1. CORPORATE INFORMATION

Founder Holdings Limited is a limited liability company incorporated in Bermuda. The head office and principal place of business of the Company are 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

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, 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 investment properties, certain land and buildings and equity investments, which have been measured at fair value. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand (HK$'000) except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2005. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The acquisition of subsidiaries during the year has been accounted for using the purchase method of accounting. This method involves allocating the cost of the business combinations to the fair value of the assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

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

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The following new and revised HKFRSs affect the Group and are adopted for the first time for the current year's financial statements:

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 11	Construction Contracts
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 20	Accounting for Government Grants and Disclosure of Government Assistance
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 Amendment	Transition and Initial Recognition of Financial Assets and Financial Liabilities
HKAS 40	Investment Property
HKFRS 2	Share-based Payment
HK(SIC)-Int 21	Income Taxes — Recovery of Revalued Non-depreciable Assets
HK-Int 4	Leases — Determination of the Length of Lease Term in respect of Hong Kong Land Leases

The adoption of HKASs 2, 7, 8, 10, 11, 12, 14, 16, 18, 19, 20, 23, 27, 28, 33, 37 and HK-Int 4 has had no material impact on the accounting policies of the Group and the Company and the methods of computation in the Group's and the Company's financial statements.

HKAS 1 has affected certain presentation of minority interests on the face of the consolidated balance sheet, consolidated income statement, consolidated statement of changes in equity and other disclosures. In addition, in prior years, the Group's share of tax attributable to associates and jointly-controlled entity was presented as a component of the Group's total tax charge/(credit) in the consolidated income statement. Upon the adoption of HKAS 1, the Group's share of the post-acquisition results of associates and jointly-controlled entity is presented net of the Group's share of tax attributable to associates and jointly-controlled entity.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

HKAS 21 had no material impact on the Group. As permitted by the transitional provisions of HKAS 21, goodwill arising in a business combination prior to 1 January 2005 and fair value adjustments arising on that acquisition are deemed to be in the currency of the Company. In respect of acquisitions subsequent to 1 January 2005, any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of the assets and liabilities are treated as assets and liabilities of the foreign operation and are translated at the closing rate in accordance with HKAS 21.

HKAS 24 has expanded the definition of related parties and affected the Group's related party disclosures.

The impact of adopting the other HKFRSs is summarised as follows:

(a) HKAS 17 — Leases

In prior years, leasehold land and buildings held for own use were stated at cost or valuation less accumulated depreciation and any impairment losses.

Upon the adoption of HKAS 17, the Group's leasehold interest in land and buildings is separated into leasehold land and leasehold buildings. The Group's leasehold land is classified as an operating lease, because the title of the land is not expected to pass to the Group by the end of the lease term, and is reclassified from property, plant and equipment to prepaid land lease payments, while leasehold buildings continue to be classified as part of property, plant and equipment. Prepaid land premiums for land lease payments under operating leases are initially stated at cost and subsequently amortised on the straight-line basis over the lease term. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

In the opinion of the directors, the lease payments of the Group cannot be allocated reliably between the land and buildings elements, therefore, the entire lease payments are included in the cost of land and buildings and are amortised over the shorter of the lease terms and useful lives. Save as disclosed above, this change in accounting policy has had no material impact on the financial statements.

(b) HKAS 32 and HKAS 39 — Financial Instruments

In prior years, the Group classified its investments in equity securities for trading purposes as short term investments, and were stated at their fair values on an individual basis with gains and losses recognised in the income statement. Upon the adoption of HKAS 39, these securities held by the Group at 1 January 2005 were designated as financial assets at fair value through profit or loss under the transitional provisions of HKAS 39 and accordingly are stated at fair value with gains or losses being recognised in the income statement.

The adoption of HKAS 39 has not resulted in any change in the measurement of these equity securities.

The effects of the above changes are summarised in note 2.4 to the financial statements.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

(c) HKAS 40 — Investment Property

In prior years, changes in the fair values of investment properties were dealt with as movements in the asset revaluation reserve. If the total of this reserve was insufficient to cover a deficit, on a portfolio basis, the excess of the deficit was charged to the income statement. Any subsequent revaluation surplus was credited to the income statement to the extent of the deficit previously charged.

Upon the adoption of HKAS 40, gains or losses arising from changes in the fair values of investment properties are included in the income statement in the year in which they arise.

The adoption of HKAS 40 has had no material impact on the financial statements because the Group's investment properties had a net revaluation deficit position as at 31 December 2003 and 2004 and the change in revaluation of the Group's investment properties during the year ended 31 December 2004 would be recognised in the income statement irrespective of whether the old policy or the new policy is applied.

(d) HKFRS 2 — Share-based Payment

In prior years, no recognition and measurement of share-based payment transactions in which employees (including directors) were granted share options over shares in the Company were required until such options were exercised by employees, at which time the share capital and share premium were credited with the proceeds received.

Upon the adoption of HKFRS 2, when employees (including directors) render services as consideration for equity instruments ("equity-settled transactions"), the cost of the equity-settled transactions with employees is measured by reference to the fair value at the date at which the instruments are granted.

The main impact of HKFRS 2 on the Group is the recognition of the cost of these transactions and a corresponding entry to equity for employee share options. The revised accounting policy for share-based payment transactions is described in more detail in note 2.5 "Summary of significant accounting policies" below.

The Group has adopted the transitional provisions of HKFRS 2 under which the new measurement policies have not been applied to (i) options granted to employees on or before 7 November 2002; and (ii) options granted to employees after 7 November 2002 but which had vested before 1 January 2005.

As the Group did not have any employee share options which were granted during the period from 7 November 2002 to 31 December 2004 but had not vested as at 1 January 2005, the adoption of HKFRS 2 has had no material impact on the financial statements.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

(e) HK(SIC)-Int 21 — Income Taxes — Recovery of Revalued Non-depreciable Assets

In prior years, deferred tax arising on the revaluation of investment properties was recognised based on the tax rate that would be applicable upon the sale of the investment properties.

Upon the adoption of HK(SIC)-Int 21, deferred tax arising on the revaluation of the Group's investment properties is determined depending on whether the properties will be recovered through use or through sale. The Group has determined that its investment properties will be recovered through use, and accordingly the profits tax rate has been applied to the calculation of deferred tax.

The adoption of HK(SIC)-Int 21 has had no material impact on the financial statements.

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements. Unless otherwise stated, these HKFRSs are effective for annual periods beginning on or after 1 January 2006:

HKAS 1 Amendment	Capital Disclosures
HKAS 19 Amendment	Employee Benefits — Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 21 Amendment	The Effects of Changes in Foreign Exchange Rates — Net Investment in a Foreign Operation
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HKAS 39 & HKFRS 4 Amendments	Financial Instruments: Recognition and Measurement and Insurance Contracts — Financial Guarantee Contracts
HKFRSs 1 & 6 Amendments	First-time Adoption of Hong Kong Financial Reporting Standards and Exploration for and Evaluation of Mineral Resources
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease
HK(IFRIC)-Int 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
HK(IFRIC)-Int 6	Liabilities arising from Participating in a Specific Market — Waste Electrical and Electronic Equipment
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies

The HKAS 1 Amendment shall be applied for annual periods beginning on or after 1 January 2007. The revised standard will affect the disclosures about qualitative information about the Group's objective, policies and processes for managing capital; quantitative data about what the Company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

HKFRS 7 will replace HKAS 32 and has modified the disclosure requirements of HKAS 32 relating to financial instruments. This HKFRS shall be applied for annual periods beginning on or after 1 January 2007.

In accordance with the amendments to HKAS 39 regarding financial guarantee contracts, financial guarantee contracts are initially recognised at fair value and are subsequently measured at the higher of (i) the amount determined in accordance with HKAS 37 and (ii) the amount initially recognised, less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18.

