ANNUAL REPORT 2007

FOUNDER HOLDINGS LIMITED

方正控股有限公司

(Incorporated in Bermuda with limited liability)

Stock Code: 0418

Contents

Corporate Information

BOARD OF DIRECTORS

Executive directors

Mr Zhang Zhao Dong *(Chairman)*
Professor Xiao Jian Guo *(Deputy Chairman)*
Mr Liu Xiao Kun *(President)*
Professor Wei Xin
Mr Chen Geng
Mr Xie Ke Hai

Independent non-executive directors

Dr Hu Hung Lick, Henry
Mr Li Fat Chung
Ms Wong Lam Kit Yee

COMMITTEES

Audit Committee

Mr Li Fat Chung *(Chairman)*
Dr Hu Hung Lick, Henry
Ms Wong Lam Kit Yee

Remuneration Committee

Mr Zhang Zhao Dong *(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
Professor Wei Xin

AUDITORS

Ernst & Young
Certified Public Accountants

LEGAL ADVISERS

Morrison & Foerster

PRINCIPAL BANKERS

Agricultural Bank of China
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

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor, Hopewell Centre
183 Queen's Road East
Hong Kong

LISTING INFORMATION

Main board of The Stock Exchange of Hong Kong Limited
Stock code: 00418
Board lot: 2,000 shares

COMPANY WEBSITES

www.founder.com.hk
www.irasia.com/listco/hk/founder

Financial Highlights

YEAR	**2007**	2006	2005	2004	2003
Turnover *(HK$' million)*	**784**	2,116	2,594	2,014	1,554
Total assets *(HK$' million)*	**861**	792	1,323	1,086	961
Total liabilities *(HK$' million)*	**482**	383	852	677	532
Net assets *(HK$' million)*	**372**	403	368	316	342
Net asset value per share *(HK$)*	**0.33**	0.36	0.33	0.28	0.30
Working capital ratio	**1.39**	1.58	1.39	1.41	1.53
Total number of staff (As at the end of the year)	**1,327**	1,603	1,882	2,020	2,080

Management Discussion and Analysis

OVERALL PERFORMANCE

The Group reported a loss attributable to equity holders of the parent for the year ended 31 December 2007 of approximately HK$50.9 million (year ended 31 December 2006: profit of HK$25.9 million). The Group's turnover for the current financial year decreased by 62.9% to approximately HK$784.2 million (year ended 31 December 2006: HK$2,115.9 million) as a result of the partial disposal of EC-Founder (Holdings) Company Limited and its subsidiaries ("EC-Founder") which became the Group's associates on 31 July 2006. On the contrary, gross profit ratio increased from last financial year's 14.1% to 26.3% for the current financial year because EC-Founder's distribution business of information products had a much lower gross profit percentage as compared to the business of software development and systems integration. The Group recorded a gain on disposal of Founder Apabi International Limited and its subsidiary (collectively "Founder Apabi Group") of approximately HK$7.6 million which is included as other income and gains in the current financial year.

Basic loss per share for the year was HK4.5 cents (year ended 31 December 2006: basic earnings per share of HK2.3 cents).

OPERATING REVIEW AND PROSPECTS

(A) Software development and systems integration for media sector ("Media Business")

The turnover of the Media Business for the current financial year decreased slightly by 2.1% to approximately HK$500.7 million (year ended 31 December 2006: HK$511.6 million) while the segment results recorded a loss of approximately HK$45.7 million (year ended 31 December 2006: segment profits of HK$1.3 million). The gross profit ratio for the Media Business for the current financial year remained at the same level as last financial year's 39.2%.

The Media Business recorded a continued segment loss of HK$8.8 million in the second half of the current financial year as compared with a segment loss of HK$36.9 million for the six months ended 30 June 2007 mainly because of the continued operating loss for the Founder Apabi Technology Co., Ltd. (北京方正阿帕比技術有限公司) ("Founder Apabi"), the subsidiary of Founder Apabi International Limited, which was then disposed of in November 2007. As discussed in prior year, the Group has allocated more resources for new product development and marketing effort for the business of Founder Apabi and due to the sustained operating loss incurred, the business of Founder Apabi was disposed of in November 2007 in order to allow the Group to focus its attention on the traditional graphic arts and e-publishing business.

