Stock Code: 0618

ANNUAL REPORT 2007

EC-FOUNDER (HOLDINGS) COMPANY LIMITED

方正數碼(控股)有限公司

(Incorporated in Bermuda with limited liability)

Contents

Corporate Information

BOARD OF DIRECTORS

Executive directors

Mr Zhang Zhao Dong *(Chairman)*
Mr Chen Geng *(President)*
Mr Xia Yang Jun
Mr Xie Ke Hai
Mr Zheng Fu Shuang

Independent non-executive directors

Mr Li Fat Chung
Ms Wong Lam Kit Yee
Ms Cao Qian

COMMITTEES

Audit Committee

Mr Li Fat Chung *(Chairman)*
Ms Wong Lam Kit Yee
Ms Cao Qian

Remuneration Committee

Mr Chen Geng *(Chairman)*
Mr Li Fat Chung
Ms Wong Lam Kit Yee

COMPANY SECRETARY

Ms Tang Yuk Bo Yvonne

QUALIFIED ACCOUNTANT

Mr Lau Fai Lawrence

AUTHORISED REPRESENTATIVES

Mr Zhang Zhao Dong
Mr Chen Geng

AUDITORS

Ernst & Young
Certified Public Accountants

LEGAL ADVISERS

Morrison & Foerster

PRINCIPAL BANKERS

Agricultural Bank of China
BNP Paribas Hong Kong Branch
China Merchants Bank
DBS Bank (Hong Kong) Limited
Hang Seng Bank Limited
Industrial and Commercial Bank of China (Asia) Limited

REGISTERED OFFICE

Canon's Court
22 Victoria Street
Hamilton HM12
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Unit 1408, 14th Floor
Cable TV Tower
9 Hoi Shing Road
Tsuen Wan
New Territories
Hong Kong

SHARE REGISTRARS AND TRANSFER OFFICE

Principal registrars

Butterfield Fund Services (Bermuda) Limited
Rosebank Centre
11 Bermudiana Road
Pembroke
Bermuda

Hong Kong branch share registrars and transfer office

Tricor Tengis Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Hong Kong

LISTING INFORMATION

Main board of The Stock Exchange of Hong Kong Limited
Stock code: 00618
Board Lot: 2,000 shares

COMPANY WEBSITES

www.ecfounder.com.hk
www.irasia.com/listco/hk/ecfounder

Financial Highlights

Year	**2007**	2006	2005	2004	2003
Turnover *(HK$' million)*	**2,725**	2,315	1,901	1,258	625
Total assets *(HK$' million)*	**994**	900	792	561	458
Total liabilities *(HK$' million)*	**736**	663	577	376	282
Net assets *(HK$' million)*	**258**	237	215	185	176
Net assets per share *(HK$)*	**0.23**	0.22	0.20	0.17	0.16
Current ratio	**1.29**	1.30	1.30	1.41	1.50
Long term debt to equity ratio	**0.001**	0.002	N/A	N/A	N/A

Management Discussion and Analysis

MANAGEMENT DISCUSSION AND ANALYSIS

Overall Performance

The Group reported a profit attributable to equity holders of the parent for the year ended 31 December 2007 of HK$10.8 million (year ended 31 December 2006: HK$14.9 million). The Group's revenue for the current year has increased by 17.7% to HK$2,724.7 million compared to HK$2,314.8 million for the year ended 31 December 2006. However, the Group has recorded a decrease in the gross profit margin from last year's 5.34% to the current year's 4.99%, gross profit has increased by 10.0% to HK$135.9 million (year ended 31 December 2006: HK$123.5 million).

Though revenue has recorded a moderate 17.7% growth in the current year, total selling and distribution costs and administrative expenses for the current year has increased by 14.4% compared to the year ended 31 December 2006.

The decrease in the Group's consolidated profit for the year attributable to the equity holders of the parent was mainly the net results of:

a. a decrease in the segment profit of the distribution of information products business by 33.3% to HK$10.8 million (year ended 31 December 2006: HK$16.2 million);

b. an decrease in segment loss for the corporate and others segment by 25.9% to HK$6.3 million (year ended 31 December 2006: HK$8.5 million);

c. a decrease in the share of profits and losses of associates by 12.4% to approximately HK$7.8 million (year ended 31 December 2006: HK$8.9 million).

Basic earnings per share attributable to equity holders of the parent for the year was HK0.98 cents (year ended 31 December 2006: HK1.4 cents).

Operating Review and Prospects

Distribution of information products ("Distribution Business")

The Group's principal operating activity during the year is the distribution of information products business. The Distribution Business recorded a turnover of HK$2,724.7 million representing an increase of 17.7% comparing to the last financial year, which exceeded the estimated average growth of the PRC information products and segment results for the year ended 31 December 2007 has decreased by 33.3% to HK$10.8 million (year ended 31 December 2006: HK$16.2 million). However, gross profit for the Distribution Business has recorded an increase of 10.0% to HK$135.9 million for the year ended 31 December 2007 (year ended 31 December 2006: HK$123.5 million) and gross profit ratio has decreased to 4.99% for the current year comparing to 5.34% for the year ended 31 December 2006.

Management Discussion and Analysis

The Distribution Business is mainly focused on the distribution of information products such as servers, printers, switches, networking products, storage devices, workstations and optical screen products of a number of internationally famed and branded information products manufacturers such as HP, H3C, Apple, Netgear, CommScope, Barco, Epson and Microsoft.

During the second half of the current year, the Distribution Business segment has recorded a lower gross profit ratio of 4.77% comparing to 5.25% for the six months ended 30 June 2007. Besides the lower gross profit ratio for the second half of the current year, total selling and distribution costs and administrative expenses for the second half of the current financial year also increased by 26.7% from the first half of the current financial year. As a result, a segment loss of HK$1.3 million was recorded for the second half of the current financial year comparing to the segment profits of HK$12.0 million and HK$7.4 million for the six months ended 30 June 2007 and the six months ended 31 December 2006 respectively. The increase in total selling and distribution costs and administrative expenses was mainly due to the increase in the number of headcount and increased marketing and selling effort for keeping a growth in turnover during the second half of the current year.

The Distribution Business has been awarded by various upstream vendors during the year for its excellent partnership in terms of distribution channel, coverage, growth and overall performance in the PRC. In June 2007, the Distribution Business was ranked the 4th place (2006: 4th) by Computer Partner World (電腦商報) among the top 150 information products distributors in the PRC's information products distribution business.

The operating environment of the Distribution Business in the PRC was very competitive, total selling and distribution costs and administrative expenses for the Distribution Business as a percentage to turnover has increased from 4.2% for the first half of the current financial year to 4.4% for the second half of the current financial year. With the increase in the headcount and a deteriorating operating environment in the PRC, selling and distribution costs and administrative expenses for the Distribution Business for the current financial year also increased by 9.1% and 33.3% respectively compared to the year ended 31 December 2006. To strike for continued expansion in operation, the Group has placed much effort on current assets management. The Group's trade and bills receivables and inventory turnover periods have improved from 2006's 41.9 days and 20.8 days to the current year's 38.4 days and 16.5 days respectively. The working capital ratio for the Group as at 31 December 2007 was 1.29 (31 December 2006: 1.30).

As the business environment in the PRC is becoming more competitive and the unfavorable factors arising from the macro-control policies, the Group will be facing increasing operating costs and expenses. However, the Group is dedicated for a medium to long term development plan of maintaining a satisfactory growth in results and fulfilling its objective to enhance shareholders' value. The Distribution Business will continuously refine its product structure to avoid product overlapping and minimize market risk. The Group will focus on the distribution of information products with higher margin and exploring the more profitable value-added service business.

Management Discussion and Analysis

Besides the implementation of an efficient and effective internal control system and the continuing provision of staff development programs, the Group is committed to strive for leadership in the information products distribution business in the PRC. Nevertheless, to enrich and widen the product range and improving the Group's profitability, the Group will continue to look for alliance with other international information products suppliers and investment opportunities. The Board and the management team are also devoted to sustain the Group's future growth and widen the revenue base for a better reward to the shareholders.

Employee

The Group has developed its human resources policies and procedures based on performance and merits. The Group ensures that the pay level of its employees are competitive and employees are rewarded on a performance-related basis within the general framework of the Group's salary and bonus systems. The Group provides on-the-job training to its employees in addition to retirement benefit schemes and medical insurance.

The Group operates share option schemes for the purpose of providing incentives and rewards to eligible directors and employees of the Group who contribute to the success of the Group's operations. The Group had not granted any share options to its eligible directors and employees during the current financial year.

Due to the increase in the size of operation of the Distribution Business, the Group has approximately 573 employees as at 31 December 2007 (31 December 2006: 526).

FINANCIAL REVIEW

Liquidity, financial resources and capital commitments

As at 31 December 2007, the Group recorded total assets of HK$994.5 million (31 December 2006: HK$900.0 million) which were financed by liabilities of HK$736.2 million (31 December 2006: HK$663.2 million) and equity of HK$258.3 million (31 December 2006: HK$236.8 million). The Group's net asset value as at 31 December 2007 increased by 9.1% to HK$258.2 million as compared to approximately HK$236.8 million as at 31 December 2006.

The Group had total cash and bank balances of HK$392.0 million as at 31 December 2007 (31 December 2006: HK$356.9 million). The Group had bank and other borrowings as at 31 December 2007 of HK$43.1 million (31 December 2006: HK$40.4 million), of which approximately HK$42.8 million (31 December 2006: HK$40.0 million) was repayable within one year and approximately HK$0.3 million (31 December 2006: HK$0.4 million) was repayable within two to five years. Hence the Group recorded a net cash balance of HK$348.9 million as at 31 December 2007 as compared to HK$316.5 million as at 31 December 2006. As at 31 December 2007, the Group's current ratio was 1.29 (31 December 2006: 1.30).

As at 31 December 2007, the Group did not have any material capital expenditure commitments.

Management Discussion and Analysis

Treasury policies

The Group adopts conservative treasury policies and controls tightly over its cash and risk management. The Group's cash and cash equivalents are held mainly in Hong Kong dollars, Renminbi and United States dollars. Surplus cash is generally placed in short term deposits denominated in Hong Kong dollars, Renminbi and United States dollars.

Exposure to fluctuations in exchange rates and related hedges

Most of the Group's payables and borrowings are denominated in Hong Kong dollars, Renminbi and United States dollars while the sales of the Group are mainly denominated in Renminbi and United States dollars. The sales and purchases made by the subsidiary of the Group in the PRC are conducted in Renminbi and hence, the transactional currency exposure is minimal. As the exchange rates of United States dollars against Hong Kong dollars was relatively stable during the year under review, the Group's exposure to fluctuations in exchange rates is considered minimal and no financial instruments have been used for hedging purposes.

Material acquisitions and disposals of subsidiaries and associates

The Group had no material acquisition or disposals of subsidiaries and associates in 2007.

Charges on assets

As at 31 December 2007, bank deposits of approximately HK$95.8 million were pledged to banks to secure general banking facilities granted.