The HKAS 19 Amendment, HKAS 39 Amendment regarding cash flow hedge accounting of forecast intragroup transactions, HKFRSs 1 and 6 Amendments, HKFRS 6, HK(IFRIC)-Int 5 and HK(IFRIC)-Int 6 do not apply to the activities of the Group. HK(IFRIC)-Int 6 shall be applied for annual periods beginning on or after 1 December 2005.

Except as stated above, the Group expects that the adoption of the other pronouncements listed above will not have any significant impact on the Group's financial statements in the period of initial application.

2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES

(a) Effect on the consolidated balance sheet

	Effect of adopting		
At 1 January 2005	**HKAS 1#**	**HKASs 32# and 39***	
Effect of new policies (Increase/(decrease))	**Presentation**	**Change in classification of equity investments**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
Assets			
Property, plant and equipment	(15,710)	—	(15,710)
Investment properties	15,710	—	15,710
Equity investments at fair value through profit or loss	—	1,742	1,742
Short term investments	—	(1,742)	(1,742)
			—

* Adjustments taken effect prospectively from 1 January 2005

\# Adjustments/presentation taken effect retrospectively

2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES *(continued)*

(a) Effect on the consolidated balance sheet *(continued)*

At 31 December 2005	**Effect of adopting HKAS 1**	**Effect of adopting HKASs 32 and 39**	
Effect of new policies (Increase/(decrease))	**Presentation**	**Change in classification of equity investments**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
Assets			
Property, plant and equipment	(23,110)	—	(23,110)
Investment properties	23,110	—	23,110
Equity investments at fair value through profit or loss	—	1,981	1,981
Short term investments	—	(1,981)	(1,981)
			—

(b) Effect on the consolidated income statement for the years ended 31 December 2005 and 2004

Effect of new policies	**Effect of adopting HKAS 1 Share of post-tax profits and losses of associates**	
	2005	2004
	HK$'000	*HK$'000*
Decrease in share of profits and losses of associates	**(2,853)**	(1,375)
Decrease in tax	**2,853**	1,375
Total change in profit	**—**	—

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity 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 income statement 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 is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture 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 entity and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

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

The Group's share of the post-acquisition results and reserves of jointly-controlled entities is included in the consolidated income statement 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 an entity, 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 income statement 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. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Goodwill

Goodwill arising on acquisition of subsidiaries represents the excess of the cost of the business combination over the Group's interest in the net fair value of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheets as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses.

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and

- is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with HKAS 14 "Segment Reporting".

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

An impairment loss recognised for goodwill is not reversed in a subsequent period.

Prior to the adoption of Statement of Standard Accounting Practice ("SSAP") 30 "Business Combinations" in 2001, goodwill arising on acquisition was eliminated against the consolidated reserves in the year of acquisition. On the adoption of HKFRS 3, such goodwill remains eliminated against the consolidated reserves and is not recognised in profit or loss when all or part of the business to which the goodwill relates is disposed of or when a cash-generating unit to which the goodwill relates becomes impaired.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, systems integration contracts assets, deferred tax assets, financial assets, investment properties and goodwill), the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that 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 such impairment loss is credited to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Related parties

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

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Group or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d); or

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e).

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost or valuation less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment 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 items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement 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 an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Changes in the values of property, plant and equipment are dealt with as movements in the asset 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 income statement. Any subsequent revaluation surplus is credited to the income statement to the extent of the deficit previously charged. On disposal of a revalued asset, the relevant portion of the asset 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 item of property, plant and equipment to its residual value over its estimated useful life. 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% - $33^1/_3$%
Motor vehicles	10% - 30%

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised 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 property, plant and equipment or investment properties when completed and ready for use.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investment properties

Investment properties are interests in land and buildings (including the leasehold interest under an operating lease for property which would otherwise meet the definition of an investment property) held to earn rental income and/ or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the balance sheet date.

Gains or losses arising from changes in the fair values of investment properties are included in the income statement in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year of the retirement or disposal.

Intangible assets (other than goodwill)

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each balance sheet date.

Research and development costs

All research costs are charged to the income statement as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. 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 income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Operating leases *(continued)*

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

Investments and other financial assets

Applicable to the year ended 31 December 2004:

The Group classified its equity investments, other than subsidiaries, associates and jointly-controlled entity, as 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 income statement in the period in which they arise.

Applicable to the year ended 31 December 2005:

Financial assets in the scope of HKAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

All regular way purchases and sales of financial assets are recognised on the trade date, i.e., the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category "financial assets at fair value through profit or loss". Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Gains or losses on investments held for trading are recognised in the income statement.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets *(continued)*

Applicable to the year ended 31 December 2005: *(continued)*

Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business at the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models.

Impairment of financial assets (applicable to the year ended 31 December 2005)

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in profit or loss.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Derecognition of financial assets (applicable to the year ended 31 December 2005)

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay in full without material delay to a third party under a "pass-through" arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in net profit or loss when the liabilities are derecognised as well as through the amortisation process.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Derecognition of financial liabilities (applicable to the year ended 31 December 2005)

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

Inventories

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

Systems integration contracts

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

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

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

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

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

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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax

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

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

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

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries and associates, 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 credits 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 credits 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 and associates, 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 reassessed at each balance sheet date and 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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax *(continued)*

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.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Government grants

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

Revenue recognition

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

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) from systems integration contracts, on the percentage of completion basis, as further explained in the accounting policy for "Systems integration contracts" above;

(c) from the rendering of services, when the transactions have been completed in accordance with the terms of the relevant contracts;

(d) from the disposal of items of property, plant and equipment, 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 an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Employee benefits

Share-based payment transactions

The Company 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. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company ("market conditions"), if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the "vesting date"). The cumulative expense recognised for equity-settled transactions at each balance sheet date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisified, provided that all other performance conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

The Group has adopted the transitional provisions of HKFRS 2 in respect of equity settled awards that were granted on or before 7 November 2002, or granted after 7 November 2002 but vested already before 1 January 2005.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Employee benefits *(continued)*

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 income statement as they become payable in accordance with the rules of the respective schemes. The assets of the schemes are held separately from those of the Group in independently administered funds.

When an employee leaves the Mandatory Provident Fund Exempted Occupational Retirement Schemes Ordinance retirement benefits scheme prior to his/her interest in the Group's employer contributions vesting fully, the ongoing contributions payable by the Group will be reduced by the relevant amount of forfeited employer contributions. In respect of the Mandatory Provident Fund retirement benefits scheme, the Group's employer mandatory contributions vest fully with the employees when contributed into the scheme except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the scheme.

The employees of the Group's subsidiaries which operate in Mainland China 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 income statement as they become payable in accordance with the rules of the central pension scheme.

Borrowing costs

Borrowing costs are recognised as expenses in the income statement in the period in which they are incurred.

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies *(continued)*

The functional currencies of certain overseas subsidiaries and associates are currencies other than the Hong Kong dollar. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Company at exchange rates ruling at the balance sheet date and, their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are included in a separate component of equity, the exchange fluctuation reserve. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

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.

3. ACCOUNTING JUDGEMENTS AND ESTIMATES

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Operating lease commitments — Group as lessor

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

Classification between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group.

3. ACCOUNTING JUDGEMENTS AND ESTIMATES *(continued)*

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Impairment assessment for trade receivables

The policy for impairment assessment for trade receivables of the Group is based on the evaluation of collectability and aging analysis of trade receivables and on the judgement of the management. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional impairment may be required.

Provision for obsolete inventories

The management reviews the aging analysis of inventories of the Group at each balance sheet date, and makes general provision for obsolete and slow-moving inventory items identified that are no longer suitable for sale. The management estimates the net realisable value for such inventories based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review on a product-by-product basis at each balance sheet date and makes specific provision for obsolete items.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2005 was approximately HK$7,055,000 (2004: HK$7,055,000). More details are given in note 15.

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 financial institutions, enterprises and government departments;

(c) the distribution of information products segment engages in 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.

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.

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 for the years ended 31 December 2005 and 2004.