With the continued printing digitalization process in the printing industry, Beijing Founder Electronics Co., Ltd. ("Founder Electronics") has been focusing its business development in three main areas, namely the digitalization of the production procedure, the printing process and the management. In 2007, Founder Electronics has launched its first own developed and advanced technology computer-to-plate CTP product, Founder Diao Long (方正雕龍) in response to the increasing demand for fast, efficient and cost-effecting printing process. The Group foresees that the continued development of the Group's CTP products and its related graphic arts and e-publishing software solutions for the needs of newspaper and publishing houses will bring the Group into another thriving era in the printing industry.

Management Discussion and Analysis

On 30 November 2007, the CMMI4 certification of the Group's software development arm, Founder Electronics by the United States high-ranking chief appraiser Software Engineering Institute on the passing through of Level IV of the Capability Maturity Appraisal marks the process capability maturity of Founder Electronics has reached the advanced world level and its great stand-alone technology.

Facing the trend of globalization and the new demands in the publishing sector, the Media Business is set to continue its focus in technological innovation by bringing a full range of technologies to address the business development needs of its customer base in this "electronics age" and the Group is also dedicated to the continued development of the digital information production and communication industries in China.

(B) Software development and systems integration for non-media sector ("Non-Media Business")

The turnover of the Non-Media Business for the current financial year decreased by 9.6% to approximately HK$277.4 million (year ended 31 December 2006: HK$306.9 million) while its segment results has recorded a loss of approximately HK$12.4 million (year ended 31 December 2006: segment profit of HK$4.0 million).

Faced with the delay in the recognition of revenue of certain systems integration contracts in the current financial year, the Non-Media Business sector recorded a segment loss as compared with a segment profit of HK$4.0 million for year ended 31 December 2006. During the current financial year, the Non-Media Business was mainly focused on the systems integration business for the finance and securities industries and the government bureaus in China. The major products and services provided by the Non-Media Business include various solutions for the banking, insurance and securities industries, call center solutions, security and identity verification systems, documents imaging systems and fingerprint related security solutions.

(C) Distribution of information products ("Distribution Business")

The Distribution Business was partially disposed of in July 2006 as a result of the Company's partial disposal of 21.85% equity interest in EC-Founder which became the Company's associated companies and so no segment results was recorded under the distribution of information products segment. The segment results for the year ended 31 December 2006 represented the first seven months' operating results of the Distribution Business.

Employees

The Group has developed its human resources policies and procedures based on performance and merit. The Group ensures that the pay levels 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.

Management Discussion and Analysis

The Group operates share option scheme 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.

In the current financial year, the moderate decrease in the headcount for the Group is mainly due to the partial disposal of Founder Apabi Group in November 2007. At 31 December 2007, the number of employees of the Group was approximately 1,327 (31 December 2006: 1,603).

FINANCIAL REVIEW

Liquidity, financial resources and capital commitments

At 31 December 2007, the Group recorded total assets of HK$860.6 million which were financed by liabilities of HK$482.8 million, minority interests of HK$6.0 million and equity of HK$371.8 million. The Group's net asset value per share as at 31 December 2007 amounted to HK$0.33 (31 December 2006: HK$0.36).

The Group had a total cash and bank balance of HK$340.3 million as at 31 December 2007 (31 December 2006: HK$265.6 million). The Group had bank borrowings of HK$10.7 million as at 31 December 2007 (31 December 2006: Nil) and recorded a net cash balance of HK$329.6 million as at 31 December 2007 as compared to HK$265.6 million as at 31 December 2006. The Group's borrowings, which are subject to little seasonality, consist of mainly short term bank loans. As at 31 December 2007, the Group's gearing ratio, measured on the basis of total borrowings as a percentage of total equity attributable to equity holders of the parent, was 0.03 (31 December 2006: zero) while the Group's working capital ratio was 1.39 (31 December 2006: 1.58).

