restated): net loss of approximately HK\$275,844,000), and the weighted average of approximately 1,123,800,000 (2002: 1,123,800,000) ordinary shares in issue during the year.

Diluted earnings/(loss) per share for the years ended 31 December 2003 and 2002 have not been calculated as the impact of the outstanding share options was anti-dilutive.

## NOTES TO FINANCIAL STATEMENTS

31 December 2003

### 13. FIXED ASSETS

#### Group

	Investment properties	Land and buildings in Hong Kong	Land and buildings in		Machinery, equipment and moulds	Furniture, fixtures and equipment	Motor vehicles	Construction in progress	Total
			Mainland	Leasehold improvements					
			China						
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost or valuation:									
At 1 January 2003	12,200	14,700	14,005	12,091	—	81,640	10,206	—	144,842
Additions	—	—	—	2,466	355	10,481	5,404	1,053	19,759
Acquisition of subsidiaries	—	20,783	—	15,305	36,318	17,470	5,656	583	96,115
Disposals	—	—	—	(2,987)	(24)	(9,443)	(3,677)	—	(16,131)
Disposal of subsidiaries	—	(20,783)	—	(12,577)	(37,342)	(4,375)	(4,867)	(549)	(80,493)
Surplus on revaluation	290	1,290	—	—	—	—	—	—	1,580
Transfers	1,790	(1,790)	—	—	693	—	—	(693)	—
Exchange realignment	—	—	(79)	14	—	182	(40)	—	77
At 31 December 2003	14,280	14,200	13,926	14,312	—	95,955	12,682	394	165,749
Accumulated depreciation and impairment:									
At 1 January 2003	—	—	944	11,132	—	51,628	6,558	—	70,262
Acquisition of subsidiaries	—	3,383	—	10,074	21,159	9,961	3,687	—	48,264
Provided during the year	—	403	297	711	1,037	13,208	1,454	—	17,110
Impairment during the year recognised in the profit and loss account	—	3,777	—	—	—	—	—	—	3,777
Disposals	—	—	—	(2,512)	(11)	(7,865)	(2,836)	—	(13,224)
Disposal of subsidiaries	—	(7,265)	—	(7,471)	(22,185)	(2,436)	(3,481)	—	(42,838)
Written back on revaluation	—	(298)	—	—	—	—	—	—	(298)
Exchange realignment	—	—	(5)	49	—	(44)	(35)	—	(35)
At 31 December 2003	—	—	1,236	11,983	—	64,452	5,347	—	83,018
Net book value:									
At 31 December 2003	14,280	14,200	12,690	2,329	—	31,503	7,335	394	82,731
At 31 December 2002	12,200	14,700	13,061	959	—	30,012	3,648	—	74,580
Analysis of cost or valuation:									
At cost	—	—	13,926	14,312	—	95,955	12,682	394	137,269
At 31 December 2003 valuation	14,280	14,200	—	—	—	—	—	—	28,480
	14,280	14,200	13,926	14,312	—	95,955	12,682	394	165,749

## NOTES TO FINANCIAL STATEMENTS

31 December 2003

### 13. FIXED ASSETS (continued)

The Group's land and buildings in Hong Kong were revalued on 31 December 2003 by Centaline Surveyors Ltd., independent professionally qualified valuers, on an open market value, existing use basis.

Had the Group's land and buildings in Hong Kong been carried at historical cost less accumulated depreciation and impairment losses, their carrying amounts would have been approximately HK\$33,853,000 (2002: HK\$34,694,000).

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

	<b>Hong Kong</b> <i>HK\$'000</i>	<b>Mainland China</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
At cost:			
Long term leases	—	13,926	13,926
At valuation:			
Medium term leases	<u>14,200</u>	<u>—</u>	<u>14,200</u>
	<u>14,200</u>	<u>13,926</u>	<u>28,126</u>

An impairment loss of approximately HK\$3,777,000 was charged to the consolidated profit and loss account for the current year to write down certain land and buildings to their recoverable amount which was determined based on their net selling price.

The Group's investment properties were revalued on 31 December 2003 by Centaline Surveyors Ltd., independent professionally qualified valuers, on an open market value, existing use basis. The investment properties are leased to third parties under operating leases, further summary details of which are included in note 35(a) to the financial statements.

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

Further particulars of the Group's investment properties are included on pages 73 and 74 of the Annual Report.

All the land and buildings in Hong Kong and investment properties of the Group were pledged to banks to secure banking facilities (note 28).

## NOTES TO FINANCIAL STATEMENTS

31 December 2003

### 14. INTANGIBLE ASSETS

	<b>Group Deferred development costs</b> <i>HK\$'000</i>
Cost and net book value:	
At beginning of year	—
Additions	932
	<hr/>
At 31 December 2003	932
	<hr/> <hr/>

### 15. GOODWILL

The amount of the goodwill capitalised as an asset in the consolidated balance sheet, arising from the acquisition of subsidiaries, is as follows:

	<b>Group Goodwill</b> <i>HK\$'000</i>
Cost:	
At beginning of year	—
Acquisition of subsidiaries <i>(note 33(a))</i>	10,367
	<hr/>
At 31 December 2003	10,367
	<hr/>
Accumulated amortisation and impairment:	
At beginning of year	—
Amortisation provided during the year	784
Impairment during the year recognised in the profit and loss account	2,528
	<hr/>
At 31 December 2003	3,312
	<hr/>
Net book value:	
At 31 December 2003	7,055
	<hr/> <hr/>
At 31 December 2002	—
	<hr/> <hr/>



## NOTES TO FINANCIAL STATEMENTS

31 December 2003

### 15. GOODWILL (continued)

An impairment loss of approximately HK\$2,528,000 was charged to the consolidated profit and loss account for the current year. The impairment loss was provided by the directors based on estimated recoverable amounts of the subsidiaries acquired, which were determined based on their value in use.