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	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004
	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*
														(Restated)
Segment revenue:														
Sales to external customers	**510,054**	630,621	**186,626**	183,335	**1,876,749**	1,187,216	**–**	–	**20,486**	12,659	**–**	–	**2,593,915**	2,013,831
Intersegment sales	**3,227**	5,226	**–**	–	**23,903**	13,537	**–**	–	**–**	–	**(27,130)**	(18,763)	**–**	–
Total	**513,281**	635,847	**186,626**	183,335	**1,900,652**	1,200,753	**–**	–	**20,486**	12,659	**(27,130)**	(18,763)	**2,593,915**	2,013,831
Segment results	**15,143**	25,030	**(1,577)**	(39,451)	**20,773**	7,432	**(3,217)**	(19,792)	**1,119**	552			**32,241**	(26,229)
Interest income and unallocated gains													**24,947**	5,211
Finance costs													**(1,142)**	(875)
Share of profits and losses of:														
Jointly-controlled entity													**–**	(17)
Associates													**10,250**	1,975
Profit/(loss) before tax													**66,296**	(19,935)
Tax													**(5,052)**	(5,857)
Profit/(loss) for the year													**61,244**	(25,792)

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	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Assets and liabilities												
Segment assets	**330,541**	322,496	**135,486**	159,604	**750,430**	510,074	**8,946**	9,058	**(5,691)**	(2,378)	**1,219,712**	998,854
Interests in associates	**13,259**	15,657	**—**	—	**—**	—	**—**	—	**—**	—	**44,184**	38,633
Corporate and other unallocated assets	**—**	—	**—**	—	**—**	—	**—**	—	**—**	—	**58,613**	49,009
Total assets											**1,322,509**	1,086,496
Segment liabilities	**155,706**	170,384	**119,280**	123,527	**538,823**	361,591	**2,780**	2,676	**(5,361)**	(236)	**811,228**	657,942
Corporate and other unallocated liabilities	**—**	—	**—**	—	**—**	—	**—**	—	**—**	—	**40,387**	19,163
Total liabilities											**851,615**	677,105
Other segment information:												
Depreciation	**7,925**	7,699	**1,852**	10,853	**1,528**	1,048	**1,387**	1,092			**12,692**	20,692
Capital expenditure	**7,793**	15,227	**1,066**	2,646	**1,266**	4,983	**1,355**	4,668			**11,480**	27,524

4. SEGMENT INFORMATION *(continued)*

(b) Geographical segments

The following table presents revenue and certain asset and expenditure information for the Group's geographical segments for the years ended 31 December 2005 and 2004.

Group	Hong Kong		Mainland China		Overseas		Eliminations		Consolidated	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004
	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	**210,335**	210,378	**2,311,594**	1,686,214	**71,986**	117,239	**—**	—	**2,593,915**	2,013,831
Intersegment sales	**314,912**	231,142	**140**	6,072	**—**	—	**(315,052)**	(237,214)	**—**	—
Total	**525,247**	441,520	**2,311,734**	1,692,286	**71,986**	117,239	**(315,052)**	(237,214)	**2,593,915**	2,013,831

	Hong Kong		Mainland China		Overseas		Consolidated	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Other segment information:								
Segment assets	**207,056**	276,116	**1,088,953**	735,908	**26,500**	74,472	**1,322,509**	1,086,496
Capital expenditure	**62**	233	**9,062**	17,289	**2,356**	10,002	**11,480**	27,524

5. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's 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 revenue, other income and gains is as follows:

		Group	
		2005	2004
	Notes	***HK$'000***	*HK$'000*
			(Restated)
Revenue			
Software development and systems integration		**696,680**	813,956
Distribution of information products		**1,876,749**	1,187,216
Others		**20,486**	12,659
		2,593,915	2,013,831
Other income			
Bank interest income		**3,008**	1,956
Gross rental income		**1,545**	1,778
Government grants *(Note)*		**26,014**	28,758
Others		**5,346**	11,535
		35,913	44,027
Gains			
Revaluation surplus of land and buildings	*13*	**9,498**	1,998
Fair value gains on investment properties	*14*	**7,400**	1,430
Gain on disposal of subsidiaries	*30(b)*	**21,939**	3,255
Gain on deemed partial disposal of subsidiaries		**10,652**	6,503
Gain on disposal of a jointly-controlled entity		**—**	4,329
Unrealised gains on revaluation of short term investments		**—**	11
Others		**3,291**	4,136
		52,780	21,662
		88,693	65,689

Note: Various government grants have been received for the sale of 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 software and completion of the development of related software, respectively. There are no unfulfilled conditions or contingencies relating to these grants.

6. PROFIT/(LOSS) BEFORE TAX

The Group's profit/(loss) before tax is arrived at after charging/(crediting):

		Group	
		2005	2004
	Notes	***HK$'000***	*HK$'000*
			(Restated)
Auditors' remuneration		**3,766**	3,142
Cost of inventories sold		**2,184,362**	1,587,738
Cost of services provided		**33,530**	21,283
Depreciation	*13*	**12,692**	20,692
Write-off of items of property, plant and equipment	*13*	**—**	2,383
Loss on disposal of items of property, plant and equipment		**216**	777
Loss on partial disposal of a subsidiary	*30(b)*	**—**	765
Impairment of interests in an associate *	*17*	**—**	140
Operating lease rentals in respect of land and buildings		**24,634**	32,038
Provision and write-off of doubtful trade debts *		**4,468**	2,114
Provision and write-off of obsolete inventories **		**1,010**	5,369
Research and development costs:			
Current year expenditure *		**42,457**	40,277
Deferred expenditure written off **		**—**	932
		42,457	41,209
Employee benefits expense (including directors' remuneration — note 8):			
Wages and salaries		**158,182**	176,427
Pension schemes contributions		**16,743**	15,623
Less: Forfeited contributions		**(25)**	(40)
Net pension schemes contributions ***		**16,718**	15,583
		174,900	192,010
Direct operating expenses (including repair and maintenance) arising on rental-earning investment properties		**930**	910
Fair value losses on equity investments at fair value through profit or loss		**129**	—
Foreign exchange differences, net		**(1,325)**	483
Write-off/(write-back) of other receivables		**169**	(11,278)

* These items are included in "Other expenses, net" on the face of the consolidated income statement.

** These items are included in "Cost of sales" on the face of the consolidated income statement.

*** At 31 December 2005, the forfeited contributions available to the Group to reduce its contributions to the pension schemes in future years are not material.

7. FINANCE COSTS

	Group	
	2005	2004
	HK$'000	*HK$'000*
Interest on bank loans and overdrafts	**1,142**	875

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	
	2005	2004
	HK$'000	*HK$'000*
Fees	**1,237**	774
Other emoluments:		
Salaries, bonuses and benefits in kind	**1,370**	1,511
Pension schemes contributions	**60**	60
	1,430	1,571
	2,667	2,345

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2005	2004
	HK$'000	*HK$'000*
Dr Hu Hung Lick, Henry	**141**	132
Mr Li Fat Chung	**261**	132
Ms Wong Lam Kit Yee	**240**	30
	642	294

There were no other emoluments payable to the independent non-executive directors during the year (2004: Nil).