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

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.

Management Discussion and Analysis

Exposure to fluctuations in exchange rates and related hedges

Most of the Group's 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 subsidiaries 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.

Contracts

At 31 December 2007, the major contracts in hand for the software development and systems integration business amounted to approximately HK$379.6 million (31 December 2006: HK$187.5 million), which are all expected to be completed within one year time.

Material acquisitions and disposals of subsidiaries and associates

On 16 October 2007, the Group entered into a conditional sale and purchase agreement with Founder Information (Hong Kong) Limited, a subsidiary of Peking University Founder Group Company Limited, to dispose of its entire equity interest in Founder Apabi International Limited for a cash consideration of HK$27.2 million. The disposal was completed in 30 November 2007 and a gain of approximately HK$7.6 million was recorded.

Charges on assets

At 31 December 2007, the Group's land and buildings in Hong Kong of approximately HK$31.6 million and investment properties of approximately HK$27.3 million and bank deposits of approximately HK$25.4 million were pledged to banks to secure banking facilities granted.

Contingent liabilities

At 31 December 2007, the Group did not have any significant contingent liabilities.

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

The Company is firmly committed to the overall standards of corporate governance and has always recognized 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

As at the date of this Annual Report, the board of directors of the Company (the "Board") comprises nine directors, namely, Mr Zhang Zhao Dong (Chairman), Professor Xiao Jian Guo (Deputy Chairman), Mr Liu Xiao Kun (President), Professor Wei Xin, Mr Chen Geng and Mr Xie Ke Hai as executive directors; and Dr Hu Hung Lick, Henry, Mr Li Fat Chung and Ms Wong Lam Kit Yee 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 14 to 15 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 responsibilities 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 ended 31 December 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	Number of attendance/Number of meetings
Executive Directors	
Mr Cheung Shuen Lung	1/1
Professor Xiao Jian Guo	1/4
Professor Wei Xin	0/4
Mr Zhang Zhao Dong	3/4
Mr Chen Geng	1/4
Mr Xie Ke Hai	1/4
Mr Liu Xiao Kun	1/4
Independent Non-executive Directors	
Dr Hu Hung Lick, Henry	0/4
Mr Li Fat Chung	2/4
Ms Wong Lam Kit Yee	3/4

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 Liu Xiao Kun 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 role 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.

Corporate Governance Report

Among the three independent non-executive directors, two are professional accountants. 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.

REMUNERATION OF DIRECTORS

Established in 2005, the Remuneration Committee currently comprises Mr Zhang Zhao Dong (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	Number of attendance/Number of meetings
Mr Zhang Zhao Dong *(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.

Corporate Governance Report

During the year, appointment of Mr Liu Xiao Kun as new director was put to the full Board for approval. The attendance record of each director at the relevant Board meeting is as follows:

Name of director	Number of attendance/Number of meetings
Executive Directors	
Mr Cheung Shuen Lung	1/1
Professor Xiao Jian Guo	1/1
Professor Wei Xin	1/1
Mr Zhang Zhao Dong	1/1
Mr Xie Ke Hai	1/1
Mr Chen Geng	1/1
Independent Non-executive Directors	
Dr Hu Hung Lick, Henry	0/1
Mr Li Fat Chung	0/1
Ms Wong Lam Kit Yee	0/1

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	2,520
Non-audit fees:	
Interim review service	355
Taxation services	112
	467
Total	2,987

Corporate Governance Report

AUDIT COMMITTEE

Established in 1998, the Audit Committee now solely comprises independent non-executive directors, namely, Mr Li Fat Chung (Chairman), Dr Hu Hung Lick, Henry, and Ms Wong Lam Kit Yee. A majority of the committee members possesses 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 supply 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.

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 report of the members of the Committee at the meetings is as follows:

Name of member	**Number of attendance/Number of meetings**
Mr Li Fat Chung *(Chairman)*	3/3
Dr Hu Hung Lick, Henry	2/3
Ms Wong Lam Kit Yee	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.

