

NOTES TO FINANCIAL STATEMENTS

31 December 2004

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 RECENTLY ISSUED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

The Hong Kong Institute of Certified Public Accountants (the "HKICPA") has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("HKASs"), herein collectively referred to as the new HKFRSs, which are generally effective for accounting periods beginning on or after 1 January 2005. The Group has resolved to early adopt the following new HKFRSs in the financial statements for the year ended 31 December 2004:

- HKFRS 3 "Business combinations"
- HKAS 36 "Impairment of assets"
- HKAS 38 "Intangible assets"

The major effects on the Group's accounting policies and amounts disclosed in these financial statements are summarised as follows:

HKFRS 3 prescribes the accounting for business combinations. The early adoption of HKFRS 3 requires the early adoption of HKAS 36 and HKAS 38. The early adoption of HKFRS 3, HKAS 36 and HKAS 38 has resulted in a change in the accounting policy for goodwill.

Prior to the adoption:

- goodwill arising on acquisitions after 1 January 2001 was 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 20 years;
- goodwill arising on acquisitions before 1 January 2001 was eliminated against consolidated reserves in the year of acquisition;
- goodwill was assessed for impairment at each balance sheet date;
- impairment loss of goodwill was charged to the consolidated profit and loss account; and

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2. IMPACT OF RECENTLY ISSUED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (continued)

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

Upon adoption:

- the Group ceased the amortisation of goodwill from 1 January 2004;
- the accumulated amortisation of goodwill arising on acquisitions of subsidiaries as at 1 January 2004 has been eliminated with a corresponding decrease in the respective cost of goodwill at that date;
- from the year ended 31 December 2004 onwards, goodwill is tested annually for impairment, as well as when there are indications of impairment;
- upon impairment of goodwill previously eliminated against consolidated reserves, the impairment loss is not charged to the consolidated profit and loss account; and
- on disposal of subsidiaries, 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 not recognised in the consolidated profit and loss account upon disposal.

HKFRS 3 is prospectively applied and the effect of its adoption on these financial statements in respect of the year ended 31 December 2004 is included in note 15 to the financial statements.

The Group has already commenced an assessment of the impact of other new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (which also include Statements of Standard Accounting Practice and Interpretations) issued by the HKICPA, 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 2004. 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.

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.

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

Jointly-controlled entities *(continued)*

The Group's share of the post-acquisition results and reserves of jointly-controlled entities is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in jointly-controlled entities are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

Associates

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

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

Goodwill arising on acquisition of subsidiaries is initially measured at cost, being the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired as at the date of acquisition. Goodwill arising on acquisition of subsidiaries is recognised in the consolidated balance sheet as an asset.

Following the initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill arising on acquisitions on or after 1 January 2004 is not amortised. Goodwill already carried in the consolidated balance sheet as at 1 January 2004 is not amortised after that date and the carrying amount of the accumulated amortisation of goodwill was eliminated with a corresponding decrease in the cost of related goodwill as at that date. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

On disposal of subsidiaries, the gain or loss on disposal is calculated by reference to the net assets of the subsidiaries at the date of disposal, including the attributable amount of goodwill except as further explained below in respect of the attributable goodwill previously eliminated against consolidated reserves.

Goodwill arising on acquisitions before 1 January 2001 was eliminated against consolidated reserves in the year of acquisition. When the Group disposes of all or part of the business to which that goodwill relates, such goodwill is transferred from consolidated contributed surplus to consolidated accumulated losses and is not included in the calculation of gain or loss on disposal. When the business unit to which the goodwill relates becomes impaired, the impairment loss in respect of the goodwill is transferred from consolidated contributed surplus to consolidated accumulated losses and is not recognised in the consolidated profit and loss account.

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

Related parties

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

Impairment of assets

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

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss of the asset other than goodwill eliminated against consolidated reserves, the treatment of which is included in the accounting policy for goodwill above, 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 for an asset other than goodwill 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 in 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. Any impairment losses made against goodwill are not reversed.

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.

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

Fixed assets and depreciation *(continued)*

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
Furniture, fixtures and office equipment	10% – 33 $\frac{1}{3}$ %
Motor vehicles	10% – 30%

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

Construction in progress represents structures 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.

During the year, the Group revised the estimated useful lives of certain equipment and motor vehicles. In the opinion of the directors, the revised useful lives of such assets reflect more fairly the current estimate of their useful lives. The change of estimated useful lives has the effect of increasing the Group's depreciation charge by approximately HK\$3.2 million for the year.

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.

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

Investment properties *(continued)*

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.

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.

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

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.

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

NOTES TO FINANCIAL STATEMENTS

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

Income tax *(continued)*

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in jointly-controlled entities, 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.

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.

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

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.

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2004

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

Employee benefits *(continued)*

Retirement benefits schemes (continued)

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.

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.

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

Foreign currencies *(continued)*

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 editing services for newspapers and magazines, internet printing services and design, manufacture and distribution of electronic products.

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.

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4. SEGMENT INFORMATION (continued)

(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	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:														
Sales to external customers	630,621	571,947	183,335	175,798	1,187,216	756,799	-	-	12,659	49,252	-	-	2,013,831	1,553,796
Intersegment sales	5,226	-	-	1,078	13,537	13,448	-	-	-	-	(18,763)	(14,526)	-	-
Total	635,847	571,947	183,335	176,876	1,200,753	770,247	-	-	12,659	49,252	(18,763)	(14,526)	2,013,831	1,553,796
Segment results	25,030	23,936	(39,451)	2,509	7,432	6,930	(19,792)	(18,962)	552	(4,018)			(26,229)	10,395
Interest income													1,956	2,552
Impairment of fixed assets													-	(3,777)
Impairment of goodwill													-	(2,528)
Gain/(loss) on disposal of subsidiaries													3,255	(13,260)
Loss from operating activities													(21,018)	(6,618)
Finance costs													(875)	(2,071)
Share of profits and losses of:														
Jointly-controlled entity													(17)	1,028
Associates													3,350	3,836
Loss before tax													(18,560)	(3,825)
Tax													(7,232)	(3,790)
Loss before minority interests													(25,792)	(7,615)
Minority interests													(1,391)	14,830
Net profit/(loss) from ordinary activities attributable to shareholders													(27,183)	7,215