Contingent liabilities

The Group did not have any significant contingent liabilities as at 31 December 2007 (2006: Nil).

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

The Company is firmly committed to the overall standards of corporate governance and has always recognised the importance of accountability and communication with shareholders. The Company adopted all the code provisions of the Code on Corporate Governance Practices (the "Code"), as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), as its own code on corporate governance practices.

In the opinion of the directors, the Company has applied the principles in the Code through the adoption of the code provisions of the Code and has complied with the code provisions of the Code throughout the year ended 31 December 2007.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules (the "Model Code") to regulate the directors' securities transactions. Following specific enquiry by the Company, all directors have confirmed that they have complied with the Model Code regarding directors' securities transactions during the year ended 31 December 2007.

BOARD OF DIRECTORS

The board of directors of the Company (the "Board") currently comprises eight directors, namely, Mr Zhang Zhao Dong (Chairman), Mr Chen Geng (President), Mr Xia Yang Jun, Mr Xie Ke Hai and Mr Zheng Fu Shuang as executive directors; and Mr Li Fat Chung, Ms Wong Lam Kit Yee and Ms Cao Qian as independent non-executive directors. Save as disclosed herein, to the best of knowledge of the directors, there is no relationship (including financial, business, family or other material/relevant relationship) among members of the Board. The biographical details of each director are disclosed on pages 13 to 14 of this Annual Report.

The Board oversees the Group's strategic development and determines the objectives, strategies and policies of the Group. The Board also monitors and controls the operating and financial performance in pursuit of the Group's strategic objectives. Day-to-day management of the Group's business is delegated to the management of the Company under the supervision of the executive directors. The functions and powers that are so delegated are reviewed periodically to ensure that they remain appropriate. Matters reserved for the Board are the overall strategy of the Group, major acquisitions and disposals, major capital investments, dividend policy, significant changes in accounting policies, material contracts, appointment and retirement of directors, remuneration policy and other major operational and financial matters. The Board members have access to appropriate business documents and information about the Group on a timely basis. All directors and Board committees have recourse to external legal counsel and other professionals for independent advice at the Group's expense upon their request. The Company has received acknowledgements from the directors of their responsibility for preparing the financial statements and a statement by the independent auditors of the Company about their reporting responsibilities.

Corporate Governance Report

The Board held four regular Board meetings at approximately quarterly intervals during the year 2007. Additional Board meetings were held when necessary. Due notice and Board papers were given to all directors prior to the meetings in accordance with the Listing Rules and the Code. The attendance record of each director at the Board meetings is as follows:

Name of director	Attendance/Number of meetings
Executive Directors	
Mr Zhang Zhao Dong	3/4
Mr Xia Yang Jun	0/4
Mr Xie Ke Hai	1/4
Mr Chen Geng	1/4
Mr Zheng Fu Shuang	0/4
Independent Non-executive Directors	
Mr Li Fat Chung	2/4
Ms Wong Lam Kit Yee	2/4
Ms Cao Qian	1/4

There are also two Board committees under the Board, namely, the Audit Committee and the Remuneration Committee.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The roles of the Chairman and the Chief Executive Officer are segregated and are not exercised by the same individual. Mr Zhang Zhao Dong is the Chairman of the Board. The primary role of the Chairman is to provide leadership for the Board and to ensure that it works effectively in the discharge of its responsibilities. Mr Chen Geng is the President of the Company, who acts as the Chief Executive Officer of the Company. The President is responsible for the day-to-day management of the Group's business. Their respective roles and responsibilities are set out in writing which have been approved by the Board.

NON-EXECUTIVE DIRECTORS

There are currently three non-executive directors, all of them are independent. Each independent non-executive director has entered into a service agreement with the Company for a period of one year. Pursuant to the Bye-laws of the Company, one third of all the directors, including the non-executive directors, shall be subject to retirement by rotation at each annual general meeting.

All the three independent non-executive directors are professional accountants and two of them are practising in Hong Kong. This composition is in compliance with the requirement of rule 3.10 of the Listing Rules. Each independent non-executive director has, pursuant to rule 3.13 of the Listing Rules, provided an annual confirmation of his/her independence to the Company and the Company also considers them to be independent.

Corporate Governance Report

REMUNERATION OF DIRECTORS

Established in 2005, the Remuneration Committee currently comprises Mr Chen Geng (Chairman), Mr Li Fat Chung and Ms Wong Lam Kit Yee. The role and functions of the Committee include formulating the remuneration policy, determining the remuneration packages of all executive directors and senior management, making recommendations to the Board of the remuneration of non-executive directors, reviewing and approving performance-based remuneration, and ensuring that no director or any of his associates is involved in deciding his own remuneration. The terms of reference of the Committee are available on the Company's website.

In 2007, the Remuneration Committee met once to review and discuss the remuneration policy for the directors of the Company and the remuneration packages of all directors of the Company. The attendance record of the members of the Committee at the meeting is as follows:

Name of member	Attendance/Number of meetings
Mr Chen Geng *(Chairman)*	1/1
Mr Li Fat Chung	1/1
Ms Wong Lam Kit Yee	1/1

NOMINATION OF DIRECTORS

The Board has not established a nomination committee. The power to nominate or appoint additional directors is vested in the Board according to the Bye-laws of the Company, in addition to the power of the shareholders to nominate any person to become a director of the Company in accordance with the Bye-laws of the Company and all applicable laws.

The Board from time to time reviews the composition of the Board to meet the Company's business demand, opportunities and challenges and to comply with the applicable laws and regulations. The nomination procedure basically follows Bye-law 102(B) of the Bye-laws of the Company, which empowers the Board from time to time and at any time to appoint any person as a director either to fill a casual vacancy or as an addition to the Board. The directors will select and evaluate the balance of skills, qualifications, knowledge and experience of the candidate to the directorship as may be required by the Company from time to time by such means as the Company may deem fit. The directors shall consider the candidate from a wide range of backgrounds, on his merits and against objective criteria set out by the Board and taking into consideration his time devoted to the position.

No candidate was nominated for directorship of the Company during the year.

Corporate Governance Report

AUDITORS' REMUNERATION

The Company engaged Ernst & Young as the statutory auditors of the Company. The principal services provided by Ernst & Young in 2007 include the review of interim condensed consolidated financial statements of the Group, the audit of annual consolidated financial statements of the Group, and the audit of the financial statements of certain subsidiaries of the Group. Apart from the above-mentioned audit services, Ernst & Young were also engaged in providing taxation services to the Group. The remuneration in respect of audit and non-audit services provided by Ernst & Young to the Company in 2007 is summarised as follows:

	HK$'000
Audit fees	1,390
Non-audit fees:	
Interim review service	318
Taxation services	37
	355
Total	1,745

AUDIT COMMITTEE

Established in 1998, the Audit Committee now solely comprises independent non-executive directors, namely, Mr Li Fat Chung (Chairman), Ms Wong Lam Kit Yee and Ms Cao Qian. All the committee members possess appropriate professional accounting and financial qualifications.

The primary responsibilities of the Audit Committee include making recommendation to the Board on the appointment, reappointment and removal of the external auditors, approving the remuneration and terms of engagement of the external auditors, reviewing and monitoring the external auditors' independence and objectivity and the effectiveness of the audit process in accordance with applicable standard, developing and implementing policy on the engagement of external auditors to provide non-audit services, monitoring the integrity of the financial statements and the reports of the Company, and overseeing the Company's financial reporting system and internal control procedures. The terms of reference of the Committee are available on the Company's website.

Corporate Governance Report

In 2007, the Audit Committee met three times. During the meetings, the Committee reviewed reports from the independent auditors regarding their audit on annual financial statements, review on interim financial results, discussed the internal control of the Group, and met with the independent auditors. The attendance record of the members of the Committee at the meetings is as follows:

Name of member	Attendance/Number of meetings
Mr Li Fat Chung *(Chairman)*	3/3
Ms Wong Lam Kit Yee	2/3
Ms Cao Qian	3/3

INTERNAL CONTROL

The Board has the ultimate responsibility to maintain a sound and effective internal control system for the Group to safeguard the interests of shareholders and the Group as a whole and to ensure strict compliance with relevant laws, rules and regulations. The Audit Committee is responsible for reviewing the effectiveness of the internal control system and reporting to the Board.

During the year, the Company has carried out an overview on the effectiveness of the internal control system of the Group. The review covers all material controls, including financial, operational and compliance controls and risk management functions of the Group. No material internal control aspects of any significant problems were noted. Both the Audit Committee and the Board were satisfied that the internal control system of the Group had functioned effectively during the year under review.

INVESTOR RELATIONS

The Board fully recognises that effective communication with investors is key to building investors' confidence and attracting new investors. The Group holds briefs to investment analysts and potential investors following the announcement of its annual and interim results. Senior management will be present to analyse the performance of the Group, expound the business development of the Group and answer questions raised by investors, so as to make known the Group's existing operation, investment status and business development, thereby enhancing the investors' confidence in the Group.

ON BEHALF OF THE BOARD

Zhang Zhao Dong
Chairman

Hong Kong
18 April 2008

Biographical Details of Director and Senior Management

EXECUTIVE DIRECTORS

Mr Zhang Zhao Dong, aged 58, is the Chairman and an executive director of the Company. He is also the Chairman and an executive director of Founder Holdings Limited, the President and an executive director of Peking University Founder Group Company Limited, and a director of Founder International Inc. Mr Zhang graduated from the Department of Geophysics at the Peking University in 1977 and is a research fellow at the Peking University.

Mr Chen Geng, aged 37, is the President and an executive director of the Company. He is also an executive director of Founder Holdings Limited. Mr Chen graduated from the Northwest University with a bachelor's degree in Executive Management and obtained an EMBA degree from the Peking University Guanghua School of Management. Mr Chen is also an Economist in the People's Republic of China. Before joining the Group in 2005, he was a Vice-President of a subsidiary of Peking University Founder Group Company Limited and worked in various investment companies in the People's Republic of China and has extensive experience in finance and management. Mr Chen is responsible for the overall strategic planning and development of the Group.

Mr Xia Yang Jun, aged 35, is an executive director of the Company. He is also a Vice-President of Peking University Founder Group Company Limited, the President and an executive director of 北京北大資源集團有限公司(Peking University Resource Group Limited*). Mr Xia graduated from the Peking University Guanghua School of Management with an EMBA degree. He is also a Financial Economist and Certified Public Accountant in the People's Republic of China.

Mr Xie Ke Hai, aged 42, is an executive director of the Company. He is also an executive director of Founder Holdings Limited and a Vice-President and Chief Human Resources Officer of Peking University Founder Group Company Limited. Mr Xie graduated from the University of Science & Technology Beijing and obtained a master's degree. He is also a director of a number of associated companies of Peking University Founder Group Company Limited. He has over 10 years of experience in human resources.