Corporate Governance Report

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 investors immediately 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 Directors 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 EC-Founder (Holdings) Company 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 Zhang was appointed as Chairman of the Company on 23 April 2007.

Professor Xiao Jian Guo, aged 51, is the Deputy Chairman and an executive director of the Company. He is also an executive director and Chief Technical Officer of Peking University Founder Group Company Limited, and a director of Founder Technology Group Corporation. He is a professor and a supervisor of PhD students of the Peking University. He graduated from the Department of Computer Science at the College of Dalian Ocean Communication with a bachelor's degree in 1982 and obtained a master's degree in Computer Science at the Peking University.

Mr Liu Xiao Kun, aged 48, is the President and an executive director of the Company. He 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 the Company and certain 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 software development and systems integration business and EC-Founder (Holdings) Company Limited's information products distribution business.

Professor Wei Xin, aged 52, is an executive director of the Company. He is also the Chairman of Peking University Founder Group Company Limited, an non-executive director of PUC Founder (MSC) Berhad. Professor Wei obtained a master's degree from the College of Economics at the Peking University. He is also the Executive Dean of College of Education at the Peking University.

Mr Chen Geng, aged 37, is an executive director of the Company. He is also the President and an executive director of EC-Founder (Holdings) Company 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 EC-Founder (Holdings) Company Limited 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 EC-Founder (Holdings) Company Limited.

Mr Xie Ke Hai, aged 42, is an executive director of the Company. He is also an executive director of EC-Founder (Holdings) Company 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.

Biographical Details of Directors and Senior Management

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr Hu Hung Lick, Henry, G.B.S., O.B.E., PhD, J.P., aged 88, is an independent non-executive director of the Company. Dr Hu has been practising as a barrister for over 50 years and is currently the President of Hong Kong Shue Yan University. Dr Hu is also an independent non-executive director of Air China Limited, a public company listed on the Main Board of The Stock Exchange of Hong Kong Limited.

Mr Li Fat Chung, aged 47, is an independent non-executive director of the Company and EC-Founder (Holdings) Company 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) in 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 EC-Founder (Holdings) Company 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.

SENIOR MANAGEMENT

Mr Lau Fai Lawrence, aged 36, is the Group Financial Controller and the Qualified Accountant of the Company and EC-Founder (Holdings) Company 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 knowledge and 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 16 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 loss 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 99.

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, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited financial statements, is set out on page 102 of the Annual Report. This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

Details of movements in the property, plant and equipment and investment properties of the Group during the year are set out in notes 13 and 14 to the financial statements, respectively. Further details of the Group's investment properties are set out on pages 100 to 101 of the Annual Report.

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 27 and 28 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 29 to the financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2007, the Company's reserves available for distribution amounted to approximately HK$208,886,000. In addition, the Company's share premium account, in the amount of approximately HK$32,470,000, 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 less than 30% of the total purchases for the year.

DIRECTORS

The directors of the Company during the year were:

Executive directors:

Mr Zhang Zhao Dong	
Professor Xiao Jian Guo	
Professor Wei Xin	
Mr Chen Geng	
Mr Xie Ke Hai	
Mr Liu Xiao Kun	(appointed on 25 January 2007)
Mr Cheung Shuen Lung	(resigned on 23 April 2007)
Mr Xia Yang Jun	(resigned on 25 January 2007)

Independent non-executive directors:

Dr Hu Hung Lick, Henry
Mr Li Fat Chung
Ms Wong Lam Kit Yee

In accordance with the Bye-laws of the Company, Mr Zhang Zhao Dong, Professor Xiao Jian Guo and Ms Wong Lam Kit Yee 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 Dr Hu Hung Lick, Henry, Mr Li Fat Chung and Ms Wong Lam Kit Yee, and still considers them to be independent.

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 14 to 15 of the Annual Report.