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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	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment assets	322,496	322,594	159,604	140,683	510,074	365,633	9,058	14,646	(2,378)	(6,678)	998,854	836,878
Interest in a jointly-controlled entity	-	9,518	-	-	-	-	-	-	-	-	-	9,518
Interests in associates	15,657	17,015	-	-	-	-	-	172	-	-	38,633	38,660
Corporate and other unallocated assets	-	-	-	-	-	-	-	-	-	-	49,009	75,646
											1,086,496	960,702
Segment liabilities	170,384	167,858	123,527	95,088	361,591	253,744	2,676	17,217	(236)	(19,940)	657,942	513,967
Corporate and other unallocated liabilities	-	-	-	-	-	-	-	-	-	-	19,163	18,084
											677,105	532,051
Other segment information:												
Amortisation	-	-	-	-	-	-	-	-	-	-	-	784
Depreciation	7,699	8,067	10,853	5,333	1,048	930	1,092	2,780			20,692	17,110
Impairment losses recognised in the profit and loss account	-	2,528	-	-	-	-	-	3,777			-	6,305
Capital expenditure	15,227	9,782	2,646	5,619	4,983	1,799	4,668	2,559			27,524	19,759

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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	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	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	210,378	172,084	1,686,214	1,235,026	117,239	146,686	-	-	2,013,831	1,553,796
Intersegment sales	231,142	177,289	6,072	-	-	-	(237,214)	(177,289)	-	-
Total	441,520	349,373	1,692,286	1,235,026	117,239	146,686	(237,214)	(177,289)	2,013,831	1,553,796

	Hong Kong		Mainland China		Overseas		Consolidated	
	2004	2003	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Other segment information:								
Segment assets	276,116	242,595	735,908	635,856	74,472	82,251	1,086,496	960,702
Capital expenditure	233	2,444	17,289	16,922	10,002	393	27,524	19,759

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5. TURNOVER, OTHER 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	
	2004	2003
	HK\$'000	HK\$'000
Turnover		
Software development and systems integration	813,956	747,745
Distribution of information products	1,187,216	756,799
Others	12,659	49,252
	<u>2,013,831</u>	<u>1,553,796</u>
Other revenue		
Interest income	1,956	2,552
Gross rental income	1,778	2,145
Government grants (<i>Note</i>)	28,758	27,885
Others	11,535	3,356
	<u>44,027</u>	<u>35,938</u>
Gains		
Gain on deemed partial disposal of a subsidiary	6,503	–
Gain on disposal of a jointly-controlled entity	4,329	–
Gain on partial disposal of a subsidiary	–	3,496
Others	7,575	22,417
	<u>18,407</u>	<u>25,913</u>
	<u>62,434</u>	<u>61,851</u>

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

NOTES TO FINANCIAL STATEMENTS

31 December 2004

6. LOSS FROM OPERATING ACTIVITIES

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

	Notes	Group	
		2004 HK\$'000	2003 HK\$'000
Auditors' remuneration		3,142	2,698
Cost of inventories sold		1,587,738	1,183,471
Cost of services provided		21,283	13,239
Depreciation	13	20,692	17,110
Goodwill:	15		
Amortisation for the year*		–	784
Impairment arising during the year		–	2,528
		<u>–</u>	<u>3,312</u>
Impairment of fixed assets		–	3,777
Write off of fixed assets	13	2,383	–
Loss on disposal of fixed assets		777	210
Loss/(gain) on disposal of subsidiaries	31(b)	(3,255)	13,260
Loss/(gain) on partial disposal of a subsidiary	31(b)	765	(3,496)
Impairment of interests in an associate		140	–
Operating lease rentals in respect of land and buildings		32,038	30,237
Provision and write-off of doubtful trade debts		2,114	1,934
Provision/(reversal of provision) for obsolete inventories		5,369	(8,189)
Revaluation surplus of:			
Land and buildings		(1,998)	(1,588)
Investment properties		(1,430)	(290)
Research and development costs:			
Current year expenditure		40,277	33,095
Deferred expenditure written off		932	–
		<u>41,209</u>	<u>33,095</u>
Staff costs (including directors' remuneration – note 8):			
Wages and salaries		176,427	168,396
Pension schemes contributions		15,623	12,678
Less: Forfeited contributions**		(40)	(4)
		<u>192,010</u>	<u>181,070</u>
Exchange losses/(gains), net		483	(2,130)
Net rental income		(1,778)	(2,145)
Unrealised gains on revaluation of short term investments		(11)	(71)
Write back of other receivables		(11,278)	–

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

** At 31 December 2004, 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 2004

7. FINANCE COSTS

	Group	
	2004	2003
	HK\$'000	HK\$'000
Interest on bank loans and overdrafts	875	2,050
Interest on finance leases	–	21
	<u>875</u>	<u>2,071</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	
	2004	2003
	HK\$'000	HK\$'000
Fees	<u>774</u>	<u>744</u>
Other emoluments:		
Salaries, allowances and benefits in kind	1,511	2,639
Performance related bonuses	–	600
Pension schemes contributions	<u>60</u>	<u>79</u>
	<u>1,571</u>	<u>3,318</u>
	<u>2,345</u>	<u>4,062</u>

Fees include HK\$294,000 (2003: 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 (2003: Nil).