8. DIRECTORS' REMUNERATION *(continued)*

(b) Executive directors

	Fees	Salaries, bonuses and benefits in kind	Pension schemes contributions	Total remuneration
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
2005				
Mr Cheung Shuen Lung	**120**	**1,200**	**60**	**1,380**
Professor Xiao Jian Guo	**120**	**170**	**—**	**290**
Professor Wei Xin	**120**	**—**	**—**	**120**
Mr Zhang Zhao Dong	**120**	**—**	**—**	**120**
Mr Xia Yang Jun	**115**	**—**	**—**	**115**
	595	**1,370**	**60**	**2,025**
2004				
Mr Cheung Shuen Lung	120	1,200	60	1,380
Professor Xiao Jian Guo	120	311	—	431
Professor Wei Xin	120	—	—	120
Mr Zhang Zhao Dong	120	—	—	120
	480	1,511	60	2,051

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

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included one (2004: one) director, details of whose remuneration are set out in note 8 to the financial statements above. Details of the remuneration of the remaining four (2004: four) non-director, highest paid employees for the year are as follows:

	Group	
	2005	2004
	HK$'000	*HK$'000*
Salaries, allowances and benefits in kind	**3,733**	3,649
Performance related bonuses	**1,069**	2,534
Pension schemes contributions	**163**	77
	4,965	6,260

9. FIVE HIGHEST PAID EMPLOYEES *(continued)*

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

	Number of employees	
	2005	2004
Nil - HK$1,000,000	**1**	—
HK$1,000,001 - HK$1,500,000	**2**	2
HK$1,500,001 - HK$2,000,000	**1**	1
HK$2,000,001 - HK$2,500,000	**—**	1
	4	4

10. TAX

	Group	
	2005	2004
	HK$'000	*HK$'000*
		(Restated)
Group:		
Current — Hong Kong	**16**	5
Current — Elsewhere	**2,645**	299
Deferred *(note 26)*	**2,391**	5,553
Total tax charge for the year	**5,052**	5,857

Hong Kong profits tax has been provided at the rate of 17.5% (2004: 17.5%) on the estimated assessable profits arising in Hong Kong during the year.

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.

The PRC corporate income tax provision in respect of operations in the PRC is calculated at the applicable tax rates on the estimated assessable profits for the year based on existing legislation, interpretations and practices in respect thereof. No provision for PRC corporate income tax had been made for prior 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 prior year.

Beijing Founder Century Information System Co., Ltd. ("Founder Century"), a 54.85% owned PRC subsidiary of the Group, is exempted from PRC corporate income 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 Century is 15%.

10. TAX *(continued)*

The share of tax attributable to associates amounting to approximately HK$2,853,000 (2004: HK$1,375,000) is included in "Share of profits and losses of associates" on the face of the consolidated income statement.

A reconciliation of the tax expense applicable to profit/(loss) before tax using the statutory rates for the countries in which the Company and the majority of its subsidiaries 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:

Group — 2005	**Hong Kong**		**Mainland China**		**Overseas**		**Total**	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Profit/(loss) before tax	**37,610**		**30,932**		**(2,246)**		**66,296**	
Tax at the statutory tax rate	**6,582**	**17.5**	**10,208**	**33.0**	**(898)**	**40.0**	**15,892**	**24.0**
Lower tax rate for specific provinces or local authority	**—**	**—**	**(7,179)**	**(23.2)**	**(148)**	**6.5**	**(7,327)**	**(11.0)**
Profits and losses attributable to associates	**(2,034)**	**(5.4)**	**—**	**—**	**377**	**(16.7)**	**(1,657)**	**(2.5)**
Income not subject to tax	**(7,048)**	**(18.7)**	**(4,059)**	**(13.1)**	**(598)**	**26.6**	**(11,705)**	**(17.7)**
Expenses not deductible for tax	**1,231**	**3.3**	**4,290**	**13.9**	**2,065**	**(91.9)**	**7,586**	**11.4**
Tax losses utilised from previous years	**(1,259)**	**(3.4)**	**(1,413)**	**(4.6)**	**—**	**—**	**(2,672)**	**(4.0)**
Tax losses not recognised	**2,544**	**6.8**	**2,391**	**7.7**	**—**	**—**	**4,935**	**7.4**
Tax charge at the Group's effective rate	**16**	**0.1**	**4,238**	**13.7**	**798**	**(35.5)**	**5,052**	**7.6**

Group — 2004	**Hong Kong**		**Mainland China**		**Overseas**		**Total**	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000*	*%*
	(Restated)				*(Restated)*		*(Restated)*	
Profit/(loss) before tax	(8,719)		2,984		(14,200)		(19,935)	
Tax at the statutory tax rate	(1,526)	17.5	985	33.0	(5,680)	40.0	(6,221)	31.2
Lower tax rate for specific provinces or local authority	—	—	1,451	48.6	629	(4.4)	2,080	(10.4)
Profits and losses attributable to associates and a jointly-controlled entity	(904)	10.4	—	—	(103)	0.7	(1,007)	5.1
Income not subject to tax	(655)	7.5	(5,498)	(184.2)	(2,792)	19.7	(8,945)	44.8
Expenses not deductible for tax	513	(5.9)	2,547	85.3	8,203	(57.8)	11,263	(56.5)
Tax losses utilised from previous years	(188)	2.1	(3,362)	(112.6)	—	—	(3,550)	17.8
Tax losses not recognised	2,765	(31.7)	9,472	317.4	—	—	12,237	(61.4)
Tax charge at the Group's effective rate	5	(0.1)	5,595	187.5	257	(1.8)	5,857	(29.4)

11. PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The profit from ordinary activities attributable to equity holders of the parent for the year ended 31 December 2005 dealt with in the financial statements of the Company was approximately HK$12,708,000 (2004: loss of HK$41,230,000) (note 29(b)).

12. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic earnings/(loss) per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent of approximately HK$47,929,000 (2004: loss of HK$27,183,000), and the weighted average number of approximately 1,123,800,000 (2004: 1,123,800,000) ordinary shares in issue during the year.

Diluted earnings/(loss) per share for the years ended 31 December 2005 and 2004 have not been calculated as the impact of the outstanding share options was anti-dilutive.

13. PROPERTY, PLANT AND EQUIPMENT

Group

	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$'000	Total HK$'000
31 December 2005						
At 31 December 2004 and 1 January 2005:						
Cost or valuation	15,900	13,971	9,229	79,452	14,055	132,607
Accumulated depreciation	—	(1,526)	(7,049)	(51,792)	(5,353)	(65,720)
Net carrying amount	15,900	12,445	2,180	27,660	8,702	66,887
At 1 January 2005, net of accumulated depreciation	15,900	12,445	2,180	27,660	8,702	66,887
Additions	—	—	422	11,058	—	11,480
Acquisition of a subsidiary *(note 30(a))*	—	—	—	656	—	656
Disposal of subsidiaries *(note 30(b))*	—	—	(290)	(11,777)	—	(12,067)
Disposals	—	—	—	(477)	(223)	(700)
Surplus on revaluation	9,498	—	—	—	—	9,498
Depreciation provided during the year	(298)	(291)	(982)	(9,637)	(1,484)	(12,692)
Exchange realignment	—	264	9	(174)	168	267
At 31 December 2005, net of accumulated depreciation	25,100	12,418	1,339	17,309	7,163	63,329
At 31 December 2005:						
Cost or valuation	25,100	14,268	9,329	67,656	13,479	129,832
Accumulated depreciation	—	(1,850)	(7,990)	(50,347)	(6,316)	(66,503)
Net carrying amount	25,100	12,418	1,339	17,309	7,163	63,329
Analysis of cost or valuation:						
At cost	—	14,268	9,329	67,656	13,479	104,732
At 31 December 2005 valuation	25,100	—	—	—	—	25,100
	25,100	14,268	9,329	67,656	13,479	129,832