Mr Zheng Fu Shuang, aged 42, is an executive director of the Company. He is also the sole director and sole shareholder of Shining Wisdom Group Limited, a substantial shareholder of the Company. Mr Zheng graduated from the Institute of Electronics, Chinese Academy of Sciences with a master's degree in Engineering, and Peking University Guanghua School of Management with an EMBA degree. Mr Zheng has over 15 years' experience in the information technology industry in the People's Republic of China. Mr Zheng was awarded the "Best Technology Entrepreneur of Private Enterprise in China" (中國優秀民營科技企業家) and "Gold Medal of Beijing Outstanding Young Entrepreneurs Contest" (北京市優秀青年企業家金獎) in 2004.

** For identification purpose only*

Biographical Details of Director and Senior Management

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr Li Fat Chung, aged 47, is an independent non-executive director of the Company and Founder Holdings Limited. Mr Li is a partner of Chan, Li, Law & Co., Certified Public Accountants, in Hong Kong. Mr Li is a Certified Public Accountant (Practising) is Hong Kong. He is also a fellow member of the Association of Chartered Certified Accountants in the United Kingdom, the Hong Kong Institute of Certified Public Accountants and the Taxation Institute of Hong Kong. Mr Li received a master's degree in Business Administration from the University of Warwick, England. Mr Li has extensive experience in auditing, taxation and accounting.

Ms Wong Lam Kit Yee, aged 44, is an independent non-executive director of the Company and Founder Holdings Limited. Ms Wong is a Certified Public Accountant (Practising) in Hong Kong. She is also a fellow member of the Association of Chartered Certified Accountants in the United Kingdom and a member of the Hong Kong Institute of Certified Public Accountants. Ms Wong has extensive experience in auditing and accounting.

Ms Cao Qian, aged 44, is an independent non-executive director of the Company. Ms Cao is a Certified Public Accountant in the People's Republic of China. Ms Cao graduated from the Central University of Finance & Economics and obtained a bachelor's degree in finance and revenue professional. Ms Cao also received her EMBA degree from the Peking University Guanghua School of Management. Ms Cao is currently the Chief Financial Officer of China Travel Service Hotel Corporation. Ms Cao has over 20 years of experience in auditing, accounting and financial management.

SENIOR MANAGEMENT

Mr Liu Xiao Kun, aged 48, is the President and an executive director of Founder Holdings Limited. Mr Liu is also the Chairman and President of Beijing Founder Electronics Co., Ltd, Beijing Founder Order Computer System Co., Ltd. and Beijing Founder Century Information System Co., Ltd. He also holds directorships in certain subsidiaries and associated companies of Peking University Founder Group Company Limited. Mr Liu graduated from the Sichuan University and holds a master's degree in Economics. He joined the Group in 2001 and has extensive experience in the distribution business of information products. Mr Liu is mainly responsible for the overall operation of the Group's information products distribution business.

Mr Lau Fai Lawrence, aged 36, is the Group Financial Controller and the Qualified Accountant of the Company and Founder Holdings Limited. Mr Lau holds a master of Corporate Finance degree (Distinction) from The Hong Kong Polytechnic University and a bachelor's degree in Business Administration from The University of Hong Kong. Mr Lau is a Certified Public Accountant (Practising) in Hong Kong, a member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants in the United Kingdom. Mr Lau has extensive experience in financial management and corporate finance and had worked with an international accounting firm before joining the Group. Mr Lau is currently responsible for the financial management and corporate finance of the Group.

Report of the Directors

The directors present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2007.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the principal subsidiaries are set out in note 15 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2007 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 25 to 85.

The directors do not recommend the payment of any dividend in respect of the year.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets and liabilities of the Group for the last five financial years, as extracted from the audited financial statements, is set out on page 86 of the Annual Report. This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Company and the Group during the year are set out in note 13 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year are set out in notes 25 and 26 to the financial statements, respectively.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-laws or the laws of Bermuda which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

Report of the Directors

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 27 to the financial statements.

DISTRIBUTABLE RESERVES

At 31 December 2007, the Company had no reserves available for distribution. However, the Company's share premium account, in the amount of approximately HK$156,019,000, may be distributed in the form of fully paid bonus shares.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for less than 30% of the total sales for the year. Purchases from the Group's five largest suppliers accounted for approximately 89% (2006: 84%) of the total purchases for the year and purchases from the largest supplier included therein amounted to approximately 35% (2006: 33%).

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest suppliers.

DIRECTORS

The directors of the Company during the year were:

Executive directors:
Mr Zhang Zhao Dong
Mr Chen Geng
Mr Xia Yang Jun
Mr Xie Ke Hai
Mr Zheng Fu Shuang

Independent, non-executive directors:
Mr Li Fat Chung
Ms Wong Lam Kit Yee
Ms Cao Qian

In accordance with the Company's Bye-laws, Mr Zhang Zhao Dong, Mr Xia Yang Jun and Mr Xie Ke Hai will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

The Company has received annual confirmations of independence from Mr Li Fat Chung, Ms Wong Lam Kit Yee and Ms Cao Qian and considers them to be independent.

Report of the Directors

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 13 to 14 of the Annual Report.

DIRECTORS' SERVICE CONTRACTS

No director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' REMUNERATION

The directors' fees are subject to shareholders' approval at general meetings. Other emoluments are determined by the Company's board of directors with reference to directors' duties, responsibilities and performance and the results of the Group.

DIRECTORS' INTERESTS IN CONTRACTS

No director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 31 December 2007, the interests and short positions of the directors in the share capital and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), were as follows:

Long positions in ordinary shares of the Company:

	Number of ordinary shares held, capacity and nature of interest			Percentage of the Company's issued share capital
Name of director	Directly beneficially owned	Through controlled corporation	Total	
Mr Zhang Zhao Dong	3,956,000	–	3,956,000	0.36
Mr Zheng Fu Shuang *(Note)*	–	229,601,000	229,601,000	20.76

Report of the Directors

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES *(continued)*

Note: Mr Zheng Fu Shuang is interested in these shares through Shining Wisdom Group Limited ("Shining Wisdom"), a company which is beneficially owned by Mr Zheng Fu Shuang.

Long positions in shares options of the Company:

Name of director	Number of options directly beneficially owned
Mr Zhang Zhao Dong	8,000,000

Save as disclosed above, as at 31 December 2007, none of the directors had registered an interest or short position in the shares or underlying shares of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save as disclosed in the section "Directors' interests and short positions in shares and underlying shares" above and in the section "Share option schemes" below, at no time during the year were rights to acquire benefits by means of the acquisition of shares in the Company granted to any director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

SHARE OPTION SCHEMES

The Company operates share option schemes adopted on 24 May 2002 (the "2002 Scheme") and on 7 May 2001 (the "2001 Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Further details of the schemes are disclosed in note 26 to the financial statements.

Report of the Directors

SHARE OPTION SCHEMES *(continued)*

The following table discloses movements in the Company's share options outstanding during the year:

Name or category of participant	Number of share options At 1 January 2007	Exercised during the year	At 31 December 2007	Date of grant of share options*	Exercise period of share options	Exercise price of share options** HK$ per share
2001 Scheme						
Other employees of the Group						
In aggregate	4,300,000	–	4,300,000	18.5.2001	18.5.2001 to 17.5.2011	0.450
2002 Scheme						
Directors						
Mr Zhang Zhao Dong	8,000,000	–	8,000,000	6.2.2004	7.2.2004 to 5.2.2014	0.381
Other employee of the substantial shareholder						
In aggregate	5,500,000	(5,500,000)	–	2.1.2004	3.1.2004 to 31.12.2013	0.340
Other employees of the Group						
In aggregate	16,000,000	–	16,000,000	6.2.2004	7.2.2004 to 5.2.2014	0.381
In aggregate	10,500,000	–	10,500,000	2.1.2004	3.1.2004 to 31.12.2013	0.340
Total under the 2002 Scheme	40,000,000	(5,500,000)	34,500,000			

Notes to the table 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.*

*** *The weighted average closing price of the Company's share immediately before the exercise date of the share options was HK$0.455.*

Report of the Directors

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES

At 31 December 2007, the following interests of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions:

Name	*Notes*	Capacity and nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital
北京北大資產經營有限公司 (Peking University Asset Management Company Limited*)	*1*	Through a controlled corporation	363,265,000	32.84
北大方正集團有限公司 (Peking University Founder Group Company Limited*) ("Peking Founder")	*2*	Through a controlled corporation	363,265,000	32.84
Founder Holdings Limited ("FHL")		Directly beneficially owned	363,265,000	32.84
Shining Wisdom	*3*	Directly beneficially owned	229,601,000	20.76
Peking University Education Foundation		Directly beneficially owned	93,240,000	8.43
Peking University Education Foundation		Beneficiary of a trust	2,330,000	0.21
Mr Yung Chih Shin, Richard	*4*	Through a controlled corporation	65,880,000	5.96
Ricwinco Investment Limited ("Ricwinco")		Directly beneficially owned	65,880,000	5.96
Ms Li Yong Hui	*5*	As trustee	60,671,600	5.49
Ms Ying Yu Ling	*5*	As trustee	60,671,600	5.49
F2 Consultant Limited	*5*	Owned as nominee	60,671,600	5.49
HSBC International Trustee Limited	*6*	Through a controlled corporation	60,500,000	5.47
Sun Hung Kai Properties Limited	*6*	Through a controlled corporation	60,500,000	5.47
Sunco Resources Limited	*6*	Through a controlled corporation	60,500,000	5.47
SUNeVision Holdings Ltd.	*6*	Through a controlled corporation	60,500,000	5.47
Hugh Profit Investments Ltd.	*6*	Through a controlled corporation	60,500,000	5.47
Well Drive Holdings Limited		Directly beneficially owned	60,500,000	5.47

* *For identification purpose only*

Report of the Directors

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES *(continued)*

Notes:

1. *Peking University Asset Management Company Limited is deemed to be interested in the 363,265,000 shares of the Company under the SFO by virtue of its interest in Peking Founder.*

2. *Peking Founder is deemed to be interested in the 363,265,000 shares of the Company under the SFO by virtue of its interest in FHL.*

3. *Mr Zheng Fu Shuang is interested in these shares through Shining Wisdom.*

4. *Mr Yung Chih Shin, Richard is interested in these shares through Ricwinco.*

5. *F2 Consultant Limited holds the shares of the Company as nominee on behalf of the directors of Founder Data Corporation International Limited ("FDC") who are acting in their capacity as the trustees of a discretionary trust for the employees of FDC and its subsidiaries. Ms Li Yong Hui and Ms Ying Yu Ling are the directors of FDC.*

6. *Each of HSBC International Trustee Limited, Sun Hung Kai Properties Limited, Sunco Resources Limited, SUNeVision Holdings Ltd. and Hugh Profit Investments Ltd. is deemed to be interested in the 60,500,000 shares of the Company under the SFO by virtue of its, direct or indirect, interests in Well Drive Holdings Limited.*

Save as disclosed above, as at 31 December 2007, no person, other than the directors of the Company, whose interests are set out in the section "Directors' interests and short positions in shares and underlying shares" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

CONTINUING CONNECTED TRANSACTIONS

Details of the continuing connected transactions are set out in notes 31(I)(a), 31(I)(b) and 31(I)(c) to the financial statements.