NOTES TO FINANCIAL STATEMENTS

31 December 2004

8. DIRECTORS' REMUNERATION *(continued)*

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

	Number of directors	
	2004	2003
Nil – HK\$1,000,000	6	4
HK\$1,000,001 – HK\$1,500,000	1	–
HK\$1,500,001 – HK\$2,000,000	–	2
	<u>7</u>	<u>6</u>

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

During the year, certain directors were granted share options in respect of their services to the Group under the share option schemes of the Company and its subsidiary, further details of which are set out in note 29 to the financial statements. No value in respect of the share options granted during the year has been charged to the profit and loss account, or is otherwise included in the above directors' remuneration disclosures.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included one (2003: two) director, details of whose remuneration are set out in note 8 to the financial statements above. Details of the remuneration of the remaining four (2003: three) non-director, highest paid employees for the year are as follows:

	Group	
	2004 HK\$'000	2003 HK\$'000
Salaries, allowances and benefits in kind	3,649	2,456
Performance related bonuses	2,534	1,593
Pension schemes contributions	77	35
	<u>6,260</u>	<u>4,084</u>

NOTES TO FINANCIAL STATEMENTS

31 December 2004

9. FIVE HIGHEST PAID EMPLOYEES *(continued)*

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

	Number of employees	
	2004	2003
Nil – HK\$1,000,000	–	2
HK\$1,000,001 – HK\$1,500,000	2	–
HK\$1,500,001 – HK\$2,000,000	1	1
HK\$2,000,001 – HK\$2,500,000	1	–
	<u>4</u>	<u>3</u>

During the year, 36,000,000 share options were granted to the four non-director, highest paid employees in respect of their services to the Group, further details of which are included in the disclosures in note 29 to the financial statements. No value in respect of the share options granted during the year has been charged to the profit and loss account, or is otherwise included in the above non-director, highest paid employees' remuneration disclosures.

10. TAX

	Group	
	2004 HK\$'000	2003 HK\$'000
Group:		
Current – Hong Kong	5	8
Current – Elsewhere	299	710
Deferred (<i>note 27</i>)	5,553	1,715
	<u>5,857</u>	<u>2,433</u>
Share of tax attributable to:		
Jointly-controlled entity	–	98
Associates	1,375	1,259
	<u>1,375</u>	<u>1,357</u>
Total tax charge for the year	<u>7,232</u>	<u>3,790</u>

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 17.5%) on the estimated assessable profits arising in Hong Kong during the year.

NOTES TO FINANCIAL STATEMENTS

31 December 2004

10. TAX (continued)

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.

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.

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 ended on 31 December 2004 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 Order and PRC Century is 15%.

A reconciliation of the tax expense applicable to profit/(loss) before tax using the statutory rates for the countries in which the Company, the majority of 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 2004

10. TAX (continued)

Group – 2004

	Hong Kong		Mainland China		Overseas		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
Profit/(loss) before tax	<u>(7,471)</u>		<u>2,984</u>		<u>(14,073)</u>		<u>(18,560)</u>	
Tax at the statutory tax rate	(1,307)	17.5	985	33.0	(5,629)	40.0	(5,951)	32.1
Lower tax rate for specific provinces or local authority	–	–	1,451	48.6	563	(4.0)	2,014	(10.8)
Tax losses not recognised	2,885	(38.6)	9,472	317.4	–	–	12,357	(66.6)
Income not subject to tax	(766)	10.3	(5,498)	(184.2)	(2,797)	19.9	(9,061)	48.8
Expenses not deductible for tax	776	(10.4)	2,547	85.3	8,247	(58.6)	11,570	(62.3)
Tax losses utilised from previous periods	(335)	4.5	(3,362)	(112.6)	–	–	(3,697)	19.9
Tax charge at the Group's effective rate	<u>1,253</u>	<u>(16.7)</u>	<u>5,595</u>	<u>187.5</u>	<u>384</u>	<u>(2.7)</u>	<u>7,232</u>	<u>(38.9)</u>

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 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	6,350	(17.3)	1,450	3.6	4,266	(53.3)	12,066	(315.5)
Tax losses utilised from previous periods	(242)	0.6	–	–	–	–	(242)	6.3
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>

NOTES TO FINANCIAL STATEMENTS

31 December 2004

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

The net loss from ordinary activities attributable to shareholders for the year ended 31 December 2004 dealt with in the financial statements of the Company, was approximately HK\$41,230,000 (2003: net profit of approximately HK\$62,943,000) (note 30(b)).

12. EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings/(loss) per share is based on the net loss attributable to shareholders for the year ended 31 December 2004 of approximately HK\$27,183,000 (2003: net profit of approximately HK\$7,215,000), and the weighted average of approximately 1,123,800,000 (2003: 1,123,800,000) ordinary shares in issue during the year.

Diluted earnings/(loss) per share for the years ended 31 December 2004 and 2003 have not been calculated as the impact of the outstanding share options was anti-dilutive.

NOTES TO FINANCIAL STATEMENTS

31 December 2004

13. FIXED ASSETS

Group

	Investment properties HK\$'000	Land and buildings in Hong Kong HK\$'000	Land and buildings in Mainland China HK\$'000	Leasehold improvements HK\$'000	Furniture, fixtures and office equipment HK\$'000	Motor vehicles HK\$'000	Construction in progress HK\$'000	Total HK\$'000
Cost or valuation:								
At 1 January 2004	14,280	14,200	13,926	14,312	95,955	12,682	394	165,749
Additions	-	-	-	1,390	20,510	5,624	-	27,524
Write off	-	-	-	-	(11,279)	-	-	(11,279)
Disposals	-	-	-	(5,755)	(15,443)	(2,283)	-	(23,481)
Disposal of subsidiaries	-	-	-	(1,166)	(10,947)	(2,013)	-	(14,126)
Surplus on revaluation	1,430	1,700	-	-	-	-	-	3,130
Transfers	-	-	-	395	-	-	(395)	-
Exchange realignment	-	-	45	53	656	45	1	800
At 31 December 2004	15,710	15,900	13,971	9,229	79,452	14,055	-	148,317
Accumulated depreciation and impairment:								
At 1 January 2004	-	-	1,236	11,983	64,452	5,347	-	83,018
Provided during the year	-	298	286	831	16,934	2,343	-	20,692
Write off	-	-	-	-	(8,896)	-	-	(8,896)
Disposals	-	-	-	(5,256)	(14,007)	(1,581)	-	(20,844)
Disposal of subsidiaries	-	-	-	(542)	(7,087)	(776)	-	(8,405)
Write back on revaluation	-	(298)	-	-	-	-	-	(298)
Exchange realignment	-	-	4	33	396	20	-	453
At 31 December 2004	-	-	1,526	7,049	51,792	5,353	-	65,720
Net book value:								
At 31 December 2004	15,710	15,900	12,445	2,180	27,660	8,702	-	82,597
At 31 December 2003	14,280	14,200	12,690	2,329	31,503	7,335	394	82,731
Analysis of cost or valuation:								
At cost	-	-	13,971	9,229	79,452	14,055	-	116,707
At 31 December 2004 valuation	15,710	15,900	-	-	-	-	-	31,610
	15,710	15,900	13,971	9,229	79,452	14,055	-	148,317

NOTES TO FINANCIAL STATEMENTS

31 December 2004

13. FIXED ASSETS *(continued)*

The Group's land and buildings in Hong Kong were revalued on 31 December 2004 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\$33,013,000 (2003: HK\$33,853,000).