As detailed in note 3 to the financial statements, on the adoption of SSAP 30 in 2001, the Group applied the transitional provision of SSAP 30 that permitted goodwill in respect of the acquisition which occurred prior to the adoption of the SSAP, to remain eliminated against consolidated reserves.

The amount of the goodwill remaining in consolidated reserves as at 31 December 2003, arising from the acquisition of a subsidiary prior to the adoption of SSAP 30 in 2001, is as follows:

	<b>Group Goodwill eliminated against consolidated contributed surplus</b>
	<i>HK\$'000</i>
Cost:	
At beginning of year and 31 December 2003	284,700
Accumulated impairment:	
At beginning of year and 31 December 2003	219,365
Net amount:	
At beginning of year and 31 December 2003	<u>65,335</u>

### 16. INTERESTS IN SUBSIDIARIES

	<b>Company</b>	
	<b>2003</b>	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Unlisted shares, at cost	<b>559,088</b>	559,088
Shares listed in Hong Kong, at cost	<b>388,090</b>	—
Due to a subsidiary	<b>(369,419)</b>	(301,505)
	<b>577,759</b>	257,583
Provision for impairment	<b>(221,045)</b>	(38,209)
	<b>356,714</b>	219,374
Market value of listed shares	<b>205,255</b>	—

NOTES TO FINANCIAL STATEMENTS

31 December 2003

16. INTERESTS IN SUBSIDIARIES (continued)

The amount due to a subsidiary is unsecured, interest-free and has no fixed terms of repayment. Although this balance is technically currently repayable under the original terms of the transactions giving rise thereto, it has been deferred or subordinated for the longer term and is therefore classified as non-current.

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 ("Founder HK")	Hong Kong	Ordinary HK\$110,879,989	100	—	Systems integration and investment holding
Founder Electronics##	Mainland China	Registered HK\$230 million	—	100	Software development and systems integration
Founder Electronics (HK) Limited	Hong Kong	Ordinary HK\$2	—	100	Systems integration
Sparkling Idea Limited	British Virgin Islands/ Hong Kong	Ordinary US\$1	—	100	Investment holding
Founder Order##	Mainland China	Registered HK\$50 million	—	100	Software development and systems integration
Founder Systems (BVI) Limited	British Virgin Islands/ Mainland China	Ordinary US\$1	—	100	Systems integration
EC-Founder (Holdings) Company Limited ("EC-Founder")+**	Bermuda/ Hong Kong	Ordinary HK\$110,056,204	54.85	—	Investment holding
PRC Century##	Mainland China	Registered RMB117,303,000	—	54.85	Distribution of information products
Founder Century (Hong Kong) Limited ("HK Century")	Hong Kong	Ordinary HK\$2	—	54.85	Distribution of information products

## NOTES TO FINANCIAL STATEMENTS

31 December 2003

## 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	
EC-Founder Co., Ltd.+##	Mainland China	Registered US\$6,000,000	—	54.85	Provision of software solutions and services
Beijing AdTargeting Inc.+##	Mainland China	Registered US\$300,000	—	54.85	Provision of internet advertising agency services
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/ Hong Kong	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. ("Founder Inc.")*	Japan	Ordinary JPY112,650,000	—	88.19	Software development and systems integration
Power Print Inc.*	Japan	Ordinary JPY400 million	—	58.56	Provision of internet printing services
Beijing Founder International Co., Limited ("Beijing International")*##	Mainland China	Registered US\$500,000	—	88.19	Software development and systems integration

## NOTES TO FINANCIAL STATEMENTS

31 December 2003

### 16. INTERESTS IN SUBSIDIARIES (continued)

- \* Not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.
- \*\* Listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").
- ## Registered as wholly-foreign owned enterprise under the PRC law.
- + Acquired during the year.

During the year, the Group acquired additional interest in EC-Founder, the then associated company of the Group. EC-Founder became a subsidiary of the Group thereafter. Further details of this acquisition are included in notes 33(a) and 36(b) to the financial statements.

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.

### 17. INTEREST IN A JOINTLY-CONTROLLED ENTITY

	<b>Group</b>	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Share of net assets	<u>9,518</u>	<u>8,588</u>

Particulars of the jointly-controlled entity are as follows:

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

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

## NOTES TO FINANCIAL STATEMENTS

31 December 2003

## 18. INTERESTS IN ASSOCIATES

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Listed shares in Hong Kong, at cost	—	—	—	323,690
Share of net assets	<b>37,555</b>	69,759	—	—
Due from associates	<b>1,105</b>	1,534	—	—
Due to an associate	—	(166)	—	—
	<b>38,660</b>	71,127	—	323,690
Provision for impairment	—	—	—	(249,241)
	<b>38,660</b>	71,127	—	74,449
Market value of listed shares	<b>27,527</b>	97,127	—	74,449

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 indirectly attributable to the Group		Principal activities
			2003	2002	
PUC Founder (MSC) Berhad*#	Corporate	Malaysia	<b>35.93</b>	35.93	Software development and systems integration
Beijing Founder Information Co., Ltd.*##	Corporate	Mainland China	<b>18.52</b>	55.16	Publishing of magazines
MC.Founder Limited+	Corporate	Hong Kong	<b>20.12</b>	—	Distribution of mobile phones

## NOTES TO FINANCIAL STATEMENTS

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### 18. INTERESTS IN ASSOCIATES (continued)

Name	Business structure	Place of incorporation/ registration and operations	Percentage of ownership interest indirectly attributable to the Group		Principal activities
			2003	2002	
MC.Founder (Distribution) Limited+	Corporate	Hong Kong	20.12	—	Distribution of mobile phones and provision of repair services
MC.Founder (Technology) Limited+	Corporate	Hong Kong	20.12	—	Sales of data products

\* Not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.