The independent non-executive directors of the Company have reviewed the continuing connected transactions as set out in notes 31(I)(a), 31(I)(b) and 31(I)(c) to the financial statements, and have confirmed that the continuing connected transactions were entered into (i) in the ordinary and usual course of the business of the Group; (ii) either on normal commercial terms, or if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favorable to the Group than those available to or from independent third parties; and (iii) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of its directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this report.

Report of the Directors

AUDITORS

Ernst & Young retire and a resolution for their reappointment as independent auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

Zhang Zhao Dong
Chairman

Hong Kong
18 April 2008

Independent Auditors' Report

ERNST & YOUNG
安永會計師事務所

To the shareholders of EC-Founder (Holdings) Company Limited
(Incorporated in Bermuda with limited liability)

We have audited the financial statements of EC-Founder (Holdings) Company Limited set out on pages 25 to 85, which comprise the consolidated and company balance sheets as at 31 December 2007, and the consolidated income statement, the consolidated summary statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. Our report is made solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independent Auditors' Report *(continued)*

OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
18th Floor, Two International Finance Centre
8 Finance Street, Central
Hong Kong

18 April 2008

Consolidated Income Statement

Year ended 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
REVENUE	5	**2,724,686**	2,314,811
Cost of sales		**(2,588,836)**	(2,191,280)
Gross profit		**135,850**	123,531
Other income and gains	5	**6,616**	4,088
Selling and distribution costs		**(68,199)**	(62,496)
Administrative expenses		**(56,490)**	(46,473)
Other expenses, net		**(9,979)**	(8,520)
Finance costs	7	**(3,284)**	(2,615)
Share of profits and losses of associates		**7,827**	8,945
PROFIT BEFORE TAX	6	**12,341**	16,460
Tax	10	**(1,506)**	(1,528)
PROFIT FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT	11	**10,835**	14,932
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	12		
– Basic		**HK0.98 cents**	HK1.4 cents
– Diluted		**HK0.98 cents**	N/A

Consolidated Balance Sheet

31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	6,691	7,640
Goodwill	14	2,892	2,892
Interests in associates	16	33,378	30,690
Total non-current assets		42,961	41,222
CURRENT ASSETS			
Inventories	17	113,513	120,929
Trade and bills receivables	18	297,205	276,747
Prepayments, deposits and other receivables		148,738	104,128
Pledged deposits	19	95,751	88,523
Cash and cash equivalents	20	296,286	268,410
Total current assets		951,493	858,737
CURRENT LIABILITIES			
Trade and bills payables	21	559,249	506,323
Other payables and accruals		133,417	116,198
Interest-bearing bank and other borrowings	22	42,822	40,004
Tax payable		478	268
Total current liabilities		735,966	662,793
NET CURRENT ASSETS		215,527	195,944
TOTAL ASSETS LESS CURRENT LIABILITIES		258,488	237,166
NON-CURRENT LIABILITIES			
Finance lease payable	23	244	386
Net assets		258,244	236,780
EQUITY			
Issued capital	25	110,606	110,056
Reserves	27(a)	147,638	126,724
Total equity		258,244	236,780

Zhang Zhao Dong
Director

Chen Geng
Director

Consolidated Summary Statement of Changes in Equity

Year ended 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
Total equity at 1 January		236,780	214,848
Exchange differences on translation of the financial statements of foreign entities	27(a)	8,759	7,000
Total income recognised directly in equity		8,759	7,000
Profit for the year	27(a)	10,835	14,932
Total income for the year		19,594	21,932
Issue of shares	25	1,870	–
Total equity at 31 December		258,244	236,780

Consolidated Cash Flow Statement

Year ended 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		12,341	16,460
Adjustments for:			
Finance costs	7	3,284	2,615
Share of profits and losses of associates		(7,827)	(8,945)
Interest income	5	(3,368)	(2,400)
Depreciation	6	2,528	2,291
Loss/(gain) on disposal of items of property, plant and equipment	6	(41)	8
		6,917	10,029
Decrease in inventories		7,416	8,270
Increase in trade and bills receivables		(20,458)	(21,588)
Increase in prepayments, deposits and other receivables		(43,142)	(25,877)
Increase in trade and bills payables		52,926	99,416
Increase/(decrease) in other payables and accruals		17,219	(14,778)
Exchange differences		2,182	(1,056)
Cash generated from operations		23,060	54,416
Interest received		3,368	2,400
Interest paid		(3,232)	(2,546)
Interest element on finance lease rental payments		(52)	(69)
Hong Kong profits tax paid		–	(8)
Mainland of the People's Republic of China ("Mainland China" or the "PRC") corporate income tax paid		(1,296)	(2,260)
Net cash inflow from operating activities		21,848	51,933
CASH FLOWS FROM INVESTING ACTIVITIES			
Dividend received from an associate		3,671	6,233
Purchases of items of property, plant and equipment		(1,127)	(3,142)
Proceeds from disposal of items of property, plant and equipment		82	49
Decrease/(increase) in time deposits with original maturity of more than three months when acquired		76,366	(99,700)
Increase in pledged deposits		(7,228)	(49,620)
Net cash inflow/(outflow) from investing activities		71,764	(146,180)

Consolidated Cash Flow Statement *(continued)*

Year ended 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares	25	1,870	–
New bank loans		71,489	38,400
Repayment of bank loans		(71,489)	(38,400)
Capital element of finance lease rental payments		(124)	(196)
Net cash inflow/(outflow) from financing activities		1,746	(196)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		95,358	(94,443)
Cash and cash equivalents at beginning of year		168,710	253,839
Effect of foreign exchange rate changes, net		8,884	9,314
CASH AND CASH EQUIVALENTS AT END OF YEAR		272,952	168,710
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	20	270,757	149,138
Non-pledged time deposits with original maturity of less than three months when acquired		2,195	19,572
		272,952	168,710

Balance Sheet

31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	401	616
Interests in subsidiaries	15	257,422	236,423
Total non-current assets		257,823	237,039
CURRENT ASSETS			
Prepayments, deposits and other receivables		505	836
Cash and cash equivalents	20	2,362	1,875
Total current assets		2,867	2,711
CURRENT LIABILITIES			
Other payables and accruals		2,411	2,527
Finance lease payable	23	142	124
Total current liabilities		2,553	2,651
NET CURRENT ASSETS		314	60
TOTAL ASSETS LESS CURRENT LIABILITIES		258,137	237,099
NON-CURRENT LIABILITIES			
Finance lease payable	23	244	386
Net assets		257,893	236,713
EQUITY			
Issued capital	25	110,606	110,056
Reserves	27(b)	147,287	126,657
Total equity		257,893	236,713

Zhang Zhao Dong
Director

Chen Geng
Director

Notes to Financial Statements

31 December 2007

1. CORPORATE INFORMATION

EC-Founder (Holdings) Company 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 principally engaged in the 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 include all Hong Kong Financial Reporting Standards, 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. 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 (collectively referred to as the "Group") for the year ended 31 December 2007. 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.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements. Except for in certain cases, giving rise to new and revised accounting policies and additional disclosures, the adoption of these new and revised standards and interpretations has had no material effect on these financial statements.

HKFRS 7	*Financial Instruments: Disclosures*
HKAS 1 Amendment	*Capital Disclosures*
HK(IFRIC)-Int 8	*Scope of HKFRS 2*
HK(IFRIC)-Int 9	*Reassessment of Embedded Derivatives*
HK(IFRIC)-Int 10	*Interim Financial Reporting and Impairment*

Notes to Financial Statements

31 December 2007

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

The principal effects of adopting these new and revised HKFRSs are as follows:

(a) HKFRS 7 *Financial Instruments: Disclosures*

This standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments. The new disclosures are included throughout the financial statements. While there has been no effect on the financial position or results of operations of the Group, comparative information has been included/revised where appropriate.

(b) Amendment to HKAS 1 *Presentation of Financial Statements – Capital Disclosures*

This amendment requires the Group to make disclosures that enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital. These new disclosures are shown in note 33 to the financial statements.

(c) HK(IFRIC)-Int 8 *Scope of HKFRS 2*

This interpretation requires HKFRS 2 to be applied to any arrangement in which the Group cannot identify specifically some or all of the goods or services received, for which equity instruments are granted or liabilities (based on a value of the Group's equity instruments) are incurred by the Group for a consideration, and which appears to be less than the fair value of the equity instruments granted or liabilities incurred. As the Company has only issued equity instruments to the Group's employees for identified services provided in accordance with the Company's share option schemes, the interpretation has had no effect on these financial statements.

(d) HK(IFRIC)-Int 9 *Reassessment of Embedded Derivatives*

This interpretation requires that the date to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative is the date that the Group first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. As the Group has no embedded derivative requiring separation from the host contract, the interpretation has had no effect on these financial statements.

Notes to Financial Statements

31 December 2007

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

(e) HK(IFRIC)-Int 10 *Interim Financial Reporting and Impairment*

The Group has adopted this interpretation as of 1 January 2007, which requires that an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument classified as available-for-sale or a financial asset carried at cost is not subsequently reversed. As the Group had no impairment losses previously reversed in respect of such assets, the interpretation has had no impact on the financial position or results of operations of the Group.

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.

Amendments to HKFRS 2	*Share-based Payment – Vesting Conditions and Cancellations*[1]
HKFRS 3 (Revised)	*Business Combinations*[5]
HKFRS 8	*Operating Segments*[1]
HKAS 1 (Revised)	*Presentation of Financial Statements*[1]
HKAS 23 (Revised)	*Borrowing Costs*[1]
HKAS 27 (Revised)	*Consolidated and Separate Financial Statements*[5]
HK(IFRIC)–Int 11	*HKFRS 2 – Group and Treasury Share Transactions*[2]
HK(IFRIC)–Int 12	*Service Concession Arrangements*[4]
HK(IFRIC)–Int 13	*Customer Loyalty Programmes*[3]
HK(IFRIC)–Int 14	*HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*[4]

[1] Effective for annual periods beginning on or after 1 January 2009
[2] Effective for annual periods beginning on or after 1 March 2007
[3] Effective for annual periods beginning on or after 1 July 2008
[4] Effective for annual periods beginning on or after 1 January 2008
[5] Effective for annual periods beginning on or after 1 July 2009

HKFRS 2 has been amended to restrict the definition of "vesting condition" to a condition that includes an explicit or implicit requirement to provide services. Any other conditions are non-vesting conditions, which have to be taken into account to determine the fair value of the equity instruments granted. In the case that the award does not vest as the result of a failure to meet a non-vesting condition that is within the control of either the entity or the counterparty, this must be accounted for as a cancellation. The Group has not entered into share-based payment schemes with non-vesting conditions attached and, therefore, does not expect significant implications on its accounting for share-based payments.

Notes to Financial Statements

31 December 2007

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

HKFRS 3 has been revised to introduce a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results.

HKAS 27 has been revised to require a change in the ownership interest of a subsidiary to be accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary.

The changes introduced by HKFRS 3 (Revised) and HKAS 27 (Revised) must be applied prospectively and will affect future acquisitions and transactions with minority interests.