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

	Hong Kong <i>HK\$'000</i>	Mainland China <i>HK\$'000</i>	Total <i>HK\$'000</i>
At cost:			
Long term leases	–	13,971	13,971
At valuation:			
Medium term leases	<u>15,900</u>	<u>–</u>	<u>15,900</u>
	<u>15,900</u>	<u>13,971</u>	<u>29,871</u>

The Group's investment properties were revalued on 31 December 2004 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 33(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 74 to 75 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 26*).

NOTES TO FINANCIAL STATEMENTS

31 December 2004

14. INTANGIBLE ASSETS

	Group Deferred development costs
	<i>HK\$'000</i>
Cost and net book value:	
At 1 January 2004	932
Write off	(932)
	<hr/>
At 31 December 2004	–
	<hr/> <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 acquisitions of subsidiaries, is as follows:

	Group	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Cost, net of accumulated amortisation:		
At 1 January	9,583	–
Acquisition of subsidiaries	–	10,367
Amortisation for the year	–	(784)
	<hr/>	<hr/>
At 31 December	9,583	9,583
	<hr/>	<hr/>
Accumulated impairment:		
At 1 January	2,528	–
Provided during the year	–	2,528
	<hr/>	<hr/>
At 31 December	2,528	2,528
	<hr/>	<hr/>
Net amount at 31 December	7,055	7,055
	<hr/> <hr/>	<hr/> <hr/>

NOTES TO FINANCIAL STATEMENTS

31 December 2004

15. GOODWILL (continued)

As detailed in note 2 to the financial statements, on the adoption of HKFRS 3, HKAS 36 and HKAS 38 during the year:

- the Group ceased the amortisation of goodwill from 1 January 2004;
- the accumulated amortisation of goodwill arising on acquisitions of subsidiaries prior to 1 January 2004 of approximately HK\$784,000 has been eliminated with a corresponding decrease in the cost of goodwill as at that date; and
- from the year ended 31 December 2004 onwards, goodwill is tested annually for impairment, as well as when there are indications of impairment.

The amount of the goodwill remaining in consolidated reserves as at 31 December 2004 is as follows:

	Group Goodwill eliminated against consolidated contributed surplus <i>HK\$'000</i>
Cost at beginning of year and 31 December 2004	284,760
Accumulated impairment:	
At beginning of year	219,365
Provided during the year	65,395
	<hr/>
At 31 December 2004	284,760
	<hr/>
Net amount:	
At 31 December 2004	—
	<hr/> <hr/>
At 31 December 2003	65,395
	<hr/> <hr/>

NOTES TO FINANCIAL STATEMENTS

31 December 2004

15. GOODWILL (continued)

As detailed in note 2 to the financial statements, on the adoption of HKFRS 3 during the year, the impairment loss of goodwill remaining eliminated against consolidated contributed surplus of approximately HK\$65,395,000 recognised during the year was transferred to consolidated accumulated losses as a movement in reserves and was not charged to the consolidated profit and loss account.

For the purpose of impairment review, the recoverable amount of goodwill was determined based on the value in use calculation. The value in use calculation used cash flow projection based on financial budgets approved by the management. There were a number of assumptions and estimates involved in the preparation of cash flow projection for the period covered by the approved budget. The management prepared the financial budgets reflecting actual and prior year performance and market development expectations. Judgement was required to determine key assumptions adopted in the cash flow projection and changes to key assumptions can significantly affect the cash flow projection.

16. INTERESTS IN SUBSIDIARIES

	Company	
	2004 HK\$'000	2003 HK\$'000
Unlisted shares, at cost	559,088	559,088
Shares listed in Hong Kong, at cost	388,090	388,090
Due to a subsidiary	<u>(372,664)</u>	<u>(369,419)</u>
	574,514	577,759
Provision for impairment	<u>(259,759)</u>	<u>(221,045)</u>
	<u>314,755</u>	<u>356,714</u>
Market value of listed shares	<u>193,155</u>	<u>205,227</u>

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2004

16. INTERESTS IN SUBSIDIARIES (continued)

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Founder (Hong Kong) Limited ("Founder HK")	Hong Kong	Ordinary HK\$110,879,989	100	–	Systems integration and investment holding
Beijing Founder Electronics Co., Ltd.##	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
Founder Data Corporation International Limited ("FDC")	British Virgin Islands/ Hong Kong	Ordinary US\$20,000	–	54.85	Investment holding
PRC Century##	Mainland China	Registered RMB117,303,000	–	54.85	Distribution of information products

NOTES TO FINANCIAL STATEMENTS

31 December 2004

16. INTERESTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Beijing AdTargeting Inc.##	Mainland China	Registered US\$300,000	–	54.85	Provision of internet advertising agency services
Founder Century (Hong Kong) Limited	Hong Kong	Ordinary HK\$2	–	54.85	Distribution of information products
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 ("True Luck")	British Virgin Islands/ Hong Kong	Ordinary US\$1	–	100	Investment holding
Founder International Inc. ("Founder Inc.")*	Japan	Ordinary JPY192,750,000	–	71.30	Software development and systems integration
Beijing Founder International Co., Limited*##	Mainland China	Registered US\$500,000	–	71.30	Software development and systems integration

NOTES TO FINANCIAL STATEMENTS

31 December 2004

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	
Founder Technology (Canada) Corp.*	Canada	Ordinary CAN\$100	–	100	Systems integration
PUC Founder (M) Sdn. Bhd.**	Malaysia	Ordinary RM500,000	–	100	Investment holding

* Not audited by Ernst & Young Hong Kong or other Ernst & Young International member firm

** Listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange")

Registered as wholly foreign-owned enterprise under the PRC law

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

	Group	
	2004 HK\$'000	2003 HK\$'000
Share of net assets	–	9,518

Prior year's balance represented the Group's 30% interest in Beijing PeCan Information System Inc. ("PeCan") which was disposed of to one of the other shareholders of PeCan during the year.