# Listed on the Malaysian Exchange of Securities Dealing and Automated Quotation Market of the Malaysia Securities Exchange Berhad.

## The ownership interest was partially disposed of and passively diluted during the year and was reclassified from interest in a subsidiary to interest in an associate. It was accounted for as an associate since 21% of equity interests was held by a non wholly-owned subsidiary of the Group.

+ Acquired during the year.

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.

### 19. INVENTORIES

	Group	
	2003 HK\$'000	2002 HK\$'000
Trading stocks	<u>125,835</u>	<u>97,140</u>

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

## NOTES TO FINANCIAL STATEMENTS

31 December 2003

### 20. SYSTEMS INTEGRATION CONTRACTS

	Group	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Gross amount due from contract customers	53,190	56,309
Gross amount due to contract customers	(724)	—
	<u>52,466</u>	<u>56,309</u>
Contract costs incurred plus recognised profits less recognised losses and foreseeable losses to date	71,920	56,309
Less: Progress billings	(19,454)	—
	<u>52,466</u>	<u>56,309</u>

### 21. TRADE AND BILLS 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 one month, extending up to six 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.

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

	Group	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 6 months	228,512	172,214
7-12 months	9,323	15,466
13-24 months	9,835	7,469
Over 24 months	611	1,153
	<u>248,281</u>	<u>196,302</u>

Included in the Group's trade and bills receivables are amounts due from the related companies of the Group of approximately HK\$186,000 (2002: HK\$9,051,000), which are repayable on similar credit terms to those offered to the major customers of the Group.

## NOTES TO FINANCIAL STATEMENTS

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### 22. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Prepayments	34,165	44,448	—	—
Deposits and other receivables	26,926	16,914	122	91
	<u>61,091</u>	<u>61,362</u>	<u>122</u>	<u>91</u>

Included in the Group's prepayments, deposits and other receivables as at the balance sheet date is an amount of approximately HK\$6,295,000 (2002: HK\$3,908,000) paid in advance to a related company arising from purchases of products carried out in the ordinary course of business of the Group. The balance with the related company is unsecured and interest-free.

### 23. SHORT TERM INVESTMENTS

	Group	
	2003 HK\$'000	2002 HK\$'000
Overseas listed equity investments, at market value	454	—
Overseas mutual fund, at market value	2,047	4,546
	<u>2,501</u>	<u>4,546</u>

### 24. PLEDGED DEPOSITS

The Group's bank deposits were pledged to banks to secure the banking facilities granted to the Group.



## NOTES TO FINANCIAL STATEMENTS

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### 25. CASH AND CASH EQUIVALENTS

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Cash and bank balances	211,973	195,153	4	82
Time deposits	70,687	21,230	—	—
	<u>282,660</u>	<u>216,383</u>	<u>4</u>	<u>82</u>

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to approximately HK\$197,464,000 (2002: HK\$160,442,000). The RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business in the PRC.

### 26. TRADE AND BILLS PAYABLES

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

	Group	
	2003 HK\$'000	2002 HK\$'000
Within 6 months	257,961	113,749
7-12 months	1,608	9,105
13-24 months	1,761	50,301
Over 24 months	5,169	26,139
	<u>266,499</u>	<u>199,294</u>

### 27. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Accruals	150,974	119,444	15	114
Other payables	22,931	17,512	—	—
Trading receipts in advance	85,988	101,710	—	—
	<u>259,893</u>	<u>238,666</u>	<u>15</u>	<u>114</u>

## NOTES TO FINANCIAL STATEMENTS

31 December 2003

### 28. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Group	
	2003	2002
	HK\$'000	HK\$'000
Bank loans:		
Secured	—	3,137
Unsecured	—	26,413
	—	29,550
Trust receipt loans, secured	<b>5,515</b>	2,690
Other loan, unsecured	—	942
	<b>5,515</b>	33,182
Bank loans and trust receipt loans repayable:		
Within one year or on demand	<b>5,515</b>	30,004
In the second year	—	957
In the third to fifth years, inclusive	—	1,279
	<b>5,515</b>	32,240
Other loan repayable within one year or on demand	—	942
	<b>5,515</b>	33,182
Portion classified as current liabilities	<b>(5,515)</b>	(30,946)
Long term portion	—	2,236

The Group's trade finance facilities at the balance sheet date were secured by:

- (i) charges over the Group's investment properties which had an aggregate carrying value at the balance sheet date of approximately HK\$14,280,000 (2002: HK\$12,200,000);
- (ii) charges 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\$14,200,000 (2002: HK\$14,700,000); and
- (iii) the pledge of the Group's bank deposits amounting to approximately HK\$41,077,000 (2002: HK\$25,729,000).