13. PROPERTY, PLANT AND EQUIPMENT *(continued)*

Group

	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 (Restated)
31 December 2004							
At 1 January 2004:							
Cost or valuation	14,200	13,926	14,312	95,955	12,682	394	151,469
Accumulated depreciation	—	(1,236)	(11,983)	(64,452)	(5,347)	—	(83,018)
Net carrying amount	14,200	12,690	2,329	31,503	7,335	394	68,451
At 1 January 2004, net of accumulated depreciation	14,200	12,690	2,329	31,503	7,335	394	68,451
Additions	—	—	1,390	20,510	5,624	—	27,524
Write-off	—	—	—	(2,383)	—	—	(2,383)
Disposals	—	—	(499)	(1,436)	(702)	—	(2,637)
Disposal/partial disposal of subsidiaries *(note 30(b))*	—	—	(624)	(3,860)	(1,237)	—	(5,721)
Surplus on revaluation	1,998	—	—	—	—	—	1,998
Depreciation provided during the year	(298)	(286)	(831)	(16,934)	(2,343)	—	(20,692)
Transfers	—	—	395	—	—	(395)	—
Exchange realignment	—	41	20	260	25	1	347
At 31 December 2004, net of accumulated depreciation	15,900	12,445	2,180	27,660	8,702	—	66,887
At 31 December 2004:							
Cost or valuation	15,900	13,971	9,229	79,452	14,055	—	132,607
Accumulated depreciation	—	(1,526)	(7,049)	(51,792)	(5,353)	—	(65,720)
Net carrying amount	15,900	12,445	2,180	27,660	8,702	—	66,887
Analysis of cost or valuation:							
At cost	—	13,971	9,229	79,452	14,055	—	116,707
At 31 December 2004 valuation	15,900	—	—	—	—	—	15,900
	15,900	13,971	9,229	79,452	14,055	—	132,607

13. PROPERTY, PLANT AND EQUIPMENT *(continued)*

The Group's land and buildings in Hong Kong were revalued on 31 December 2005 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, their carrying amounts would have been approximately HK$32,172,000 (2004: HK$33,013,000).

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

	Hong Kong	**Mainland China**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
At cost:			
Long term leases	—	14,268	14,268
At valuation:			
Medium term leases	25,100	—	25,100
	25,100	14,268	39,368

At 31 December 2005 and 2004, all the land and buildings in Hong Kong of the Group were pledged to banks to secure banking facilities (note 25).

14. INVESTMENT PROPERTIES

	Group	
	2005	2004
	HK$'000	*HK$'000*
Carrying amount at 1 January	**15,710**	14,280
Net profit from a fair value adjustment	**7,400**	1,430
Carrying amount at 31 December	**23,110**	15,710

The Group's investment properties were revalued on 31 December 2005 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 32(a) to the financial statements.

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

At 31 December 2005 and 2004, all the investment properties of the Group were pledged to banks to secure banking facilities (note 25).

Further particulars of the Group's investment properties are included on pages 90 to 91 of the Annual Report.

15. GOODWILL

	Group	
	2005	2004
	HK$'000	*HK$'000*
Cost, net of accumulated amortisation:		
At 1 January	**9,583**	9,583
Disposal of subsidiaries	**(2,528)**	—
At 31 December	**7,055**	9,583
Accumulated impairment:		
At 1 January	**2,528**	2,528
Disposal of subsidiaries	**(2,528)**	—
At 31 December	**—**	2,528
Net carrying amount at 31 December	**7,055**	7,055

Impairment testing of goodwill

Goodwill acquired through business combination has been allocated to the distribution of information products cash-generating unit, which is one of the reportable segments, for impairment testing. The recoverable amount of the distribution of information products cash-generating unit was determined based on the fair value less costs to sell which was based on the market value of listed shares of a subsidiary less the costs of disposal.

As further detailed in note 2.5 to the financial statements, the Group applied the transitional provisions of HKFRS 3 that permitted goodwill in respect of business combinations which occurred prior to 2001, to remain eliminated against the consolidated reserves.

The amount of the goodwill remaining in consolidated reserves as at 31 December 2005, arising from the acquisition of subsidiaries prior to the adoption of SSAP 30 in 2001, is as follows:

	Group Goodwill eliminated against consolidated contributed surplus	
	2005	2004
	HK$'000	*HK$'000*
Cost:		
At 1 January and 31 December	**284,760**	284,760
Accumulated impairment:		
At 1 January	**284,760**	219,365
Provided during the year	**—**	65,395
At 31 December	**284,760**	284,760
Net carrying amount at 31 December	**—**	—

16. INTERESTS IN SUBSIDIARIES

	Company	
	2005	2004
	HK$'000	*HK$'000*
Unlisted shares, at cost	**559,088**	559,088
Shares listed in Hong Kong, at cost	**388,090**	388,090
Due to a subsidiary	**(375,687)**	(372,664)
	571,491	574,514
Impairment	**(243,204)**	(259,759)
	328,287	314,755
Market value of listed shares	**144,886**	193,155

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. The carrying amount of this amount due to a subsidiary approximates to its fair value.

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 Direct**	**Indirect**	**Principal activities**
Founder (Hong Kong) Limited ("Founder HK")	Hong Kong	Ordinary HK$110,879,989	100	—	Systems integration and investment holding
Beijing Founder Electronics Co., Ltd. ("Founder Electronics")#	Mainland China	Registered HK$230 million	—	100	Software development and systems integration
北京方正印捷數碼技術有限公司 (Beijing Founder EasiPrint Digital Technology Co., Ltd.@)	Mainland China	Registered RMB10 million	—	100	Provision of digital printing services
Founder Europe S.A.*##	Belgium	Ordinary EUR100,000	—	100	Systems integration
Founder Electronics (HK) Limited	Hong Kong	Ordinary HK$2	—	100	Systems integration

@ For identification purpose only

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 Direct	Percentage of equity attributable to the Company Indirect	Principal activities
Sparkling Idea Limited	British Virgin Islands/ Hong Kong	Ordinary US$1	—	100	Investment holding
Beijing Founder Order Computer System Co., Ltd. ("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
Founder Century#	Mainland China	Registered RMB150 million	—	54.85	Distribution of information products
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

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 Direct	Indirect	Principal activities
Sharp Century Limited	Hong Kong	Ordinary HK$2	—	100	Property holding
Founder Technology (Canada) Corp.*	Canada	Ordinary CAN$67,633	—	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 firms

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

\# Registered as wholly-foreign-owned enterprise under the PRC law

\## Incorporated during the year

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

17. INTERESTS IN ASSOCIATES

	Group 2005 HK$'000	2004 HK$'000
Share of net assets	**42,146**	36,422
Due from associates	**2,038**	2,351
	44,184	38,773
Provision for impairment	**—**	(140)
	44,184	38,633

The amounts due from associates are unsecured, interest-free and have no fixed terms of repayment, except for an amount due from an associate of approximately HK$807,000 (2004: HK$798,000) which bears interest at 3.7% per annum.

The Group's trade receivables and payables balances with the associates are disclosed in notes 20 and 24 to the financial statements, respectively.

17. INTERESTS IN ASSOCIATES *(continued)*

Particulars of the principal associates are as follows:

Name	Particulars of issued share held	Place of incorporation and operations	Percentage of ownership interest attributable to the Group 2005	2004	Principal activities
PUC Founder (MSC) Berhad*#	Ordinary shares of RM0.1 each	Malaysia	**35.90**	35.90	Software development and systems integration
Founder Globaltech Limited*	Ordinary shares of HK$1 each	Hong Kong	**35.90**	35.90	Systems integration
MC.Founder Limited*	Ordinary shares of HK$1 each	Hong Kong	**20.12**	20.12	Investment holding and distribution of mobile phones and data products
MC.Founder (Distribution) Limited*	Ordinary shares of HK$1 each	Hong Kong	**20.12**	20.12	Distribution of mobile phones and accessories, and provision of repair services
MC.Founder (Technology) Limited*	Ordinary shares of HK$1 each	Hong Kong	**20.12**	20.12	Sale of data products

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

\# Listed on Bursa Malaysia Securities Berhad

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.

The Group's shareholdings in the associates are held through subsidiaries of the Company.

All the above associates have been accounted for using the equity method in these financial statements.