18. INTERESTS IN ASSOCIATES

	Group	
	2004 HK\$'000	2003 HK\$'000
Share of net assets	36,422	37,555
Due from associates	2,351	1,105
	38,773	38,660
Provision for impairment	(140)	–
	38,633	38,660

NOTES TO FINANCIAL STATEMENTS

31 December 2004

18. INTERESTS IN ASSOCIATES *(continued)*

The amounts due from associates are unsecured, interest-free and have no fixed terms of repayment, except for the balance due from an associate of approximately HK\$798,000 (2003: Nil) which bears interest at 3.7% per annum.

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
			2004	2003	
PUC Founder (MSC) Berhad*#	Corporate	Malaysia	35.90	35.93	Software development and systems integration
Founder Globaltech Limited*	Corporate	Hong Kong	35.90	–	Systems integration
Power Print Inc.*##	Corporate	Japan	23.84	–	Provision of internet printing services
MC.Founder Limited*	Corporate	Hong Kong	20.12	20.12	Investment holding, marketing and distribution of mobile phones and data products
MC.Founder (Distribution) Limited*	Corporate	Hong Kong	20.12	20.12	Distribution of mobile phones and accessories, and provision of repair services
MC.Founder (Technology) Limited*	Corporate	Hong Kong	20.12	20.12	Sales of data products

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

Listed on the Bursa Malaysia Securities 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

NOTES TO FINANCIAL STATEMENTS

31 December 2004

18. INTERESTS IN ASSOCIATES *(continued)*

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	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trading stocks	<u>162,094</u>	<u>125,835</u>

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

20. SYSTEMS INTEGRATION CONTRACTS

	Group	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Gross amount due from contract customers	55,826	53,190
Gross amount due to contract customers	–	(724)
	<u>55,826</u>	<u>52,466</u>
Contract costs incurred plus recognised profits less recognised losses and foreseeable losses to date	55,826	71,920
Less: Progress billings	–	(19,454)
	<u>55,826</u>	<u>52,466</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.

NOTES TO FINANCIAL STATEMENTS

31 December 2004

21. TRADE AND BILLS RECEIVABLES (continued)

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

	Group	
	2004	2003
	HK\$'000	HK\$'000
Within 6 months	298,256	228,512
7-12 months	21,906	9,323
13-24 months	8,914	9,835
Over 24 months	467	611
	<u>329,543</u>	<u>248,281</u>

Included in the Group's trade and bills receivables are amounts due from the Group's related companies and associates of approximately HK\$1,094,000 (2003: HK\$186,000) and approximately HK\$1,980,000 (2003: Nil), respectively, which are repayable on similar credit terms to those offered to the major customers of the Group.

22. SHORT TERM INVESTMENTS

	Group	
	2004	2003
	HK\$'000	HK\$'000
Overseas listed equity investments, at market value	–	454
Overseas mutual fund, at market value	1,742	2,047
	<u>1,742</u>	<u>2,501</u>

23. 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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24. CASH AND CASH EQUIVALENTS

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Cash and bank balances	226,467	211,973	1,158	4
Time deposits	35,145	70,687	–	–
	<u>261,612</u>	<u>282,660</u>	<u>1,158</u>	<u>4</u>

At the balance sheet date, the cash and cash equivalents of the Group denominated in Renminbi ("RMB") amounted to approximately HK\$223,015,000 (2003: HK\$197,464,000). 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.

25. TRADE AND BILLS PAYABLES

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

	Group	
	2004 HK\$'000	2003 HK\$'000
Within 6 months	349,429	257,961
7-12 months	6,716	1,608
13-24 months	1,469	1,761
Over 24 months	908	5,169
	<u>358,522</u>	<u>266,499</u>

26. INTEREST-BEARING BANK BORROWINGS

	Group	
	2004 HK\$'000	2003 HK\$'000
Trust receipt loans, secured	<u>15,932</u>	<u>5,515</u>

All the trust receipt loans of the Group were repayable within one year or on demand.

NOTES TO FINANCIAL STATEMENTS

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26. INTEREST-BEARING BANK BORROWINGS *(continued)*

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\$15,710,000 (2003: HK\$14,280,000);
- (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\$15,900,000 (2003: HK\$14,200,000); and
- (iii) the pledge of the Group's bank deposits amounting to approximately HK\$61,849,000 (2003: HK\$41,077,000).

27. DEFERRED TAX

The movement in deferred tax assets arising from the tax losses available for offsetting against future taxable profits during the year is as follows:

	Group	
	2004 HK\$'000	2003 HK\$'000
At 1 January	7,895	8,129
Acquisition of subsidiaries	–	1,481
Deferred tax charged to the profit and loss account during the year <i>(note 10)</i>	(5,553)	(1,715)
Exchange realignment	24	–
	<hr/> 2,366	<hr/> 7,895
Gross and net deferred tax assets at 31 December	<hr/> 2,366	<hr/> 7,895

NOTES TO FINANCIAL STATEMENTS

31 December 2004

27. DEFERRED TAX *(continued)*

The principal components of the Group's unused tax losses and other deductible temporary differences not recognised as deferred tax assets/(liabilities) in the financial statements are as follows:

	Group	
	2004	2003
	HK\$'000	HK\$'000
Accelerated depreciation allowances	(1,843)	1,645
Tax losses	536,075	507,901
General provision for obsolete inventories	27,957	34,431
General provision for doubtful trade debts	23,496	33,345
	<u>585,685</u>	<u>577,322</u>

The unused tax losses include an amount of approximately HK\$226,774,000 (2003: HK\$220,469,000) 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 2004, there was no significant unrecognised deferred tax liability (2003: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries and associates as the Group has 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.