HKFRS 8, which will replace HKAS 14 *Segment Reporting*, specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purposes of allocating resources to the segments and assessing their performance. The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers. The Group expects to adopt HKFRS 8 from 1 January 2009.

HKAS 1 has been revised to introduce changes in presentation and disclosures of financial statements and does not change the recognition, measurement or disclosure of specific transactions and other events required by other HKFRSs.

HKAS 23 has been revised to require capitalisation of borrowing costs when such costs are directly attributable to the acquisition, construction or production of a qualifying asset. As the Group's current policy for borrowing costs aligns with the requirements of the revised standard, the revised standard is unlikely to have any financial impact on the Group.

HK(IFRIC)-Int 11 requires arrangements whereby an employee is granted rights to the Group's equity instruments, to be accounted for as an equity-settled scheme, even if the Group acquires the instruments from another party, or the shareholders provide the equity instruments needed. HK(IFRIC)-Int 11 also addresses the accounting for share-based payment transactions involving two or more entities within the Group. As the Group currently has no such transactions, the interpretation is unlikely to have any financial impact on the Group.

HK(IFRIC)-Int 12 requires an operator under public-to-private service concession arrangements to recognise the consideration received or receivable in exchange for the construction services as a financial asset and/or an intangible asset, based on the terms of the contractual arrangements. HK(IFRIC)-Int 12 also addresses how an operator shall apply existing HKFRSs to account for the obligations and the rights arising from service concession arrangements by which a government or a public sector entity grants a contract for the construction of infrastructure used to provide public services and/or for the supply of public services. As the Group currently has no such arrangements, the interpretation is unlikely to have any financial impact on the Group.

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

HK(IFRIC)-Int 13 requires that loyalty award credits granted to customers as part of a sales transaction are accounted for as a separate component of the sales transaction. The consideration received in the sales transaction is allocated between the loyalty award credits and the other components of the sale. The amount allocated to the loyalty award credits is determined by reference to their fair value and is deferred until the awards are redeemed or the liability is otherwise extinguished.

HK(IFRIC)-Int 14 addresses how to assess the limit under HKAS 19 *Employee Benefits*, on the amount of a refund or a reduction in future contributions in relation to a defined benefit scheme that can be recognised as an asset, in particular, when a minimum funding requirement exists.

As the Group currently has no customer loyalty award credits and defined benefit scheme, HK(IFRIC)-Int 13 and HK(IFRIC)-Int 14 are not applicable to the Group and therefore are unlikely to have any financial impact on the Group.

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that while the adoption of HKFRS 8 and HKAS 1 (Revised) may result in new or amended disclosures, these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

2.4 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.

Associates

An associate is an entity, not being a subsidiary, 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 interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively.

Notes to Financial Statements

31 December 2007

2.4 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 the acquisition is recognised in the consolidated balance sheet 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. The Group performs its annual impairment test as at 31 December. 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.

Impairment is determined by assessing the recoverable amount of the cash-generating units (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. An impairment loss recognised for goodwill is not reversed in a subsequent period.

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 circumstances is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Impairment of non-financial assets other than goodwill

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, financial assets and goodwill), the asset's recoverable amount is estimated. An asset's recoverable amount is 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.

Notes to Financial Statements

31 December 2007

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of non-financial assets other than goodwill *(continued)*

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 in those expense categories consistent with the function of the impaired 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, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the income statement in the period in which it arises.

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 member of the key management personnel of the Group or its parent;

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

(e) 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 (c) or (d); or

(f) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

Notes to Financial Statements

31 December 2007

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost 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.

Depreciation is calculated on the straight-line basis to write off the cost 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:

Furniture, fixtures and office equipment	$12^1/_2\%$ – $33^1/_3\%$
Motor vehicles	10% – 25%

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

Residual values, useful lives and the 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.

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the income statement so as to provide a constant periodic rate of charge over the lease terms.

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 lessee, rentals payable under operating leases are charged to the income statement on the straight-line basis over the lease terms.

Notes to Financial Statements

31 December 2007

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial assets

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 assesses whether a contract contains an embedded derivative when the Group first becomes a party to it and assesses whether an embedded derivative is required to be separated from the host contract when the analysis shows that the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required under the contract.

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, that is, the date that the Group commits to purchase or sell 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.

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 subsequently carried at amortised cost using the effective interest method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. 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.

Impairment of financial assets

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.

Notes to Financial Statements

31 December 2007

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets *(continued)*

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 the income statement. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery.

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 by adjusting the allowance account. 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.

In relation to trade and other receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor and significant changes in the technological, market economic or legal environment that have an adverse effect on the debtor) that the Group will not be able to collect all of the amounts due under the original terms of an invoice. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

Derecognition of financial assets

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 them 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.

Notes to Financial Statements

31 December 2007

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Derecognition of financial assets *(continued)*

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risk 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 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 fair value of the transferred asset and the option exercise price.

Financial liabilities at amortised cost (including interest-bearing loans and borrowings)

Financial liabilities including trade and other payables and interest-bearing bank and other borrowings are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost. The related interest expense is recognised within "finance costs" in the income statement.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

Financial guarantee contracts

Financial guarantee contracts in the scope of HKAS 39 are accounted for as financial liabilities. A financial guarantee contract is recognised initially at its fair value less transaction costs that are directly attributable to the acquisition or issue of the financial guarantee contract, except when such contract is recognised at fair value through profit or loss. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets;* and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 *Revenue*.

Notes to Financial Statements

31 December 2007

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Derecognition of financial liabilities

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 the recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

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.

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 that are readily convertible into known amounts of cash, 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 sheets, cash and cash equivalents comprise cash on hand and at banks, including short term deposits, and assets similar in nature to cash, which are not restricted as to use.

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the 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.

Notes to Financial Statements

31 December 2007

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax *(continued)*

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.

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.

Notes to Financial Statements

31 December 2007

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 the rendering of services, when the transactions have been completed in accordance with the terms of the contracts; and

(c) 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.

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 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.

Notes to Financial Statements

31 December 2007

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Employee benefits *(continued)*

Share-based payment transactions *(continued)*

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 satisfied, 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 have already vested before 1 January 2005.

Retirement benefits schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. 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 MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF 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.

Notes to Financial Statements

31 December 2007

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 the income statement. 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.

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 the 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 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. SIGNIFICANT ACCOUNTING ESTIMATES

The preparation of the Group's financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

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.

Notes to Financial Statements

31 December 2007

3. SIGNIFICANT ACCOUNTING ESTIMATES *(continued)*

Impairment of trade receivables

The Group maintains an allowance for estimated loss arising from the inability of its customers to make the required payments. The Group makes its estimates based on the ageing of its trade receivable balances, customers' creditworthiness, and historical write-off experience. If the financial condition of its customers was to deteriorate so that the actual impairment loss might be higher than expected, the Group would be required to revise the basis of making the allowance and its future results would be affected.

Provision for obsolete inventories

Management reviews the ageing analysis of inventories of the Group at each balance sheet date, and makes provision for obsolete and slow-moving inventory items identified that are no longer suitable for sale. Management estimates the net realisable value for such inventories based primarily on the latest invoice prices and current market conditions. If the condition was to deteriorate so that the actual provision might be higher than expected, the Group would be required to revise the basis of making the provision and its future results would be affected.

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 2007 was approximately HK$2,892,000 (2006: HK$2,892,000). More details are given in note 14.

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses and other deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The amount of unrecognised deductible temporary differences at 31 December 2007 was approximately HK$81,865,000 (2006: HK$71,872,000). Further details are contained in note 24 to the financial statements.

Notes to Financial Statements

31 December 2007

4. SEGMENT INFORMATION

Segment information 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.

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.

Notes to Financial Statements

31 December 2007

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 2007 and 2006.

	Distribution of information products		Corporate and others		Consolidated	
	2007	2006	**2007**	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue:						
Sales to external customers	**2,724,686**	2,314,811	**–**	–	**2,724,686**	2,314,811
Other income and gains	**3,248**	1,348	**–**	340	**3,248**	1,688
Total	**2,727,934**	2,316,159	**–**	340	**2,727,934**	2,316,499
Segment results	**10,776**	16,237	**(6,346)**	(8,507)	**4,430**	7,730
Interest income					**3,368**	2,400
Finance costs					**(3,284)**	(2,615)
Share of profits and losses of associates					**7,827**	8,945
Profit before tax					**12,341**	16,460
Tax					**(1,506)**	(1,528)
Profit for the year					**10,835**	14,932

Notes to Financial Statements

31 December 2007

4. SEGMENT INFORMATION *(continued)*

(a) Business segments *(continued)*

Group

	Distribution of information products		Consolidated	
	2007 HK$'000	2006 HK$'000	2007 HK$'000	2006 HK$'000
Assets and liabilities				
Segment assets	946,255	854,710	946,255	854,710
Interests in associates	–	–	33,378	30,690
Corporate and other unallocated assets			14,821	14,559
Total assets			994,454	899,959
Segment liabilities	681,268	621,030	681,268	621,030
Corporate and other unallocated liabilities			54,942	42,149
Total liabilities			736,210	663,179
Other segment information:				
Depreciation	2,317	2,080	2,317	2,080
Corporate and other unallocated amounts			211	211
			2,528	2,291
Capital expenditure	1,127	3,138	1,127	3,138
Corporate and other unallocated amounts			–	710
			1,127	3,848

Notes to Financial Statements

31 December 2007

4. SEGMENT INFORMATION *(continued)*

(b) Geographical segments

The following tables present revenue and certain asset and expenditure information for the Group's geographical segments for the years ended 31 December 2007 and 2006.

Group

	Mainland China		Hong Kong		Eliminations		Consolidated	
	2007	2006	2007	2006	2007	2006	2007	2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Segment revenue:								
Sales to external customers	2,551,969	2,099,654	172,717	215,157	–	–	2,724,686	2,314,811
Intersegment sales	–	–	226,086	292,331	(226,086)	(292,331)	–	–
Other income and gains	2,730	1,348	518	340	–	–	3,248	1,688
Total	2,554,699	2,101,002	399,321	507,828	(226,086)	(292,331)	2,727,934	2,316,499

Group

	Mainland China		Hong Kong		Consolidated	
	2007	2006	2007	2006	2007	2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Other segment information:						
Segment assets	882,487	733,538	63,768	121,172	946,255	854,710
Capital expenditure	1,127	3,138	–	710	1,127	3,848

Notes to Financial Statements

31 December 2007

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; and the value of services rendered during the year.

An analysis of other income and gains is as follows:

	Group	
	2007	2006
	HK$'000	*HK$'000*
Other income		
Bank interest income	**3,368**	2,400
Government grants *(Note)*	**1,840**	1,019
Others	**118**	332
	5,326	3,751
Gains		
Others	**1,290**	337
	6,616	4,088

Note: Various government grants have been received for the sale of software approved by the PRC tax authority. The government grants have been recognised upon sale of approved software. There are no unfulfilled conditions or contingencies relating to these grants.