17. INTERESTS IN ASSOCIATES *(continued)*

The following table illustrates the summarised financial information of the Group's associates extracted from their management accounts or audited financial statements:

	2005	2004
	HK$'000	*HK$'000*
Assets	**252,925**	226,121
Liabilities	**136,561**	125,329
Revenue	**1,296,639**	1,159,529
Profit after tax	**27,826**	4,457

18. INVENTORIES

	Group	
	2005	2004
	HK$'000	*HK$'000*
Trading stocks	**171,076**	162,094

19. SYSTEMS INTEGRATION CONTRACTS

	Group	
	2005	2004
	HK$'000	*HK$'000*
Gross amount due from contract customers	**44,743**	55,826
Gross amount due to contract customers	**—**	—
	44,743	55,826
Contract costs incurred plus recognised profits less recognised losses and foreseeable losses to date	**77,636**	55,826
Less: Progress billings	**(32,893)**	—
	44,743	55,826

20. 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 three 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. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

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

	Group	
	2005	2004
	HK$'000	*HK$'000*
Within 6 months	**326,949**	298,256
7-12 months	**18,775**	21,906
13-24 months	**13,201**	8,914
Over 24 months	**1,372**	467
	360,297	329,543

Included in the Group's trade and bills receivables are amounts due from the Group's related companies and associates of approximately HK$1,585,000 (2004: HK$1,094,000) and approximately HK$2,970,000 (2004: HK$1,980,000), respectively, which are repayable on similar credit terms to those offered to the major customers of the Group.

21. EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS/SHORT TERM INVESTMENTS

	Group	
	2005	2004
	HK$'000	*HK$'000*
Overseas listed equity investments, at market value	**1,718**	—
Overseas mutual fund, at market value	**263**	1,742
	1,981	1,742

The above equity investments at 31 December 2005 were classified as held for trading.

22. PLEDGED DEPOSITS

The Group's bank deposits were pledged to banks to secure the banking facilities granted to the Group. The carrying amounts of the pledged deposits approximate to their fair values.

23. CASH AND CASH EQUIVALENTS

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Cash and bank balances	**405,304**	226,467	**48**	1,158
Time deposits	**9,582**	35,145	**—**	—
	414,886	261,612	**48**	1,158

At the balance sheet date, the cash and cash equivalents of the Group denominated in Renminbi ("RMB") amounted to approximately HK$384,068,000 (2004: HK$223,015,000). 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.

Cash at bank earns interest at floating rates based on daily bank deposits rates. Short term time deposits are made for varying periods of between seven days and one year depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposits rates. The carrying amounts of the cash and cash equivalents approximate to their fair values.

24. TRADE AND BILLS PAYABLES

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

	Group	
	2005	2004
	HK$'000	*HK$'000*
Within 6 months	**433,201**	349,429
7-12 months	**1,326**	6,716
13-24 months	**1,935**	1,469
Over 24 months	**1,801**	908
	438,263	358,522

24. TRADE AND BILLS PAYABLES *(continued)*

The trade payables are non-interest-bearing and are normally settled on terms of 15 to 90 days.

Included in the Group's trade and bills payables are amounts due to the Group's related companies and associates of approximately HK$3,318,000 (2004: HK$21,000) and approximately HK$349,000 (2004: HK$212,000), respectively, which are repayable on similar credit terms to those obtained from the major suppliers of the Group.

25. INTEREST-BEARING BANK BORROWINGS

	Effective interest rate	Maturity	Group	
	(%)		**2005**	2004
			HK$'000	*HK$'000*
Trust receipt loans, secured	5.580 - 5.674	2006 or on demand	**2,214**	15,932
Bank loan, unsecured	5.859	2006	**38,400**	—
			40,614	15,932

Notes:

(a) 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$23,110,000 (2004: HK$15,710,000);

(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$25,100,000 (2004: HK$15,900,000); and

(iii) the pledge of the Group's bank deposits amounting to approximately HK$72,536,000 (2004: HK$61,849,000).

(b) The unsecured bank loan was guaranteed by 北大方正集團有限公司 (Peking University Founder Group Company Limited*) (formerly known as Peking University Founder Group Corporation) ("Peking Founder"), a substantial shareholder of the Company.

(c) The trust receipt loans and bank loan were denominated in United States dollars ("USD") and RMB, respectively.

(d) The carrying amounts of the Group's borrowings approximate to their fair values.

* *For identification purpose only*

26. 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	
	2005	2004
	HK$'000	*HK$'000*
At 1 January	**2,366**	7,895
Deferred tax charged to the income statement during the year *(note 10)*	**(2,391)**	(5,553)
Exchange realignment	**25**	24
Gross and net deferred tax assets at 31 December	**—**	2,366

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	
	2005	2004
	HK$'000	*HK$'000*
Accelerated depreciation allowances	**(24,641)**	(10,004)
Tax losses	**458,157**	536,075
General provision for obsolete inventories	**1,114**	242
General provision for doubtful trade debts	**1,912**	308
	436,542	526,621

The unused tax losses include an amount of approximately HK$143,392,000 (2004: HK$226,774,000) arising in Mainland China which is due to expire within one 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 not generated any assessable profits for some time.

At 31 December 2005, there was no significant unrecognised deferred tax liability (2004: 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.

27. SHARE CAPITAL

	Group and Company	
	2005	2004
	HK$'000	*HK$'000*
Authorised:		
2,100,000,000 ordinary shares of HK$0.10 each	**210,000**	210,000
Issued and fully paid:		
1,123,799,893 ordinary shares of HK$0.10 each	**112,380**	112,380

28. SHARE OPTION SCHEMES

(a) Share option schemes of the Company

On 24 May 2002, the Company adopted a 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 was 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.

28. SHARE OPTION SCHEMES *(continued)*

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

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 offer of the share options.

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 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 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.

28. 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 2005 and at the end of the year:

Name or category of participant	Number of share options: At 1 January 2005	Lapsed during the year	At 31 December 2005	Date of grant of share options*	Exercise period of share options	Exercise price of share options** HK$
Old Scheme						
Other employees						
In aggregate	700,000	(700,000)	—	16.4.1999	16.4.1999 to 6.12.2005	0.912
New Scheme						
Directors						
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			
Other employees						
In aggregate	58,000,000	(6,500,000)	51,500,000	2.1.2004	3.1.2004 to 31.12.2013	0.840
Total under the New Scheme	90,000,000	(6,500,000)	83,500,000			

Notes to the reconciliation of share options outstanding during the year:

* 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.

At the balance sheet date, the Company had 83,500,000 share options outstanding under the New Scheme. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 83,500,000 additional ordinary shares of the Company and additional share capital of HK$8,350,000 and share premium of HK$70,238,000 (before issue expenses).

28. SHARE OPTION SCHEMES *(continued)*

(b) Share option schemes of EC-Founder

On 24 May 2002, EC-Founder, a subsidiary of the Company, adopted a 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 2005 and at the end of the year:

	Number of share options					
Name or category of participant	**At 1 January 2005**	**Lapsed during the year**	**At 31 December 2005**	**Date of grant of share options***	**Exercise period of share options**	**Exercise price of share options****
						HK$
1991 Scheme						
Other employees						
In aggregate	2,700,000	—	2,700,000	18.5.2001	15.12.2001 to 14.12.2006	0.450
2001 Scheme						
Directors						
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	4,000,000	—	4,000,000			
Other employees						
In aggregate	1,900,000	(1,600,000)	300,000	18.5.2001	18.5.2001 to 17.5.2011	0.450
Total under the 2001 Scheme	5,900,000	(1,600,000)	4,300,000			

28. SHARE OPTION SCHEMES *(continued)*

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

Name or category of participant	Number of share options: At 1 January 2005	Lapsed during the year	At 31 December 2005	Date of grant of share options*	Exercise period of share options	Exercise price of share options**
						HK$
2002 Scheme						
Directors						
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	24,000,000	—	24,000,000			
Other employees						
In aggregate	38,000,000	(11,000,000)	27,000,000	2.1.2004	3.1.2004 to 31.12.2013	0.340
Total under the 2002 Scheme	62,000,000	(11,000,000)	51,000,000			

Notes to the reconciliation of share options outstanding during the year:

* 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.