28. SHARE CAPITAL

	Group and Company	
	2004	2003
	HK\$'000	HK\$'000
<i>Authorised:</i>		
2,100,000,000 ordinary shares of HK\$0.10 each	<u>210,000</u>	<u>210,000</u>
<i>Issued and fully paid:</i>		
1,123,799,893 ordinary shares of HK\$0.10 each	<u>112,380</u>	<u>112,380</u>

NOTES TO FINANCIAL STATEMENTS

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29. 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 2004

29. 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.

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2004

29. SHARE OPTION SCHEMES (continued)

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

The following share options were outstanding under the Old Scheme and the New Scheme at 1 January 2004 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 2004	Granted during the year	At 31 December 2004			
Old Scheme						
<i>Other employees</i>						
In aggregate	700,000	–	700,000	16.4.1999	16.4.1999 to 6.12.2005	0.912
New Scheme						
<i>Directors</i>						
Mr Cheung Shuen Lung	–	8,000,000	8,000,000	5.2.2004	6.2.2004 to 4.2.2014	1.104
Professor Xiao Jian Guo	–	8,000,000	8,000,000	5.2.2004	6.2.2004 to 4.2.2014	1.104
Professor Wei Xin	–	8,000,000	8,000,000	5.2.2004	6.2.2004 to 4.2.2014	1.104
Mr Zhang Zhao Dong	–	8,000,000	8,000,000	5.2.2004	6.2.2004 to 4.2.2014	1.104
Subtotal	–	32,000,000	32,000,000			
<i>Other employees</i>						
In aggregate	–	58,000,000	58,000,000	2.1.2004	3.1.2004 to 31.12.2013	0.840
Total under the New Scheme	–	90,000,000	90,000,000			

* 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 the Company's share capital.

NOTES TO FINANCIAL STATEMENTS

31 December 2004

29. SHARE OPTION SCHEMES (continued)

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

The directors do not consider it appropriate to disclose a theoretical value of the share options granted during the year because a number of factors crucial for the valuation cannot be determined. Accordingly, any valuation of the share options based on various speculative assumptions would not be meaningful, but would be misleading to the shareholders of the Company.

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).

At the balance sheet date, the Company had 90,000,000 share options outstanding under the New Scheme, which represented approximately 8.01% 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 90,000,000 additional ordinary shares of the Company and additional share capital of HK\$9,000,000 and share premium of HK\$75,048,000 (before issue expenses).

(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.

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, the 2001 Scheme and the 2002 Scheme at 1 January 2004 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**
	At 1 January 2004	Granted during the year	Lapsed during the year	At 31 December 2004			
1991 Scheme							
<i>Other employees</i>							
In aggregate	2,700,000	-	-	2,700,000	18.5.2001	15.12.2001 to 14.12.2006	0.450

NOTES TO FINANCIAL STATEMENTS

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29. SHARE OPTION SCHEMES (continued)

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

Name or category of participant	Number of share options			At 31 December 2004	Date of grant of share options*	Exercise period of share options	Exercise price of share options** HK\$
	At 1 January 2004	Granted during the year	Lapsed during the year				
2001 Scheme							
<i>Directors</i>							
Mr Cheung Shuen Lung	2,000,000	-	-	2,000,000	18.5.2001	18.5.2001 to 17.5.2011	0.450
Professor Wei Xin	2,000,000	-	-	2,000,000	18.5.2001	18.5.2001 to 17.5.2011	0.450
Subtotal	<u>4,000,000</u>	<u>-</u>	<u>-</u>	<u>4,000,000</u>			
<i>Other employees</i>							
In aggregate	3,900,000	-	(2,000,000)	1,900,000	18.5.2001	18.5.2001 to 17.5.2011	0.450
Total under the 2001 Scheme	<u>7,900,000</u>	<u>-</u>	<u>(2,000,000)</u>	<u>5,900,000</u>			
2002 Scheme							
<i>Directors</i>							
Mr Cheung Shuen Lung	-	8,000,000	-	8,000,000	6.2.2004	7.2.2004 to 5.2.2014	0.381
Professor Wei Xin	-	8,000,000	-	8,000,000	6.2.2004	7.2.2004 to 5.2.2014	0.381
Mr Zhang Zhao Dong	-	8,000,000	-	8,000,000	6.2.2004	7.2.2004 to 5.2.2014	0.381
Subtotal	<u>-</u>	<u>24,000,000</u>	<u>-</u>	<u>24,000,000</u>			
<i>Other employees</i>							
In aggregate	-	8,000,000	(8,000,000)	-	6.2.2004	7.2.2004 to 5.2.2014	0.381
In aggregate	-	38,000,000	-	38,000,000	2.1.2004	3.1.2004 to 31.12.2013	0.340
Subtotal	<u>-</u>	<u>46,000,000</u>	<u>(8,000,000)</u>	<u>38,000,000</u>			
Total under the 2002 Scheme	<u>-</u>	<u>70,000,000</u>	<u>(8,000,000)</u>	<u>62,000,000</u>			

NOTES TO FINANCIAL STATEMENTS

31 December 2004

29. 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.

The directors of the Company do not consider it appropriate to disclose a theoretical value of the share options granted during the year because a number of factors crucial for the valuation cannot be determined. Accordingly, any valuation of the share options based on various speculative assumptions would not be meaningful, but would be misleading to the shareholders of the Company.

(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 2004 and at the end of the year:

Category of participant	Number of share options as at 1 January 2004 and 31 December 2004	Date of grant of share options*	Exercise period of share options	Exercise price of share options** JPY
<i>Other employees</i>				
In aggregate	<u>55</u>	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.