## NOTES TO FINANCIAL STATEMENTS

31 December 2003

### 29. DEFERRED TAX

The movement in deferred tax assets during the year is as follows:

	<b>Group</b>	
	<b>Losses available for offset against future taxable profit</b>	
	<b>2003</b>	2002
	<b>HK\$'000</b>	<i>HK\$'000</i>
At 1 January		
As previously reported	—	—
Prior year adjustment:		
SSAP 12 - restatement of deferred tax	<b>8,129</b>	9,480
As restated	<b>8,129</b>	9,480
Acquisition of subsidiaries	<b>1,481</b>	—
Deferred tax charged to the profit and loss account during the year	<b>(1,715)</b>	(1,351)
Gross and net deferred tax assets at 31 December	<b><u>7,895</u></b>	<u>8,129</u>

The principal components of the Group's gross and net deferred tax assets not recognised in the financial statements are as follows:

	<b>Group</b>	
	<b>2003</b>	2002
	<b>HK\$'000</b>	<i>HK\$'000</i>
		<i>(Restated)</i>
Accelerated depreciation allowances	<b>1,934</b>	1,062
Tax losses	<b>70,987</b>	51,524
General provision for obsolete inventories	<b>52</b>	44
General provision for doubtful trade debts	<b>28</b>	260
	<b><u>73,001</u></b>	<u>52,890</u>

## NOTES TO FINANCIAL STATEMENTS

31 December 2003

### 29. DEFERRED TAX *(continued)*

The unused tax losses include an amount of approximately HK\$19,862,000 (2002: HK\$15,027,000) arising in Mainland China which is due to expire within two to five years for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of the unused tax losses and other deductible temporary differences as they have arisen in subsidiaries that have been loss-making for some time.

At 31 December 2003, there was no significant unrecognised deferred tax liability (2002: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries, associates and jointly-controlled entity as the Group had no liability to additional tax should such amounts be remitted due to the availability of double tax relief.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

SSAP 12 (Revised) was adopted during the year, as further explained in note 2 to the financial statements. This change in accounting policy has resulted in an increase in the Group's deferred tax assets as at 31 December 2003 and 2002 by approximately HK\$7,895,000 and HK\$8,129,000 respectively. As a consequence, the consolidated net profit attributable to shareholders for the year ended 31 December 2003 has been decreased by approximately HK\$1,715,000 and the consolidated net loss attributable to shareholders for the year ended 31 December 2002 has been increased by approximately HK\$1,351,000. The consolidated accumulated losses at 1 January 2003 and 2002 have been reduced by approximately HK\$8,129,000 and HK\$9,480,000 respectively, as detailed in note 32(a) to the financial statements.

### 30. SHARE CAPITAL

	<b>Group and Company</b>	
	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Authorised:		
2,100,000,000 ordinary shares of HK\$0.10 each	<b><u>210,000</u></b>	<u>210,000</u>
Issued and fully paid:		
1,123,799,893 ordinary shares of HK\$0.10 each	<b><u>112,380</u></b>	<u>112,380</u>

## NOTES TO FINANCIAL STATEMENTS

31 December 2003

### 31. SHARE OPTION SCHEMES

#### (a) Share option schemes of the Company

On 24 May 2002, the Company adopted a new share option scheme (the "New Scheme") in compliance with Chapter 17 of the Listing Rules which replaced the old share option scheme (the "Old Scheme") in force previously.

The purpose of the New Scheme is to recognise and acknowledge the contributions or potential contributions made or to be made by the participants to the Group, to motivate the participants to optimise their performance and efficiency for the benefit of the Group, and to maintain or attract business relationships with participants whose contributions are or may be beneficial to the growth of the Group. Eligible participants of the New Scheme include (i) any part-time or full-time employee or officer of any member of the Group or of any substantial shareholder of the Company or of any associated company of the Company; (ii) any substantial shareholder of the Company; (iii) the chief executive or director (executive, non-executive or independent non-executive) of any member of the Group or of any substantial shareholder of the Company or of any associated company of the Company; and (iv) any supplier, agent, customer, partner or business associate of, or adviser or consultant to any member of the Group. The New Scheme became effective on 24 May 2002 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

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

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

The offer of a grant of share options is deemed to have been accepted when the duplicate offer letter comprising the acceptance of the option is signed and upon payment of a nominal consideration of HK\$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors and ends on a date which is not later than ten years from the date of the offer of the share options.

## NOTES TO FINANCIAL STATEMENTS

31 December 2003

### 31. SHARE OPTION SCHEMES (continued)

#### (a) Share option schemes of the Company (continued)

The exercise price of the share options is determinable by the directors, but should be the highest of (i) the closing price of the shares of the Company as stated in the Stock Exchange's daily quotation sheet on the date of the offer of the share options; (ii) the average closing price of the shares of the Company as stated in the Stock Exchange's daily quotation sheet for the five trading days immediately preceding the date of the offer; and (iii) the nominal value of the shares of the Company.

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

As at 31 December 2003, no share options had been granted under the New Scheme since its adoption.

The Old Scheme was replaced by the New Scheme on 24 May 2002. However, the options granted under the Old Scheme remain in full force and effect.

The following share options were outstanding under the Old Scheme at 1 January 2003 and at the end of the year:

Category of participant	Number of share options outstanding at 1 January 2003 and 31 December 2003	Date of grant of share options	Exercise period of share options	Exercise price of share options* HK\$
<i>Other employees</i>				
In aggregate	700,000	16.4.1999	16.4.1999 to 6.12.2005	0.912

\* The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

At the balance sheet date, the Company had 700,000 share options outstanding under the Old Scheme, which represented approximately 0.06% of the Company's shares in issue as at that date. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 700,000 additional ordinary shares of the Company and additional share capital of HK\$70,000 and share premium of HK\$568,400 (before issue expenses).