29. RESERVES

(a) Group

	Attributable to equity holders of the parent									
	Share premium account	Contributed surplus	Capital reserve	Land and buildings revaluation reserve	Exchange fluctuation reserve	General reserve	Retained profits/ (accumulated losses)	Total	Minority interests	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2004	27,660	802,515	68,439	601	(1,154)	43,122	(711,579)	229,604	86,667	316,271
Exchange realignment	—	—	—	—	1,197	—	—	1,197	13	1,210
Partial disposal of a subsidiary	—	—	—	—	13	—	—	13	130	143
Disposal of a subsidiary	—	—	—	—	(440)	—	—	(440)	—	(440)
Disposal of a jointly-controlled entity	—	—	—	—	(3)	—	—	(3)	—	(3)
Deemed partial disposal of subsidiaries	—	—	—	—	—	—	—	—	5,595	5,595
Share of general reserve of associates	—	—	—	—	—	27	—	27	—	27
Impairment of goodwill remaining eliminated against contributed surplus	—	65,395	—	—	—	—	(65,395)	—	—	—
Loss for the year	—	—	—	—	—	—	(27,183)	(27,183)	1,391	(25,792)
Transfer to general reserve	—	—	—	—	—	30	(30)	—	—	—
Transfer to capital reserve	—	—	6,503	—	—	—	(6,503)	—	—	—
At 31 December 2004 and beginning of year	27,660	867,910	74,942	601	(387)	43,179	(810,690)	203,215	93,796	297,011
Exchange realignment	—	—	—	—	1,610	—	—	1,610	194	1,804
Disposal of subsidiaries	—	—	(81,909)	—	3,253	—	81,909	3,253	(21,671)	(18,418)
Deemed partial disposal of subsidiaries	—	—	—	—	(157)	—	—	(157)	17,007	16,850
Share of general reserve of associates	—	—	—	—	—	23	—	23	—	23
Profit for the year	—	—	—	—	—	—	47,929	47,929	13,315	61,244
Transfer to general reserve	—	—	—	—	—	1,597	(1,597)	—	—	—
Transfer to capital reserve	—	—	10,652	—	—	—	(10,652)	—	—	—
At 31 December 2005	27,660	867,910	3,685	601	4,319	44,799	(693,101)	255,873	102,641	358,514

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 an associate.

29. RESERVES *(continued)*

(a) Group *(continued)*

In accordance with the relevant PRC regulations, each of the Group's PRC subsidiaries and associates 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 associates in accordance with their articles of association. During the year, a PRC subsidiary transferred approximately HK$1.6 million, which represented the share of 10% of the PRC subsidiary's profit after tax for the year ended 31 December 2005 as determined in accordance with the PRC accounting standards and regulations, to the general reserve.

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$47,000 (2004: HK$57,000), which represented 10% of their profit after tax, to the general reserve.

(b) Company

	Share premium account HK$'000	Contributed surplus HK$'000	Retained profits/ (accumulated losses) HK$'000	Total HK$'000
At 1 January 2004	27,660	448,209	(231,424)	244,445
Loss for the year	—	—	(41,230)	(41,230)
At 31 December 2004 and beginning of year	27,660	448,209	(272,654)	203,215
Profit for the year	—	—	12,708	12,708
At 31 December 2005	27,660	448,209	(259,946)	215,923

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 shareholders out of the contributed surplus in certain circumstances.

30. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Acquisition of a subsidiary

On 12 April 2005, the Group acquired the entire 100% equity interests in Sysin Inc. for a consideration of 200 additional new shares of Founder International Inc. ("Founder Inc."), the then non-wholly owned subsidiary of the Group, upon the date of completion. The share of consolidated net asset value of Founder Inc. as at the date of acquisition approximates to the fair value of shares issued as consideration.

	2005 Fair value recognised on acquisition and carrying amount *HK$'000*
Property, plant and equipment	**656**
Inventories	**429**
Trade and bills receivables	**7,561**
Prepayments, deposits and other receivables	**6,381**
Cash and bank balances	**15,267**
Trade payables	**(6,320)**
Other payables and accruals	**(18,872)**
Minority interests	**(2,569)**
	2,533
Satisfied by:	
Issue of shares by a subsidiary	**2,533**

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

	2005 *HK$'000*
Cash and bank balances acquired	**15,267**

Since its acquisition in 2005, the subsidiary contributed approximately HK$4,496,000 to the Group's consolidated revenue and approximately HK$227,000 to the Group's consolidated profit after tax for the year ended 31 December 2005.

The impact on consolidated revenue and profit after tax of the Group was immaterial had the acquisition taken place at the beginning of the year.

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

(b) Disposal/partial disposal of subsidiaries

	2005	2004
	HK$'000	*HK$'000*
Net assets disposed of:		
Property, plant and equipment	**12,067**	5,721
Interests in associates	**387**	—
Inventories	**1,251**	188
Systems integration contracts	**11,229**	2,481
Trade and bills receivables	**25,798**	4,593
Prepayments, deposits and other receivables	**13,596**	3,518
Cash and bank balances	**35,600**	6,079
Trade payables	**(14,974)**	(1,896)
Other payables and accruals	**(43,921)**	(8,318)
Exchange fluctuation reserve	**3,253**	(427)
Minority interests	**(21,671)**	—
	22,615	11,939
Gain on disposal of subsidiaries *(note 5)*	**21,939**	3,255
Loss on partial disposal of a subsidiary *(note 6)*	**—**	(765)
	44,554	14,429
Satisfied by:		
Cash	**44,554**	13,703
Interest in an associate	**—**	726
	44,554	14,429

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

	2005	2004
	HK$'000	*HK$'000*
Cash consideration	**44,554**	13,703
Cash and bank balances disposed of	**(35,600)**	(6,079)
Net inflow of cash and cash equivalents in respect of the disposal/partial disposal of subsidiaries	**8,954**	7,624

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

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

The results of subsidiaries disposed of during the year ended 31 December 2005 contributed approximately HK$61,925,000 to the Group's consolidated turnover and loss of approximately HK$567,000 to the Group's consolidated profit after tax for that year.

The results of the subsidiaries disposed/partially disposed of during the year ended 31 December 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.

(c) Major non-cash transaction

During the year, 200 ordinary shares of Founder Inc. were issued as the consideration for the acquisition of the entire 100% equity interest in Sysin Inc..

31. CONTINGENT LIABILITIES

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

	Company	
	2005	2004
	HK$'000	*HK$'000*
Guarantees given to banks in connection with facilities granted to subsidiaries	**50,000**	45,000
Guarantees given to suppliers in connection with credit facilities granted to subsidiaries	**—**	23,358
	50,000	68,358

As at 31 December 2005, the guarantees given to banks in connection with facilities granted to subsidiaries by the Company were utilised to the extent of approximately HK$16,651,000 (2004: HK$26,034,000).

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

The Group did not have any significant contingent liabilities as at 31 December 2005 (2004: Nil).

32. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties (note 14 to the financial statements) under operating lease arrangements, with leases negotiated for terms of two to three years. The terms of the leases generally also require the tenants to pay security deposits.

At 31 December 2005, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2005	2004
	HK$'000	*HK$'000*
Within one year	**569**	599
In the second to fifth years, inclusive	**85**	350
	654	949

(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 2005, the Group had total future minimum lease payments under the non-cancellable operating leases falling due as follows:

	Group	
	2005	2004
	HK$'000	*HK$'000*
Within one year	**3,192**	25,342
In the second to fifth years, inclusive	**973**	1,796
	4,165	27,138

33. RELATED PARTY TRANSACTIONS

(I) Transactions with related parties

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

(a)

		Group	
		2005	2004
	Notes	***HK$'000***	*HK$'000*
Sale of goods to associates	*(i)*	**3,559**	7,381
Sale of goods to a company in which three directors of the Company were directors	*(i)*	**1,185**	1,154
Purchase of goods from associates	*(ii)*	**245**	626
Purchase of goods from a company in which one director of the subsidiary was a shareholder	*(iii)*	**59,662**	48,687
Service fee paid to an associate of Peking Founder, a substantial shareholder of the Company	*(iv)*	**5,192**	—
Banking facilities guarantees given by Peking Founder	*(v)*	**417,697**	295,630
Bank loan guarantee given by Peking Founder	*(vi)*	**38,400**	—

Notes:

(i) The sale of goods were made according to the published prices and conditions similar to those offered to other customers of the Group.