Notes to Financial Statements

31 December 2007

6. PROFIT BEFORE TAX

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

	Group	
	2007	2006
	HK$'000	*HK$'000*
Auditors' remuneration	**1,390**	1,140
Cost of inventories sold	**2,503,462**	2,069,381
Depreciation *(note 13)*	**2,528**	2,291
Impairment of trade receivables*	**8,650**	8,510
Write off of prepayments*	**1,307**	–
Write back of trade and other payables	**(1,247)**	–
Reversal of provision of obsolete inventories**	**(628)**	(1,888)
Operating lease rentals in respect of land and buildings	**8,678**	4,793
Employee benefits expense (including directors' remuneration – note 8):		
Wages and salaries	**48,134**	43,500
Pension scheme contributions***	**3,875**	2,670
	52,009	46,170
Foreign exchange differences, net	**385**	2,100
Loss/(gain) on disposal of items of property, plant and equipment	**(41)**	8

* This item is included in "Other expenses, net" on the face of the consolidated income statement.

** This item is included in "Cost of sales" on the face of the consolidated income statement.

*** At 31 December 2007, the Group had no forfeited contributions available to reduce its contributions to the pension scheme in future years (2006: Nil).

Notes to Financial Statements

31 December 2007

7. FINANCE COSTS

	Group	
	2007	2006
	HK$'000	HK$'000
Interest on bank loans	3,232	2,546
Interest on finance lease	52	69
	3,284	2,615

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	
	2007	2006
	HK$'000	HK$'000
Fees	360	360
Other emoluments:		
Salaries, allowances and benefits in kind	1,001	610
Pension scheme contributions	12	7
	1,013	617
	1,373	977

Notes to Financial Statements

31 December 2007

8. DIRECTORS' REMUNERATION *(continued)*

(a) Independent non-executive directors

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

	2007	2006
	HK$'000	*HK$'000*
Mr Li Fat Chung	120	120
Ms Wong Lam Kit Yee	120	120
Ms Cao Qian	120	120
	360	360

There were no other emoluments payable to the independent non-executive directors during the year (2006: Nil).

(b) Executive directors and a non-executive director

2007

	Fees	Salaries, allowances and benefits in kind	Pension scheme contributions	Total remuneration
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors:				
Mr Zhang Zhao Dong	–	–	–	–
Mr Chen Geng	–	1,001	12	1,013
Mr Xia Yang Jun	–	–	–	–
Mr Xie Ke Hai	–	–	–	–
Mr Zheng Fu Shuang	–	–	–	–
	–	1,001	12	1,013

Notes to Financial Statements

31 December 2007

8. DIRECTORS' REMUNERATION *(continued)*

(b) Executive directors and a non-executive director *(continued)*

2006

	Fees	Salaries, allowances and benefits in kind	Pension scheme contributions	Total remuneration
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors:				
Mr Zhang Zhao Dong	–	–	–	–
Mr Cheung Shuen Lung	–	–	–	–
Professor Wei Xin	–	–	–	–
Mr Xia Yang Jun	–	–	–	–
Mr Xie Ke Hai	–	–	–	–
Mr Chen Geng	–	610	7	617
Mr Zheng Fu Shuang	–	–	–	–
Non-executive director:				
Mr Yung Chih Shin, Richard	–	–	–	–
	–	610	7	617

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

Notes to Financial Statements

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9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included one (2006: 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 (2006: four) non-director, highest-paid employees for the year are as follows:

	Group	
	2007	2006
	HK$'000	*HK$'000*
Salaries, bonuses and benefits in kind	**2,093**	2,229
Pension scheme contributions	**185**	127
	2,278	2,356

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

	Number of employees	
	2007	2006
Nil – HK$1,000,000	**4**	4

10. TAX

	Group	
	2007	2006
	HK$'000	*HK$'000*
Current – Hong Kong	**–**	8
Current – Elsewhere	**1,506**	1,520
Total tax charge for the year	**1,506**	1,528

No Hong Kong profits tax has been provided as there were no assessable profits arising in Hong Kong during the year. Hong Kong profits tax had been provided at the rate of 17.5% on the estimated assessable profits arising in Hong Kong during the prior year.

Notes to Financial Statements

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10. TAX *(continued)*

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.

Beijing Founder Century Information System Co. Ltd., ("PRC Century"), a wholly-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 PRC Century is 15%.

The share of tax attributable to associates amounting to approximately HK$2,044,000 (2006: HK$2,303,000) 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 before tax using the statutory rates for the jurisdictions in which the Company and the majority of its subsidiaries 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 – 2007

	Hong Kong		Mainland China		Total	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Profit before tax	869		11,472		12,341	
Tax at the statutory tax rate	152	17.5	3,786	33.0	3,938	31.9
Lower tax rate for specific provinces or local authority	–	–	(2,925)	(25.5)	(2,925)	(23.7)
Profits and losses attributable to associates	(1,369)	(157.6)	–	–	(1,369)	(11.1)
Income not subject to tax	(971)	(111.7)	(138)	(1.2)	(1,109)	(9.0)
Expenses not deductible for tax	608	70.0	783	6.8	1,391	11.3
Tax losses not recognised	1,580	181.8	–	–	1,580	12.8
Tax charge at the Group's effective rate	–	–	1,506	13.1	1,506	12.2

Notes to Financial Statements

31 December 2007

10. TAX *(continued)*

Group – 2006

	Hong Kong		Mainland China		Total	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Profit/(loss) before tax	(1,588)		18,048		16,460	
Tax at the statutory tax rate	(278)	17.5	5,956	33.0	5,678	34.5
Lower tax rate for specific provinces or local authority	–	–	(4,606)	(25.5)	(4,606)	(28.0)
Profits and losses attributable to associates	(1,565)	98.5	–	–	(1,565)	(9.5)
Income not subject to tax	(186)	11.7	(249)	(1.4)	(435)	(2.6)
Expenses not deductible for tax	837	(52.7)	419	2.3	1,256	7.6
Tax losses utilised from previous periods	(25)	1.6	–	–	(25)	(0.2)
Tax losses not recognised	1,225	(77.1)	–	–	1,225	7.5
Tax charge at the Group's effective rate	8	(0.5)	1,520	8.4	1,528	9.3

On 16 March 2007, the National People's Congress approved the PRC Corporate Income Tax Law (the "New Corporate Income Tax Law"), which will become effective on 1 January 2008. The New Corporate Income Tax Law introduces a wide range of changes which include, but are not limited to, the unification of the income tax rate for domestic-invested and foreign-invested enterprises at 25%. Pursuant to the New Corporate Income Tax Law, a 10% withholding tax will be levied on dividends declared to foreign investors from the PRC effective from 1 January 2008. A lower withholding tax rate may be applied if there is a tax treaty arrangement between the PRC and the jurisdictions of the foreign investors. On 22 February 2008, Caishui (2008) No. 1 was promulgated by the tax authorities to specify that dividends declared and remitted out of the PRC from the retained earnings as at 31 December 2007 are exempted from the withholding tax. Detailed implementation and administrative requirements relating to the New Corporate Income Tax Law have not yet been announced. These detailed requirements include regulations concerning the computation of taxable income, as well as specific preferential tax treatments and their transitional provisions. The Group will further evaluate the impact of the New Corporate Income Tax Law on its operating results and financial position of future periods as more detailed requirements are issued.

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11. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The consolidated profit attributable to equity holders of the parent for the year ended 31 December 2007 includes a profit of approximately HK$19,310,000 (2006: HK$22,122,000) which has been dealt with in the financial statements of the Company (note 27(b)).

12. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent of approximately HK$10,835,000 (2006: HK$14,932,000), and the weighted average number of 1,103,292,177 (2006: 1,100,562,040) ordinary shares in issue during the year.

The calculation of diluted earnings per share amounts for the year ended 31 December 2007 is based on the profit for the year attributable to ordinary equity holders of the parent of approximately HK$10,835,000 and 1,107,009,820 ordinary shares, which was the weighted average of 1,103,292,177 ordinary shares in issue during the year and the weighted average of 3,717,643 ordinary shares deemed to have been issued at no consideration on the deemed exercise of all outstanding share options during the year.

A diluted earnings per share amount for the year ended 31 December 2006 had not been disclosed as the impact of the outstanding share options did not have a dilutive effect for the year.

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13. PROPERTY, PLANT AND EQUIPMENT

Group

	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
31 December 2007			
At 31 December 2006 and 1 January 2007:			
Cost	8,364	5,087	13,451
Accumulated depreciation	(4,673)	(1,138)	(5,811)
Net carrying amount	3,691	3,949	7,640
At 1 January 2007, net of accumulated depreciation	3,691	3,949	7,640
Additions	1,127	–	1,127
Disposals	(21)	(20)	(41)
Depreciation provided during the year	(1,886)	(642)	(2,528)
Exchange realignment	253	240	493
At 31 December 2007, net of accumulated depreciation	3,164	3,527	6,691
At 31 December 2007:			
Cost	10,009	5,288	15,297
Accumulated depreciation	(6,845)	(1,761)	(8,606)
Net carrying amount	3,164	3,527	6,691

Notes to Financial Statements

31 December 2007

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

Group

	Furniture, fixtures and office equipment *HK$'000*	Motor vehicles *HK$'000*	Total *HK$'000*
31 December 2006			
At 1 January 2006:			
Cost	9,028	2,845	11,873
Accumulated depreciation	(5,351)	(604)	(5,955)
Net carrying amount	3,677	2,241	5,918
At 1 January 2006, net of accumulated depreciation	3,677	2,241	5,918
Additions	1,716	2,132	3,848
Disposals	(57)	–	(57)
Depreciation provided during the year	(1,781)	(510)	(2,291)
Exchange realignment	136	86	222
At 31 December 2006, net of accumulated depreciation	3,691	3,949	7,640
At 31 December 2006:			
Cost	8,364	5,087	13,451
Accumulated depreciation	(4,673)	(1,138)	(5,811)
Net carrying amount	3,691	3,949	7,640

Notes to Financial Statements

31 December 2007

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

Company

	Furniture, fixtures and office equipment *HK$'000*	Motor vehicles *HK$'000*	Total *HK$'000*
31 December 2007			
At 31 December 2006 and 1 January 2007:			
Cost	237	706	943
Accumulated depreciation	(151)	(176)	(327)
Net carrying amount	86	530	616
At 1 January 2007, net of accumulated depreciation	86	530	616
Disposals	(4)	–	(4)
Depreciation provided during the year	(34)	(177)	(211)
At 31 December 2007, net of accumulated depreciation	48	353	401
At 31 December 2007:			
Cost	224	706	930
Accumulated depreciation	(176)	(353)	(529)
Net carrying amount	48	353	401
31 December 2006			
At 1 January 2006:			
Cost	233	–	233
Accumulated depreciation	(116)	–	(116)
Net carrying amount	117	–	117
At 1 January 2006, net of accumulated depreciation	117	–	117
Additions	4	706	710
Depreciation provided during the year	(35)	(176)	(211)
At 31 December 2006, net of accumulated depreciation	86	530	616
At 31 December 2006:			
Cost	237	706	943
Accumulated depreciation	(151)	(176)	(327)
Net carrying amount	86	530	616

Notes to Financial Statements

31 December 2007

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

The net book value of fixed assets of the Group and the Company held under finance lease included in the total amount of motor vehicles at 31 December 2007 amounted to approximately HK$353,000 (2006: HK$530,000).