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30. 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 (accumulated reserve HK\$'000	Retained profits/ losses) HK\$'000	Total HK\$'000
At 1 January 2003	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 and beginning of year	27,660	802,515	68,439	601	(1,154)	43,122	(711,579)	229,604
Realisation upon disposal/partial disposal of subsidiaries	-	-	-	-	(427)	-	-	(427)
Realisation upon disposal of a jointly-controlled entity	-	-	-	-	(3)	-	-	(3)
Exchange realignment	-	-	-	-	1,197	-	-	1,197
Share of general reserve of associates	-	-	-	-	-	27	-	27
Impairment of goodwill remaining eliminated against contributed surplus	-	65,395	-	-	-	-	(65,395)	-
Net loss for the year	-	-	-	-	-	-	(27,183)	(27,183)
Transfer to general reserve	-	-	-	-	-	30	(30)	-
Transfer to capital reserve	-	-	6,503	-	-	-	(6,503)	-
At 31 December 2004	27,660	867,910	74,942	601	(387)	43,179	(810,690)	203,215
<i>Reserves retained by:</i>								
Company and subsidiaries	27,660	867,910	71,257	601	(483)	43,064	(818,642)	191,367
Associates	-	-	3,685	-	96	115	7,952	11,848
At 31 December 2004	27,660	867,910	74,942	601	(387)	43,179	(810,690)	203,215
Company and subsidiaries	27,660	802,515	64,754	601	(815)	43,034	(724,670)	213,079
Jointly-controlled entity	-	-	-	-	82	-	7,836	7,918
Associates	-	-	3,685	-	(421)	88	5,255	8,607
At 31 December 2003	27,660	802,515	68,439	601	(1,154)	43,122	(711,579)	229,604

NOTES TO FINANCIAL STATEMENTS

31 December 2004

30. RESERVES (continued)

(a) Group (continued)

The contributed surplus of the Group 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.

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 and associate is required to transfer not less than 10% of its profit after tax, as determined in accordance with PRC accounting standards and regulations, to the 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 associate in accordance with their articles of association. During the year, no transfer to the general reserve was made by Group's PRC subsidiaries and associate 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 the general reserve. During the year, the Taiwanese subsidiary and associates transferred in total approximately HK\$57,000 (2003: HK\$63,000), which represented 10% of their profit after tax, to the general reserve.

(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 2003	27,660	448,209	(294,367)	181,502
Net profit for the year	—	—	62,943	62,943
At 31 December 2003 and beginning of year	27,660	448,209	(231,424)	244,445
Net loss for the year	—	—	(41,230)	(41,230)
At 31 December 2004	<u>27,660</u>	<u>448,209</u>	<u>(272,654)</u>	<u>203,215</u>

NOTES TO FINANCIAL STATEMENTS

31 December 2004

30. RESERVES (continued)

(b) Company (continued)

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 (as amended), the Company may make distributions to its members out of the contributed surplus in certain circumstances.

31. 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)
	<hr/>
	44,032
Goodwill on acquisition	<hr/> 10,367
	<hr/> <hr/> 54,399
Satisfied by:	
Reclassification to interests in subsidiaries from interests in associates	<hr/> <hr/> 54,399

NOTES TO FINANCIAL STATEMENTS

31 December 2004

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

(a) Acquisition of subsidiaries *(continued)*

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>59,164</u>

The subsidiaries acquired in 2003 contributed approximately HK\$68,837,000 to the Group's consolidated turnover and 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 of the Group.

(b) Disposal/partial disposal of subsidiaries

	2004 HK\$'000	2003 HK\$'000
Net assets disposed of:		
Fixed assets	5,721	37,655
Long term investment	–	63
Inventories	188	39,100
Systems integration contracts	2,481	–
Trade and bills receivables	4,593	25,594
Prepayments, deposits and other receivables	3,518	4,567
Cash and bank balances	6,079	10,881
Trade payables	(1,896)	(35,240)
Other payables and accruals	(8,318)	(10,657)
Interest-bearing bank and other borrowings	–	(15,123)
Exchange fluctuation reserve	(427)	(210)
	<u>11,939</u>	56,630
Gain/(loss) on disposal <i>(note 6)</i>	3,255	(13,260)
Gain/(loss) on partial disposal <i>(note 6)</i>	(765)	3,496
	<u>14,429</u>	46,866
Satisfied by:		
Cash	13,703	45,500
Interest in an associate	726	1,366
	<u>14,429</u>	46,866

NOTES TO FINANCIAL STATEMENTS

31 December 2004

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

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

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

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Cash consideration	13,703	45,500
Cash and bank balances disposed of	(6,079)	(10,881)
Bank overdrafts disposed of	–	5,510
	<hr/>	<hr/>
Net inflow of cash and cash equivalents in respect of the disposal/partial disposal of subsidiaries	<u>7,624</u>	<u>40,129</u>

The results of the subsidiaries disposed/partially disposed of in 2004 contributed approximately HK\$26,503,000 to the Group's consolidated turnover and loss of approximately HK\$7,759,000 to the Group's consolidated loss after tax for that year.

The subsidiaries disposed/partially disposed of in prior year 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.

32. CONTINGENT LIABILITIES

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

	Group		Company	
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Bills discounted with recourse	–	3,679	–	–
Guarantees given to banks in connection with facilities granted to subsidiaries	–	–	45,000	45,000
Guarantees given to suppliers in connection with credit facilities granted to subsidiaries	–	–	23,358	15,598
	<hr/>	<hr/>	<hr/>	<hr/>
	<u>–</u>	<u>3,679</u>	<u>68,358</u>	<u>60,598</u>

As at 31 December 2004, the guarantees given to banks in connection with facilities granted to subsidiaries by the Company were utilised to the extent of approximately HK\$26,034,000 (2003: HK\$13,159,000).

As at 31 December 2004, the guarantees given to suppliers in connection with credit facilities granted to subsidiaries by the Company were not utilised (2003: Nil).

The Group did not have any significant contingent liabilities as at 31 December 2004.

NOTES TO FINANCIAL STATEMENTS

31 December 2004

33. 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 of three years. The terms of the leases generally also require the tenants to pay security deposits.