(ii) The purchase of goods were made according to the published prices and conditions similar to those offered by the related parties to their other customers.

(iii) The purchase prices were determined based on actual costs incurred.

(iv) These transactions were conducted on the basis of rates agreed between the Company and the related company.

(v) The banking facilities guarantees were given to PRC banks for credit facilities granted to the subsidiaries of the Company and utilised to the extent of approximately HK$306,817,000 at 31 December 2005 (2004: HK$266,858,000).

(vi) The bank loan guarantee was given to a PRC bank for the loan granted to a subsidiary of the Company.

33. RELATED PARTY TRANSACTIONS *(continued)*

(I) Transactions with related parties *(continued)*

(b) 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. On 21 July 2005, Founder Order entered into a supplemental agreement with Peking Founder, to cease the lease, with effect from 1 January 2005, of a total area of 497.13 square metres of the leased premises (the "Terminated Area"). Since then, Founder Order is not obliged to pay the relevant portion of the rental and management fee in respect of the Terminated Area under the original lease agreement, but would continue to lease the remaining area of the premises from Peking Founder at the same terms under the original lease agreement. During the year, rental and management fee expenses of approximately HK$21,206,000 (2004: HK$25,789,000) were paid by the Group to Peking Founder. The directors considered that the rental and management fee expenses were paid in accordance with the terms of the lease agreements.

(c) On 7 February 2005, Founder HK entered into a conditional 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 Group Limited ("True Luck") and to assign the loan of JPY70 million due to Founder HK by True Luck to Founder Information at a total cash consideration of JPY693,520,600. 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. The disposal was completed on 30 June 2005.

True Luck and its subsidiaries (collectively the "True Luck Group") were principally engaged in the software development and systems integration in Japan. The main purposes of the disposal of the True Luck Group were to (i) relieve the financial burden of the Group for funding the continuing business development and operation of the True Luck Group; and (ii) enable the Group to focus its resources on its core business, being software development and systems integration relating to multi-media industry in the PRC.

(d) On 7 February 2005, Founder Electronics entered into an agreement (the "Japan Software Agreement") with Founder Inc., a subsidiary of True Luck which is a subsidiary of Peking Founder, for the sale of printing software developed by Founder Electronics and the provision of other related services to Founder Inc.. 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.

During the year, sale of products and provision of product related services in an aggregate amount of approximately HK$3,862,000 to Founder Inc. were made by the Group after the disposal of the shares of True Luck by the Group. The directors considered that the sale of products and provision of services were made in accordance with the terms of the Japan Software Agreement.

33. RELATED PARTY TRANSACTIONS *(continued)*

(I) Transactions with related parties *(continued)*

(e) On 31 October 2005, Founder Order entered into a software development agreement with Beijing Founder International Co., Limited ("Beijing Founder International"), a subsidiary of True Luck which is a subsidiary of Peking Founder, to engage Beijing Founder International for the development of a software at a consideration of RMB10 million (equivalent to approximately HK$9.6 million). Further details of the transaction was set out in the announcement of the Company dated 7 November 2005.

(f) 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.. Pursuant to the Subscription Agreement, Founder Inc. issued 333 new shares to Media Champion on 24 September 2004 and 537 new shares to Media Champion on 9 June 2005. The subscription price was JPY300,000 per share.

The main purposes of the allotment were 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.

(g) 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.

(h) For the year ended 31 December 2004, the Group received commission income of approximately HK$4,546,000 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.

The related party transactions in respect of items (b), (c), (d), (e), (f) and (g) above also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

** For identification purpose only*

33. RELATED PARTY TRANSACTIONS *(continued)*

(II) Outstanding balances with related parties

(a) The balance due to Peking Founder included in other payables and accruals as at 31 December 2005 is approximately HK$10,089,000 (2004: HK$13,622,000). The balance due from Peking Founder included in prepayments, deposits and other receivables as at 31 December 2004 was approximately HK$1,298,000. The balances are unsecured, interest-free and have no fixed terms of repayment.

(b) The balance due from a company in which a director of a subsidiary was a shareholder included in prepayments, deposits and other receivables as at 31 December 2004 was approximately HK$4,220,000. The balance was unsecured, interest-free and repaid during the year.

(c) The balance due to a company in which three directors of the Company were directors included in other payables and accruals was approximately HK$8,101,000 (2004: Nil). The balance is unsecured, interest-free and has no fixed terms of repayment.

(d) The balances due from associates of Peking Founder included in prepayments, deposits and other receivables as at 31 December 2005 are approximately HK$4,359,000 (2004: Nil). The balance due to an associate of Peking Founder included in other payables and accruals as at 31 December 2005 is approximately HK$1,498,000 (2004: Nil). The balances are unsecured, interest-free and have no fixed terms of repayment.

(e) Details of the Group's amount due from its associates as at the balance sheet date are included in note 17 to the financial statements.

(f) Details of the Group's trade balances with its associates and related companies as at the balance sheet date are disclosed in notes 20 and 24 to the financial statements.

(III) Compensation of key management personnel of the Group

	2005	2004
	HK$'000	*HK$'000*
Short term employee benefits	**7,593**	8,957
Post-employment benefits	**221**	173
Total compensation paid to key management personnel	**7,814**	9,130

Further details of directors' emoluments are included in note 8 to the financial statements.

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing bank loans and cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade and bills receivables and trade and bills payables, which arise directly from its operations.

It is, and has been, throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are cash flow interest rate risk, foreign currency risk, credit risk and liquidity risk. The board reviews and agrees policies for managing each of these risks and they are summarised below.

Cash flow interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's debt obligations. The Group does not use derivative financial instruments to hedge its debt obligations.

Foreign currency risk

Most of the Group's payables and borrowings are denominated in Hong Kong dollars, RMB and USD and the sales of the Group are mainly denominated in RMB and USD. As the exchange rates of RMB and USD against Hong Kong dollars were relatively stable during the year, the Group's exposure to fluctuations in exchange rates is considered minimal and no financial instruments have been used for hedging purposes.

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral.

The Group places its cash deposits with major international banks in Hong Kong and state-owned banks in Mainland China. This investment policy limits the Group's exposure to concentrations of credit risk.

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts and bank loans. In addition, banking facilities have been put in place for contingency purpose.

35. POST BALANCE SHEET EVENTS

(a) In January 2006, 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 for an aggregate annual rental and management fees of approximately HK$13.4 million effective from 1 January 2006 to 31 December 2008. Further details of the transaction were set out in the joint announcement of the Company and EC-Founder dated 21 November 2005 and the circular of the Company dated 12 December 2005.

(b) On 5 January 2006, EC-Founder entered into a master agreement with Peking Founder to govern the sale of information products to Peking Founder and its subsidiaries for a term of three years from 1 January 2006 to 31 December 2008. Further details of the transaction were set out in the joint announcement of the Company and EC-Founder dated 21 November 2005 and the circulars of the Company and EC-Founder dated 12 December 2005.

(c) On 5 January 2006, the Company entered into a master agreement with EC-Founder to govern the purchase of information products from EC-Founder and its subsidiaries for a term of three years from 1 January 2006 to 31 December 2008. Further details of the transaction were set out in the joint announcement of the Company and EC-Founder dated 21 November 2005 and the circulars of the Company and EC-Founder dated 12 December 2005.

36. COMPARATIVE AMOUNTS

As further explained in notes 2.2 and 2.4 to the financial statements, due to the adoption of new HKFRSs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been reclassified and restated to conform with the current year's presentation and accounting treatment.

37. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 21 April 2006.