On 2 January 2004, 58,000,000 share options were granted under the New Scheme to certain employees of the Group in respect of their services to the Group in the forthcoming years. The exercise price of the share options is HK\$0.84 per share and the exercise period commenced on 3 January 2004 and will expire on 31 December 2013. The price of the Company's shares at the date of grant was HK\$0.84.

## NOTES TO FINANCIAL STATEMENTS

31 December 2003

### 31. SHARE OPTION SCHEMES (continued)

#### (a) Share option schemes of the Company (continued)

On 5 February 2004, 32,000,000 share options were granted under the New Scheme to the executive directors of the Company in respect of their services to the Group in the forthcoming years. The exercise price of the share options is HK\$1.104 per share and the exercise period commenced on 6 February 2004 and will expire on 4 February 2014. The price of the Company's shares at the date of grant was HK\$1.10.

#### (b) Share option schemes of EC-Founder

On 24 May 2002, EC-Founder, a subsidiary of the Company, adopted a new share option scheme (the "2002 Scheme") in compliance with Chapter 17 of the Listing Rules. As at 31 December 2003, no share options had been granted under the 2002 Scheme since its adoption.

The share option schemes adopted by EC-Founder on 11 September 1991 (the "1991 Scheme") and 7 May 2001 (the "2001 Scheme") were terminated on 24 May 2002, however, the options granted under the 1991 Scheme and the 2001 Scheme remain in full force and effect.

The following share options were outstanding under the 1991 Scheme and the 2001 Scheme at 1 January 2003 and at the end of the year:

Name or category of participant	Number of share options			Date of grant of share options*	Exercise period of share options	Exercise price of share options** HK\$
	At 1 January 2003	Lapsed during the year	At 31 December 2003			
<b>1991 Scheme</b>						
<i>Other employees</i>						
In aggregate	<u>5,900,000</u>	<u>(3,200,000)</u>	<u>2,700,000</u>	18.5.2001	15.12.2001 to 14.12.2006	0.45
<b>2001 Scheme</b>						
<i>Directors</i>						
Mr Cheung Shuen Lung	2,000,000	—	2,000,000	18.5.2001	18.5.2001 to 17.5.2011	0.45
Professor Wei Xin	<u>2,000,000</u>	<u>—</u>	<u>2,000,000</u>	18.5.2001	18.5.2001 to 17.5.2011	0.45
Subtotal	<u>4,000,000</u>	<u>—</u>	<u>4,000,000</u>			
<i>Other employees</i>						
In aggregate	<u>20,900,000</u>	<u>(17,000,000)</u>	<u>3,900,000</u>	18.5.2001	18.5.2001 to 17.5.2011	0.45
Subtotal	<u>20,900,000</u>	<u>(17,000,000)</u>	<u>3,900,000</u>			
Total under the 2001 Scheme	<u>24,900,000</u>	<u>(17,000,000)</u>	<u>7,900,000</u>			

NOTES TO FINANCIAL STATEMENTS

31 December 2003

31. SHARE OPTION SCHEMES (continued)

(b) Share option schemes of EC-Founder (continued)

\* The vesting period of the share options is from the date of the grant until the commencement of the exercise period.

\*\* The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in EC-Founder’s share capital.

On 2 January 2004, 38,000,000 share options were granted by EC-Founder under the 2002 Scheme to certain employees of the Company, EC-Founder and its subsidiaries (collectively the “EC-Founder group”) in respect of their services to the EC-Founder group in the forthcoming years. The exercise price of the share options is HK\$0.34 per share and the exercise period commenced on 3 January 2004 and will expire on 31 December 2013. The price of EC-Founder’s shares at the date of grant was HK\$0.34.

On 6 February 2004, 32,000,000 share options were granted by EC-Founder under the 2002 Scheme to certain executive directors of EC-Founder in respect of their services to EC-Founder in the forthcoming years. The exercise price of the share options is HK\$0.381 per share and the exercise period commenced on 7 February 2004 and will expire on 5 February 2014. The price of EC-Founder’s shares at the date of grant was HK\$0.38.

(c) Share option scheme of Founder Inc.

The following share options were outstanding under the share option scheme operated by Founder Inc., a subsidiary of the Company, at 1 January 2003 and at the end of the year:

Category of participant	Number of share options			Date of grant of share options*	Exercise period of share options	Exercise price of share options**
	At 1 January 2003	Lapsed during the year	At 31 December 2003			
<i>Other employees</i>						
In aggregate	58	(3)	55	16.12.2000	17.12.2000 to 16.12.2010	4,720,000

\* The vesting period of the share options is from the date of the grant until the commencement of the exercise period.

\*\* The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in Founder Inc.’s share capital.