At 31 December 2004, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2004	2003
	HK\$'000	HK\$'000
Within one year	599	874
In the second to fifth years, inclusive	350	949
	949	1,823

(b) As lessee

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

At 31 December 2004, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2004	2003
	HK\$'000	HK\$'000
Within one year	25,342	26,406
In the second to fifth years, inclusive	1,796	24,945
	27,138	51,351

NOTES TO FINANCIAL STATEMENTS

31 December 2004

34. 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	
		2004 HK\$'000	2003 HK\$'000
Sales of goods to associates	(i)	7,381	2,004
Sales of goods to a company in which three directors of the Company were directors	(i)	1,154	1,405
Sales of goods to a company in which one director of the subsidiary was a shareholder	(i)	–	2,959
Purchases of goods from associates	(ii)	626	585
Purchase of goods from a company in which one director of the subsidiary was a shareholder	(iii)	48,687	39,429
Bank facilities guarantees given by Peking University Founder Group Corporation ("Peking Founder"), a substantial shareholder of the Company	(iv)	295,630	238,935
Credit facilities guarantee given by Peking Founder	(v)	–	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. The balance due from the related company included in prepayments, deposits and other receivables as at 31 December 2004 was approximately HK\$4,220,000 (2003: HK\$6,295,000).
- (iv) The bank facilities guarantees were given to PRC banks for credit facilities granted to a subsidiary and utilised to the extent of approximately HK\$266,858,000 at 31 December 2004 (2003: HK\$177,128,000).
- (v) The credit facilities guarantee was given to a supplier for credit facilities granted to and utilised by a subsidiary.

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31 December 2004

34. RELATED PARTY TRANSACTIONS *(continued)*

- (b) On 22 July 2004, Founder Inc. entered into a subscription agreement (the "Subscription Agreement") with Media Champion Holdings Limited ("Media Champion"), a company wholly owned by Mr Guan Xiang Hong, the president and an executive director of Founder Inc. and a then vice-president of the Company. Pursuant to the Subscription Agreement, Founder Inc. issued 333 new shares to Media Champion on 24 September 2004 and will issue 537 new shares to Media Champion 6 months after the completion of subscription of the 333 shares above or such later date as the parties may agree. The subscription price was JPY300,000 (equivalent to approximately HK\$21,000) per share. Further details of the transaction are set out in the announcement of the Company dated 23 July 2004 and the circular of the Company dated 13 August 2004.

The main purpose of the subscription was to (i) improve the working capital position and strengthen the financial position of Founder Inc. and its subsidiaries; and (ii) provide further incentive to Mr Guan Xiang Hong and enable the Group to secure his continued devotion to the business development of Founder Inc. and its subsidiaries.

- (c) On 29 April 2003, the Group entered into lease agreements with Peking Founder to lease from Peking Founder certain premises in Beijing, the PRC, as its offices, warehouse and staff canteen. During the year, rental and management fee expenses of approximately HK\$25,789,000 (2003: HK\$19,452,000) were paid to Peking Founder. The directors considered that the rental and management fee expenses were paid in accordance with the terms of the agreements governing such transaction. The balances due from/to Peking Founder included in prepayments, deposits and other receivables and other payables and accruals as at 31 December 2004 were approximately HK\$1,298,000 (2003: HK\$4,555,000) and HK\$13,622,000 (2003: HK\$11,966,000), respectively.
- (d) On 20 October 2004, FDC entered into a conditional disposal agreement (the "Disposal Agreement") with 方正軟件(蘇州)有限公司 (Founder Software (Suzhou) Company Limited*) ("Founder Suzhou"), 上海方正信息安全技術有限公司 (Shanghai Founder Information Security Technology Company Limited*) ("Shanghai Founder"), associates of Peking Founder, and Peking Founder. Pursuant to the Disposal Agreement, FDC disposed of the entire equity interest in EC-Founder Co., Ltd. to Founder Suzhou and Shanghai Founder and waived the entire outstanding balances on current accounts owed by EC-Founder Co., Ltd. to the Group at a total cash consideration of RMB13.4 million (equivalent to approximately HK\$12.6 million). The disposal was completed on 3 December 2004.

EC-Founder Co., Ltd. was principally engaged in the provision of software solutions and services in the PRC and was loss making. The main purpose of the disposal of EC-Founder Co., Ltd. was to enable EC-Founder to scale down its loss-making operations and to focus its resources on its profit making information products distribution business.

- (e) During the year, the Group received commission income of approximately HK\$4,546,000 (2003: HK\$1,499,000) from a subsidiary of a then shareholder which held 8.47% of the shares of EC-Founder, prior to the disposal of shares of EC-Founder by the shareholder, for the provision of internet advertising agency services.

NOTES TO FINANCIAL STATEMENTS

31 December 2004

34. RELATED PARTY TRANSACTIONS *(continued)*

- (f) 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 date of 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 date of 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.
- (g) 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 then director of EC-Founder who resigned on 1 November 2004. Pursuant to the DA, EC-Founder disposed of the entire issued share capital of MIT Holdings Limited to Honour Glory Limited at a total cash consideration of HK\$45,500,000. The disposal was completed on 26 September 2003.
- (h) Details of the Group's amount due from its associates as at the balance sheet date are included in note 18 to the financial statements.
- (i) Details of the Group's trade balances with its associates as at the balance sheet date are disclosed in note 21 to the financial statements.

* *For identification purpose only*

35. POST BALANCE SHEET EVENT

On 7 February 2005, Founder HK entered into a sale and purchase agreement with Founder Information (Hong Kong) Limited ("Founder Information"), a subsidiary of Peking Founder, and Peking Founder to dispose of its entire equity interest in True Luck and to assign the loan of JPY70 million (equivalent to approximately HK\$5.2 million) due to Founder HK by True Luck to Founder Information at a cash consideration of JPY623,520,600 (equivalent to approximately HK\$51.7 million). Further details of the transaction were set out in the announcement of the Company dated 7 February 2005 and the circular of the Company dated 28 February 2005. In the opinion of the directors, the amount of gain/loss on disposal, if any, can only be reliably estimated upon completion of the disposal.

36. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 22 April 2005.