14. GOODWILL

	Group
	HK$'000
Cost, net of accumulated amortisation, at 1 January 2006 and 2007, 31 December 2006 and 2007	2,892

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 a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by the directors. The discount rate applied to cash flow projections is 5% (2006: 5%).

Key assumptions were used in the value in use calculation of the distribution of information products cash generating unit for 31 December 2007 and 2006. The cash flow projection was based on the expected gross margins during the budget period. Budgeted gross margin has been determined based on past performance and management's expectation on market development. The discount rate used is before tax and reflect specific risks relating to the cash generating unit.

Notes to Financial Statements

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15. INTERESTS IN SUBSIDIARIES

	Company	
	2007	2006
	HK$'000	*HK$'000*
Unlisted shares, at cost	**450,071**	450,071
Due from subsidiaries	**282,663**	287,737
	732,734	737,808
Impairment	**(475,312)**	(501,385)
	257,422	236,423

The amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment. The carrying amounts of these amounts due from subsidiaries approximate to their fair values.

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	*Indirect*	
Founder Data Corporation International Limited	British Virgin Islands/ Hong Kong	Ordinary US$20,000	100	–	Investment holding
PRC Century*	Mainland China	Registered RMB150,000,000	–	100	Distribution of information products
Founder Century (Hong Kong) Limited	Hong Kong	Ordinary HK$2	–	100	Distribution of information products

* Registered as a wholly-foreign-owned enterprise under PRC law

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

Notes to Financial Statements

31 December 2007

16. INTERESTS IN ASSOCIATES

	Group 2007 HK$'000	Group 2006 HK$'000
Share of net assets	**33,378**	30,690

Particulars of the principal associates are as follows:

Name	Particulars of issued shares held	Place of incorporation and operations	Percentage of ownership interest attributable to the Group	Principal activities
MC.Founder Limited*	Ordinary shares of HK$1 each	Hong Kong	36.69	Investment holding and distribution of mobile phones and data products
MC.Founder (Distribution) Limited*	Ordinary shares of HK$1 each	Hong Kong	36.69	Distribution of mobile phones and accessories, and provision of repair services
MC.Founder (Technology) Limited*	Ordinary shares of HK$1 each	Hong Kong	36.69	Sale of data products

* Not audited by Ernst & Young Hong Kong or other member firm of the Ernst & Young global network

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 a wholly-owned subsidiary of the Company.

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16. INTERESTS IN ASSOCIATES *(continued)*

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

The following table illustrates the summarised financial information of the Group's associates attributable to the Group extracted from their management accounts:

	2007 *HK$'000*	2006 *HK$'000*
Assets	**89,574**	88,582
Liabilities	**56,168**	57,849
Revenue	**492,904**	452,483
Profit after tax	**7,827**	8,945

17. INVENTORIES

	Group	
	2007 *HK$'000*	2006 *HK$'000*
Trading stocks	**113,513**	120,929

18. TRADE AND BILLS RECEIVABLES

	Group	
	2007 *HK$'000*	2006 *HK$'000*
Trade and bills receivables	**320,728**	290,597
Impairment	**(23,523)**	(13,850)
	297,205	276,747

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. Trade and bills receivables are settled in accordance with the terms of the respective contracts. 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.

Notes to Financial Statements

31 December 2007

18. TRADE AND BILLS RECEIVABLES *(continued)*

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

	Group	
	2007	2006
	HK$'000	*HK$'000*
Within 6 months	**285,857**	259,939
7 – 12 months	**7,412**	9,862
13 – 24 months	**3,936**	3,838
Over 24 months	**–**	3,108
	297,205	276,747

The movements in provision for impairment of trade receivables are as follows:

	Group	
	2007	2006
	HK$'000	*HK$'000*
At 1 January	**13,850**	5,091
Impairment losses recognised *(note 6)*	**8,650**	8,510
Exchange realignment	**1,023**	249
At 31 December	**23,523**	13,850

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of HK$13,041,000 (2006: HK$8,260,000) with a carrying amount of HK$13,041,000 (2006: HK$8,260,000). The individually impaired trade receivables relate to customers that were in financial difficulties and the full amount of the receivables is expected to be irrecoverable. The Group does not hold any collateral or other credit enhancements over these balances.

Notes to Financial Statements

31 December 2007

18. TRADE AND BILLS RECEIVABLES *(continued)*

The aged analysis of the trade and bills receivables that are not considered to be impaired is as follows:

	Group	
	2007	2006
	HK$'000	*HK$'000*
Neither past due nor impaired	**239,698**	208,191
Past due but not impaired:		
Less than 1 month past due	**32,092**	22,433
1 to 3 months past due	**14,227**	31,223
Over 3 months	**11,188**	14,900
	297,205	276,747

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

Included in the Group's trade and bills receivables are amounts due from related companies of approximately HK$15,666,000 (2006: HK$14,371,000), which are repayable on similar credit terms to those offered to the major customers of the Group.

19. PLEDGED DEPOSITS

The Group's bank deposits were pledged to banks to secure the banking facilities granted to the Group. The pledged deposits are deposited with creditworthy banks with no recent history of default. The carrying amounts of the pledged deposits approximate to their fair values.

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20. CASH AND CASH EQUIVALENTS

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Cash and bank balances	**270,757**	149,138	**167**	14
Time deposits	**25,529**	119,272	**2,195**	1,861
	296,286	268,410	**2,362**	1,875

At the balance sheet date, the cash and cash equivalents of the Group denominated in Renminbi ("RMB") amounted to approximately HK$244,825,000 (2006: HK$226,915,000). 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 banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods from seven days to six months depending on the immediate cash requirement of the Group, and earns interest at the respective short term time deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default. The carrying amounts of the cash and cash equivalents approximate to their fair values.

21. TRADE AND BILLS PAYABLES

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

	Group	
	2007	2006
	HK$'000	*HK$'000*
Within 6 months	**558,428**	496,067
Over 6 months	**821**	10,256
	559,249	506,323

The trade payables are non-interest-bearing and are normally settled on terms of 45 to 90 days.

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22. INTEREST-BEARING BANK AND OTHER BORROWINGS

Group	2007			2006		
	Contractual interest rate (%)	Maturity	*HK$'000*	Contractual interest rate (%)	Maturity	*HK$'000*
Bank loan						
– unsecured	6.12 – 6.48	2008	42,680	6.12	2007	39,880
Finance lease						
payable *(note 23)*	5	2010	142	5	2010	124
			42,822			40,004

The unsecured bank loan is repayable within one year and is guaranteed by 北大方正集團有限公司 (Peking University Founder Group Company Limited*) ("Peking Founder"), a substantial shareholder of the Company. It is denominated in RMB.

The obligation under finance lease is secured by a motor vehicle of the Group with a net book value of approximately HK$353,000 (2006: HK$530,000).

The carrying amount of the Group's bank and other borrowings approximates to its fair value. All borrowings of the Group bear interest at fixed interest rates.

** For identification purpose only*

Notes to Financial Statements

31 December 2007

23. FINANCE LEASE PAYABLE

The Group and the Company lease its motor vehicle. This lease is classified as finance lease and has remaining lease term of three years.

At 31 December 2007, the total future minimum lease payments under finance lease and its present value was as follows:

Group and Company	Minimum lease payments	Minimum lease payments	Present value of minimum lease payments	Present value of minimum lease payments
	2007	2006	2007	2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Amounts payable:				
Within one year	176	176	142	124
In the second year	176	176	159	142
In the third to fifth years, inclusive	89	265	85	244
Total minimum finance lease payments	441	617	386	510
Future finance charges	(55)	(107)		
Total net finance lease payable	386	510		
Portion classified as current liabilities	(142)	(124)		
Non-current portion	244	386		

24. DEFERRED TAX

Deferred tax assets have not been recognised in respect of the following items:

	Group	
	2007	2006
	HK$'000	*HK$'000*
Tax losses	**78,210**	66,944
Impairment of trade receivables	**2,758**	4,540
General provision for obsolete inventories	**897**	388
	81,865	71,872

The tax losses arising in Hong Kong are available indefinitely 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 2007, there was no significant unrecognised deferred tax liability (2006: 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.

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25. SHARE CAPITAL

	Group and Company	
	2007	2006
	HK$'000	*HK$'000*
Authorised:		
3,000,000,000 ordinary shares of HK$0.10 each	**300,000**	300,000
Issued and fully paid:		
1,106,062,040 (2006: 1,100,562,040) ordinary shares of HK$0.10 each	**110,606**	110,056

During the year, 5,500,000 ordinary shares of HK$0.10 each were issued for cash at a subscription price of HK$0.340 per share pursuant to the exercise of the Company's share options for a total cash consideration, before expenses, of HK$1,870,000.

A summary of the transactions during the year with reference to the movement in the Company's issued ordinary share capital is as follows:

	Number of shares in issue	Issued share capital	Share premium account	Total
		HK$'000	*HK$'000*	*HK$'000*
At 1 January 2006, 31 December 2006 and 1 January 2007	1,100,562,040	110,056	154,699	264,755
Share options exercised	5,500,000	550	1,320	1,870
At 31 December 2007	1,106,062,040	110,606	156,019	266,625

Notes to Financial Statements

31 December 2007

26. SHARE OPTION SCHEMES

On 24 May 2002, the Company adopted a share option scheme (the "2002 Scheme") in compliance with Chapter 17 of the Listing Rules. The purpose of the 2002 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 2002 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; or (iv) any supplier, agent, customer, partner or business associate of, or adviser or consultant to, any member of the Group. The 2002 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 2002 Scheme is an amount equivalent, upon their exercise, to 10% of the total number of shares of the Company in issue as at the date when the 2002 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 2002 Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

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

The offer of a grant of share options is deemed to have been accepted when the duplicate offer letter comprising the acceptance of the options 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 daily quotation sheet of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") 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.

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26. SHARE OPTION SCHEMES *(continued)*

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

The share option scheme adopted by the Company on 7 May 2001 (the "2001 Scheme") was terminated on 24 May 2002, however, the options granted under the the 2001 Scheme remain in full force and effect.

The following share options were outstanding under the 2001 Scheme and the 2002 Scheme during the year:

	2007		2006	
	Weighted average exercise price *HK$ per share*	**Number of share options** *'000*	Weighted average exercise price *HK$ per share*	Number of share options *'000*
At 1 January	**0.373**	**44,300**	0.370	58,000
Exercised during the year	**0.340**	**(5,500)**	–	–
Lapsed during the year	–	–	0.362	(13,700)
At 31 December	**0.378**	**38,800**	0.373	44,300

The weighted average share price at the date of exercise for share options exercised during the year was HK$0.455.