## NOTES TO FINANCIAL STATEMENTS

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## 32. RESERVES

## (a) Group

	Share premium account HK\$'000	Contributed surplus HK\$'000	Capital reserve HK\$'000	Land and buildings revaluation reserve HK\$'000	Exchange fluctuation reserve HK\$'000	General reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2002:								
As previously reported	27,660	613,445	64,754	601	(4,801)	42,999	(448,702)	295,956
Prior year adjustment:								
SSAP 12 - restatement of deferred tax (note 29)	—	—	—	—	—	—	9,480	9,480
As restated	27,660	613,445	64,754	601	(4,801)	42,999	(439,222)	305,436
Exchange realignment	—	—	—	—	1,462	—	—	1,462
Impairment of goodwill of subsidiaries remaining eliminated against contributed surplus	—	189,070	—	—	—	—	—	189,070
Share of general reserve of an associate	—	—	—	—	—	42	—	42
Net loss for the year (restated)	—	—	—	—	—	—	(275,844)	(275,844)
Transfer to general reserve	—	—	—	—	—	18	(18)	—
Transfer to capital reserve	—	—	3,685	—	—	—	(3,685)	—
At 31 December 2002 (restated)	<u>27,660</u>	<u>802,515</u>	<u>68,439</u>	<u>601</u>	<u>(3,339)</u>	<u>43,059</u>	<u>(718,769)</u>	<u>220,166</u>
At 1 January 2003:								
As previously reported	27,660	802,515	68,439	601	(3,339)	43,059	(726,898)	212,037
Prior year adjustment:								
SSAP 12 - restatement of deferred tax (note 29)	—	—	—	—	—	—	8,129	8,129
As restated	27,660	802,515	68,439	601	(3,339)	43,059	(718,769)	220,166
Realisation upon partial disposal of a subsidiary	—	—	—	—	(210)	—	—	(210)
Exchange realignment	—	—	—	—	2,395	—	—	2,395
Share of general reserve of associates	—	—	—	—	—	38	—	38
Net profit for the year	—	—	—	—	—	—	7,215	7,215
Transfer to general reserve	—	—	—	—	—	25	(25)	—
At 31 December 2003	<u>27,660</u>	<u>802,515</u>	<u>68,439</u>	<u>601</u>	<u>(1,154)</u>	<u>43,122</u>	<u>(711,579)</u>	<u>229,604</u>

NOTES TO FINANCIAL STATEMENTS

31 December 2003

32. RESERVES (continued)

(a) Group (continued)

	Share premium account HK\$'000	Contributed surplus HK\$'000	Capital reserve HK\$'000	Land and buildings revaluation reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Retained profits/ General (accumulated reserve losses) HK\$'000	Total HK\$'000
Reserves retained by:							
Company and subsidiaries	27,660	802,515	64,754	601	(815)	43,034	213,079
Jointly-controlled entity	—	—	—	—	82	—	7,918
Associates	—	—	3,685	—	(421)	88	8,607
At 31 December 2003	<u>27,660</u>	<u>802,515</u>	<u>68,439</u>	<u>601</u>	<u>(1,154)</u>	<u>43,122</u>	<u>229,604</u>
Company and subsidiaries	27,660	802,515	64,754	601	(3,877)	43,017	258,111
Jointly-controlled entity	—	—	—	—	82	—	6,988
Associates	—	—	3,685	—	456	42	(44,933)
At 31 December 2002	<u>27,660</u>	<u>802,515</u>	<u>68,439</u>	<u>601</u>	<u>(3,339)</u>	<u>43,059</u>	<u>220,166</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 HK acquired pursuant to the group reorganisation on 31 March 2000, over the nominal value of the Company's shares issued in exchange therefor. Goodwill arising on the acquisition of subsidiaries in prior years remains eliminated against the contributed surplus, further details of which are included in note 15 to these financial statements.

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

In accordance with the relevant PRC regulations, each of the Group's PRC subsidiaries, associate 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. During the year, no transfer to general reserve was made by the Group's PRC subsidiaries, associate and jointly-controlled entity on the above basis.

In accordance with the relevant Taiwanese regulations, each of the Group's Taiwanese subsidiaries and associates 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, the Taiwanese subsidiary and associates transferred in total approximately HK\$63,000 (2002: HK\$60,000), which represented 10% of their profit after tax, to the general reserve.

## NOTES TO FINANCIAL STATEMENTS

31 December 2003

## 32. RESERVES (continued)

## (b) 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>
At 1 January 2002	27,660	448,209	(197,720)	278,149
Net loss for the year	—	—	(96,647)	(96,647)
At 31 December 2002 and beginning of year	27,660	448,209	(294,367)	181,502
Net profit for the year	—	—	62,943	62,943
At 31 December 2003	<u>27,660</u>	<u>448,209</u>	<u>(231,424)</u>	<u>244,445</u>

The contributed surplus of the Company represents the excess of the fair value of the shares of Founder HK acquired pursuant to the group reorganisation on 31 March 2000, over the nominal value of the Company's shares issued in exchange therefor. Under the Bermuda Companies Act 1981, the Company may make distributions to its members out of the contributed surplus in certain circumstances.

## NOTES TO FINANCIAL STATEMENTS

31 December 2003

### 33. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

#### (a) Acquisition of subsidiaries

	2003 HK\$'000
Net assets acquired of:	
Fixed assets	47,851
Interests in associates	18,392
Deferred tax assets	1,481
Inventories	34,685
Systems integration contracts	1,036
Trade and bills receivables	41,135
Prepayments, deposits and other receivables	8,264
Pledged deposits	7,799
Cash and cash equivalents	59,164
Trade and bills payables	(34,478)
Other payables and accruals	(34,389)
Interest-bearing bank and other borrowings	(13,045)
Minority interests	(93,863)
	<u>44,032</u>
Goodwill on acquisition ( <i>note 15</i> )	<u>10,367</u>
	<u><u>54,399</u></u>
Satisfied by:	
Reclassification to interests in subsidiaries from interests in associates	<u><u>54,399</u></u>

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

	2003 HK\$'000
Cash and cash equivalents acquired	<u><u>59,164</u></u>

The subsidiaries acquired during the year contributed approximately HK\$68,837,000 to the Group's consolidated turnover and loss of approximately HK\$27,227,000 to the Group's consolidated loss after tax for the year ended 31 December 2003. The turnover and loss after tax amounts have excluded the former associates' contribution to the results prior to their becoming the subsidiaries.