The exercise prices and exercise periods of the share options outstanding as at that balance sheet date are as follows:

2007

Number of options *'000*	**Exercise price*** *HK$ per share*	**Exercise period**
4,300	**0.450**	**18.5.2001 to 17.5.2011**
24,000	**0.381**	**7.2.2004 to 5.2.2014**
10,500	**0.340**	**3.1.2004 to 31.12.2013**
38,800		

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26. SHARE OPTION SCHEMES *(continued)*

2006

Number of options	Exercise price*	Exercise period
'000	*HK$*	
	per share	
4,300	0.450	18.5.2001 to 17.5.2011
24,000	0.381	7.2.2004 to 5.2.2014
16,000	0.340	3.1.2004 to 31.12.2013
44,300		

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

2001 Scheme

At the balance sheet date, the Company had 4,300,000 share options outstanding under the 2001 Scheme. The exercise in full of the remaining share options under the 2001 Scheme would, under the present capital structure of the Company, result in the issue of 4,300,000 additional ordinary shares of the Company and additional share capital of HK$430,000 and share premium of HK$1,505,000 (before issue expenses).

2002 Scheme

At the balance sheet date, the Company had 34,500,000 share options outstanding under the 2002 Scheme. The exercise in full of the remaining share options under the 2002 Scheme would, under the present capital structure of the Company, result in the issue of 34,500,000 additional ordinary shares of the Company and additional share capital of HK$3,450,000 and share premium of HK$9,264,000 (before issue expenses).

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27. RESERVES

(a) Group

	Share premium account HK$'000	Contributed surplus HK$'000	Exchange fluctuation reserve HK$'000	General reserve HK$'000	Retained profits/ (accumulated losses) HK$'000	Total HK$'000
At 1 January 2006	154,699	520,156	2,870	2,867	(575,800)	104,792
Exchange realignment	–	–	7,000	–	–	7,000
Profit for the year	–	–	–	–	14,932	14,932
Transfer to general reserve	–	–	–	1,691	(1,691)	–
At 31 December 2006 and beginning of year	154,699	520,156	9,870	4,558	(562,559)	126,724
Exchange realignment	–	–	8,759	–	–	8,759
Profit for the year	–	–	–	–	10,835	10,835
Transfer to general reserve	–	–	–	995	(995)	–
Issue of shares *(note 25)*	1,320	–	–	–	–	1,320
At 31 December 2007	156,019	520,156	18,629	5,553	(552,719)	147,638

The contributed surplus of the Group represents the difference between the nominal value of the Company's share capital issued as consideration in exchange for the nominal value of the issued share capital of the subsidiaries acquired.

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.

Notes to Financial Statements

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27. RESERVES *(continued)*

(a) Group *(continued)*

During the year, a PRC subsidiary transferred approximately HK$995,000 (2006: HK$1,691,000), which represented 10% of the PRC subsidiary's profit after tax for the year ended 31 December 2007 as determined in accordance with the PRC accounting standards, 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 2006	154,699	528,980	(579,144)	104,535
Profit for the year	–	–	22,122	22,122
At 31 December 2006	154,699	528,980	(557,022)	126,657
Issue of shares *(note 25)*	1,320	–	–	1,320
Profit for the year	–	–	19,310	19,310
At 31 December 2007	156,019	528,980	(537,712)	147,287

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

28. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT

Major non-cash transaction

For the year ended 31 December 2006, the Group entered into a finance lease arrangement in respect of property, plant and equipment with a total capital value at the inception of the lease of HK$706,000.

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29. CONTINGENT LIABILITIES

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

	Company	
	2007	2006
	HK$'000	*HK$'000*
Guarantees given to banks in connection with facilities granted to a subsidiary	**20,000**	15,000
Guarantees given to suppliers in connection with credit facilities granted to a subsidiary	**77,987**	31,405
	97,987	46,405

As at 31 December 2007, the banking facilities granted to the subsidiary subject to guarantees given to the banks by the Company were utilised to the extent of approximately HK$1,810,000 (2006: Nil).

As at 31 December 2007, the guarantees given to suppliers in connection with credit facilities granted to a subsidiary by the Company were utilised to the extent of approximately HK$67,193,000 (2006: HK$29,164,000).

The Group did not have any significant contingent liabilities as at 31 December 2007 (2006: Nil).

30. OPERATING LEASE ARRANGEMENTS AS LESSEE

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

At 31 December 2007, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2007	2006
	HK$'000	*HK$'000*
Within one year	**5,669**	5,054
In the second to fifth years, inclusive	**5,111**	4,969
	10,780	10,023

Notes to Financial Statements

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31. 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) On 10 January 2006, the Group entered into lease agreement with Peking Founder, to lease from Peking Founder office premise in Beijing, the PRC, effective from 1 January 2006 to 31 December 2008. On 31 July 2007, the Group entered into lease agreement with a subsidiary of Peking Founder, to lease office premise in Beijing, the PRC, effective from 1 January 2007 to 31 December 2007. During the year, rental and management fee expenses of approximately HK$4,169,000 (2006: HK$1,938,000) were paid by the Group to Peking Founder and its subsidiary. The directors consider that the rental and management fee expenses were paid in accordance with the terms of the lease agreements.

(b) On 5 January 2006, the Group entered into a master agreement with Peking Founder to govern the sale of information products to Peking Founder and its subsidiaries (collectively "Peking Founder Group") for a term of three years from 1 January 2006 to 31 December 2008. During the year, products of approximately HK$23,209,000 (2006: HK$1,912,000) were sold to Peking Founder Group. The sales of products were made according to published prices and conditions similar to those offered to other customers of the Group.

(c) On 5 January 2006, the Group entered into a master agreement with Founder Holdings Limited ("FHL"), a substantial shareholder of the Company, to govern the sale of information products to FHL and its subsidiaries (collectively "Founder Group") for a term of three years from 1 January 2006 to 31 December 2008. On 15 November 2006, the Company entered into the supplemental agreement with FHL to amend the cap amounts. The supplemental agreement is superseded by the revised supplemental agreement which was entered into between the Company and FHL on 5 December 2006. During the year, products of approximately HK$55,143,000 (2006: HK$74,979,000) were sold to Founder Group. The sales of products were made according to published prices and conditions similar to those offered to other customers of the Group.

(d) During the year, sales of information products in an aggregate amount of approximately HK$6,314,000 (2006: Nil) to an associate of Peking Founder were made by the Group. The sales of products were made according to published prices and conditions similar to those offered to other customers of the Group.

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31. RELATED PARTY TRANSACTIONS *(continued)*

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

(e) As at 31 December 2007, Peking Founder guaranteed banking facilities given by the PRC banks to the Group of approximately HK$529,232,000 (2006: HK$500,993,000) which were utilised to the extent of approximately HK$452,835,000 (2006: HK$441,172,000).

(f) As at 31 December 2007, Peking Founder guaranteed bank loans given by the PRC banks to the Group of approximately HK$42,680,000 (2006: HK$39,880,000).

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

(II) Outstanding balances with related parties

(a) The balance due from a subsidiary of FHL included in prepayments, deposits and other receivables was approximately HK$3,090,000 (2006: Nil). The balance is unsecured, interest-free and has no fixed terms of repayment.

(b) The balance due to Peking Founder included in other payables and accruals was approximately HK$3,484,000 (2006: HK$101,000). The balance is unsecured, interest-free and has no fixed terms of repayment.

(c) Details of the Group's trade receivables balances with its related companies as at the balance sheet date are included in note 18 to the financial statements.

(III) Compensation of key management personnel of the Group

	2007 *HK$'000*	2006 *HK$'000*
Short term employee benefits	**1,361**	1,983
Post-employment benefits	**12**	59
Total compensation paid to key management personnel	**1,373**	2,042

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

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32. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the balance sheet date are as follows:

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Financial assets –				
Loans and receivables				
Due from subsidiaries	**–**	–	**257,422**	236,423
Trade and bills receivables	**297,205**	276,747	**–**	–
Financial assets included in prepayments, deposits and other receivables	**61,583**	32,620	**505**	835
Pledged deposits	**95,751**	88,523	**–**	–
Cash and cash equivalents	**296,286**	268,410	**2,362**	1,875
	750,825	666,300	**260,289**	239,133
Financial liabilities –				
Financial liabilities at amortised cost				
Trade and bills payables	**559,249**	506,323	**–**	–
Financial liabilities included in other payables and accruals	**82,903**	86,772	**1,906**	2,036
Interest-bearing bank and other borrowings	**43,066**	40,390	**386**	510
	685,218	633,485	**2,292**	2,546

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing bank and other borrowings 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.

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33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

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

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.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments. The Company is also exposed to credit risk through the granting of financial guarantees, further details of which are disclosed in note 29 to the financial statements.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty, by geographical region and by industry sector. There are no significant concentrations of credit risk within the Group as the customer bases of the Group's trade and bills receivables are widely dispersed in different sectors and industries.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade and bills receivables are disclosed in note 18 to the financial statements.

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 monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., trade and bills receivables) and projected cash flows from operations.

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

The Group's financial liabilities as at 31 December 2007, based on the contracted undiscounted payments, of approximately HK$684,974,000 (2006: HK$633,099,000) and HK$244,000 (2006: HK$386,000) were matured within one year and over one year, respectively. Further details of the financial liabilities of the Group are set out in note 32 to the financial statements.

Notes to Financial Statements

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33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Liquidity risk *(continued)*

The Company's financial liabilities as at 31 December 2007, based on the contracted undiscounted payments, of approximately HK$2,048,000 (2006: HK$2,160,000) and HK$244,000 (2006: HK$386,000) were matured within one year and over one year, respectively. Further details of the financial liabilities of the Company are set out in note 32 to the financial statements.

Capital management

The primary objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2007 and 2006.

The Group monitors capital using a gearing ratio, which is total borrowings divided by total equity. The Group's policy is to maintain a stable gearing ratio. The gearing ratios as at the balance sheet dates were as follows:

	2007	2006
	HK$'000	*HK$'000*
Interest-bearing bank borrowings	**42,680**	39,880
Finance lease payable	**386**	510
Total borrowings	**43,066**	40,390
Total equity	**258,244**	236,780
Gearing ratio (Total borrowings/total equity)	**0.17**	0.17

34. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 18 April 2008.

Five Year Financial Summary

A summary of the results and of the assets and liabilities of the Group for the last five financial years, as extracted from the published audited financial statements, is set out below.

RESULTS

	Year ended 31 December				
	2007	2006	2005	2004	2003
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
REVENUE	**2,724,686**	2,314,811	1,900,652	1,257,550	624,972
PROFIT/(LOSS) FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT	**10,835**	14,932	26,556	9,185	(22,827)

ASSETS AND LIABILITIES

	As at 31 December				
	2007	2006	2005	2004	2003
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
TOTAL ASSETS	**994,454**	899,959	792,139	561,342	457,944
TOTAL LIABILITIES	**(736,210)**	(663,179)	(577,291)	(376,027)	(281,818)
	258,244	236,780	214,848	185,315	176,126