## NOTES TO FINANCIAL STATEMENTS

31 December 2003

33. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(continued)*

## (b) Disposal/partial disposal of subsidiaries

	2003 HK\$'000	2002 HK\$'000
Net assets disposed of:		
Fixed assets	37,655	84
Intangible assets	—	3,060
Interests in associates	—	274
Long term investment	63	—
Inventories	39,100	—
Trade and bills receivables	25,594	3,994
Prepayments, deposits and other receivables	4,567	1,089
Short term investments	—	681
Cash and bank balances	10,881	4,317
Trade payables	(35,240)	(1,614)
Other payables and accruals	(10,657)	(1,947)
Interest-bearing bank and other borrowings	(15,123)	—
Minority interests	—	(5,592)
Exchange fluctuation reserve	(210)	—
	<u>56,630</u>	<u>4,346</u>
Loss on disposal <i>(note 6)</i>	(13,260)	(560)
Gain on partial disposal <i>(note 6)</i>	3,496	—
	<u>46,866</u>	<u>3,786</u>
Satisfied by:		
Cash	45,500	—
Interest in an associate	1,366	3,786
	<u>46,866</u>	<u>3,786</u>

## NOTES TO FINANCIAL STATEMENTS

31 December 2003

### 33. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(continued)*

#### (b) Disposal/partial disposal of subsidiaries *(continued)*

An analysis of the net inflow/(outflow) of cash and cash equivalents in respect of the disposal/partial disposal of subsidiaries is as follows:

	<b>2003</b> <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Cash consideration	<b>45,500</b>	—
Cash and bank balances disposed of	<b>(10,881)</b>	(4,317)
Bank overdrafts disposed of	<b>5,510</b>	—
Net inflow/(outflow) of cash and cash equivalents in respect of the disposal/partial disposal of subsidiaries	<b><u>40,129</u></b>	<b><u>(4,317)</u></b>

The subsidiaries disposed/partially disposed of in 2003 contributed approximately HK\$33,598,000 to the Group's consolidated turnover and loss of approximately HK\$1,974,000 to the Group's consolidated loss after tax for that year.

The subsidiaries disposed of in 2002 contributed approximately HK\$23,829,000 to the Group's consolidated turnover and profit of approximately HK\$402,000 to the Group's consolidated loss after tax for that year.

### 34. CONTINGENT LIABILITIES

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

	<b>Group</b>		<b>Company</b>	
	<b>2003</b> <i>HK\$'000</i>	2002 <i>HK\$'000</i>	<b>2003</b> <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Bills discounted with recourse	<b>3,679</b>	2,120	—	—
Guarantees given to banks in connection with facilities granted to subsidiaries	—	—	<b>45,000</b>	84,896
Guarantees given to suppliers in connection with credit facilities granted to subsidiaries	—	—	<b>15,598</b>	111,949
	<b><u>3,679</u></b>	<b><u>2,120</u></b>	<b><u>60,598</u></b>	<b><u>196,845</u></b>

As at 31 December 2003, the guarantees given by the Company to banks in connection with facilities granted to subsidiaries were utilised to the extent of approximately HK\$13,159,000 (2002: HK\$14,631,000).

As at 31 December 2003, the guarantees given by the Company to suppliers in connection with credit facilities granted to subsidiaries were not utilised.

## NOTES TO FINANCIAL STATEMENTS

31 December 2003

### 35. OPERATING LEASE ARRANGEMENTS

#### (a) As lessor

The Group leases its investment properties (note 13 to the financial statements) under operating lease arrangements, with leases negotiated for terms ranging from three months to three 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.

At 31 December 2003, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	<b>Group</b>	
	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Within one year	<b>874</b>	1,694
In the second to fifth years, inclusive	<b>949</b>	1,723
	<b><u>1,823</u></b>	<u>3,417</u>

#### (b) As lessee

The Group leases certain of its office and warehouse properties under operating lease arrangements, which are negotiated for terms ranging from seven months to three years.

At 31 December 2003, the Group had total future minimum lease payments under the non-cancellable operating leases falling due as follows:

	<b>Group</b>	
	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Within one year	<b>26,406</b>	23,672
In the second to fifth years, inclusive	<b>24,945</b>	26,525
	<b><u>51,351</u></b>	<u>50,197</u>

## NOTES TO FINANCIAL STATEMENTS

31 December 2003

### 36. RELATED PARTY TRANSACTIONS

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

(a)	Notes	Group	
		2003 HK\$'000	2002 HK\$'000
Sales of goods to associates	(i)	2,004	379
Sales of goods to a company in which three directors of the Company were directors	(i)	1,405	11,109
Sales of goods to a company in which one director of a subsidiary was a shareholder	(i)	2,959	24,855
Purchases of goods from associates	(ii)	585	6,970
Purchases of goods from a company in which three directors of the Company were directors	(ii)	274	4,839
Purchase of goods from a company in which one director of a subsidiary was a shareholder	(iii)	39,429	16,833
Bank loan guarantees given by Peking University Founder Group Corporation ("Peking Founder"), a substantial shareholder of the Company	(iv)	—	18,846
Bank facilities guarantees given by Peking Founder	(v)	238,935	188,524
Credit facilities guarantee given by Peking Founder	(vi)	5,265	—

Notes:

- (i) The sales of goods were made according to published prices and conditions similar to those offered to other customers of the Group.
- (ii) The purchases of goods were made according to published prices and conditions similar to those offered by the related parties to their other customers.
- (iii) The purchase prices were determined based on actual costs incurred.
- (iv) The bank loan guarantees were given to PRC banks for the loans granted to a subsidiary.
- (v) The bank facilities guarantees were given to PRC banks for credit facilities granted to a subsidiary and utilised to the extent of approximately HK\$177,128,000 at 31 December 2003 (2002: HK\$113,168,000).
- (vi) The credit facilities guarantee was given to a supplier for credit facilities granted to and utilised by a subsidiary.



## NOTES TO FINANCIAL STATEMENTS

31 December 2003

### 36. RELATED PARTY TRANSACTIONS *(continued)*

- (b) On 19 March 2003, Founder HK entered into a conditional sale and purchase agreement (the "S&P Agreement") with EC-Founder. Pursuant to the S&P Agreement, EC-Founder acquired the entire equity interests in HK Century and PRC Century from Founder HK (the "Acquisition"). The consideration was satisfied as to (i) HK\$10,320,000 in the form of cash, with HK\$5,160,000 being settled at the completion date of the Acquisition and the remaining HK\$5,160,000 being settled on 2 January 2004; and (ii) HK\$64,400,000 in the form of 280,000,000 ordinary shares of EC-Founder being allotted at the completion date of the Acquisition. The Acquisition was completed on 1 July 2003. EC-Founder became an approximately 54.85% owned subsidiary of the Company upon the completion of the Acquisition.
- (c) On 29 April 2003, Founder Electronics, Founder Order, Beijing International, PRC Century and EC-Founder Co., Ltd., the subsidiaries of the Company, entered into lease agreements with Peking Founder to lease from Peking Founder certain premises in Beijing, the PRC, as their offices, warehouse and staff canteen for an aggregate annual rental and management fees of approximately HK\$25,805,000 effective from 1 May 2003 to 31 December 2005. The lease agreements signed between the Group and Peking Founder in December 1995 were terminated on 30 April 2003. During the year, rental and management fee expenses of approximately HK\$19,452,000 (2002: HK\$12,868,000) were paid to Peking Founder. The directors considered that the rental and management fee expenses were paid in accordance with the terms of the lease agreements governing such transactions. The balances due from/to Peking Founder included in deposits and other receivables and other payables and accruals as at 31 December 2003 were approximately HK\$4,555,000 (2002: Nil) and HK\$11,966,000 (2002: Nil), respectively.
- (d) On 1 August 2003, EC-Founder entered into a conditional disposal agreement (the "DA") with Honour Glory Limited, which is 90% owned by Mr Yung Richard, Jr., a director of EC-Founder. Pursuant to the DA, EC-Founder disposed of the entire issued share capital of MIT Holdings Limited ("MIT") to Honour Glory Limited at a total cash consideration of HK\$45,500,000. The disposal was completed on 26 September 2003.
- (e) Pursuant to the management agreement (the "MA") dated 17 May 2000, Ricwinco Investment Limited ("Ricwinco"), a shareholder which held 7.97% of the shares of EC-Founder, was appointed as manager for a period of three years with responsibility for the management and conduct of the semi-conductor business, which was operated by Yung Wen Investment & Finance Limited and its subsidiaries (collectively the "YW Group"), and the weighing scale business, which was operated by MIT and its subsidiaries (the "MIT Group"). Ricwinco has unconditionally guaranteed to EC-Founder that the aggregate of the audited consolidated profit after tax and minority interests of the YW Group and the MIT Group for each year would not be less than an amount equal to 6% of the net asset value of the YW Group and the MIT Group as at 28 September 2000. The period for which the profit guarantee was effective commenced from 1 October 2000 and expired on 30 September 2003. The disposal of the YW Group during 2002 and the MIT Group during the year released Ricwinco from its profit guarantee obligation in respect of the YW Group and the MIT Group under the MA respectively.
- (f) During the year, the Group received commission income of approximately HK\$1,499,000 (2002: Nil) for the provision of advertising agency services from a subsidiary of Yahoo! Inc., a shareholder which held 8.47% of the shares of EC-Founder.

## **NOTES TO FINANCIAL STATEMENTS**

*31 December 2003*

### **37. POST BALANCE SHEET EVENTS**

- (a) On 2 January 2004 and 5 February 2004, 58,000,000 and 32,000,000 share options were granted by the Company to certain employees of the Group and executive directors of the Company, respectively, as further detailed in note 31(a) to the financial statements.
  
- (b) On 2 January 2004 and 6 February 2004, 38,000,000 and 32,000,000 share options were granted by EC-Founder to certain employees of the Company and the EC-Founder group and certain executive directors of EC-Founder, respectively, as further detailed in note 31(b) to the financial statements.

### **38. COMPARATIVE AMOUNTS**

As further explained in note 2 to the financial statements, due to the adoption of the new/revised SSAPs and Interpretation 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, a prior year adjustment has been made and certain comparative amounts have been restated 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 2 April 2004.