Report of the Directors

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 associated corporations:

EC-Founder (Holdings) Company Limited ("EC-Founder"), an associate of the Company

Name of director	Number of ordinary shares held, capacity and nature of interest Directly beneficially owned	Percentage of the associated corporation's issued share capital
Professor Xiao Jian Guo	8,703,300	0.79
Professor Wei Xin	3,956,000	0.36
Mr Zhang Zhao Dong	3,956,000	0.36

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

Long positions in underlying shares of associated corporations:

EC-Founder

Name of director	Number of options directly beneficially owned
Mr Zhang Zhao Dong	8,000,000
Professor Wei Xin	10,000,000
Mr Liu Xiao Kun	5,500,000
	23,500,000

Long position in share options of the Company:

Name of director	Number of options directly beneficially owned
Mr Zhang Zhao Dong	8,000,000
Professor Xiao Jian Guo	8,000,000
Professor Wei Xin	8,000,000
	24,000,000

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 scheme" 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.

Report of the Directors

SHARE OPTION SCHEME

The Company operates a share option 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 scheme are disclosed in note 28 to the financial statements.

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
Directors						
Mr Zhang Zhao Dong	8,000,000	–	8,000,000	5.2.2004	6.2.2004 to 4.2.2014	1.104
Professor Xiao Jian Guo	8,000,000	–	8,000,000	5.2.2004	6.2.2004 to 4.2.2014	1.104
Professor Wei Xin	8,000,000	–	8,000,000	5.2.2004	6.2.2004 to 4.2.2014	1.104
Mr Cheung Shuen Lung#	8,000,000	–	8,000,000	5.2.2004	6.2.2004 to 4.2.2014	1.104
Subtotal	32,000,000	–	32,000,000			
Other employees						
In aggregate	25,500,000	(6,500,000)	19,000,000	2.1.2004	3.1.2004 to 31.12.2013	0.840
Total	57,500,000	(6,500,000)	51,000,000			

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.*

SHARE OPTION SCHEME *(continued)*

Notes to the table of share options outstanding during the year: (continued)

*** *The weighted average closing price of the Company's share immediately before the exercise date of the share options was HK$0.689.*

\# *Mr Cheung Shuen Lung resigned as director of the Company on 23 April 2007.*

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	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*) *(Note)*	Through a controlled corporation	367,179,610	32.49
北大方正集團有限公司 (Peking University Founder Group Company Limited*) ("Peking Founder")	Directly beneficially owned	367,179,610	32.49

* *For identification purpose only*

Note: Peking University Asset Management Company Limited was deemed to be interested in the 367,179,610 shares under the SFO by virtue of its interest in Peking Founder.

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.

Report of the Directors

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

Connected transactions

Details of the connected transactions are set out in notes 33(I)(b), 33(I)(c), 33(I)(d), 33(I)(e) and 33(I)(f) to the financial statements.

Continuing connected transactions

The independent non-executive directors of the Company have reviewed the continuing connected transactions as set out in notes 33(I)(b), 33(I)(d) and 33(I)(e) and have confirmed that the continuing connected transactions have been entered into (i) in the ordinary 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 favourable to the Group than terms available to or from independent third parties; and (iii) in accordance with the relevant agreements 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 the directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this report.

POST BALANCE SHEET EVENT

Details of the significant post balance sheet event of the Group are set out in note 36 to the financial statements.

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 Founder Holdings Limited
(Incorporated in Bermuda with limited liability)

We have audited the financial statements of Founder Holdings Limited set out on pages 25 to 99, 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 loss 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	784,211	2,115,920
Cost of sales		(578,108)	(1,816,879)
Gross profit		206,103	299,041
Other income and gains	5	55,618	70,978
Selling and distribution costs		(140,228)	(178,547)
Administrative expenses		(93,662)	(94,621)
Other expenses, net		(82,052)	(61,283)
Finance costs	7	(681)	(1,480)
Share of profits and losses of associates		4,454	3,194
PROFIT/(LOSS) BEFORE TAX	6	(50,448)	37,282
Tax	10	(69)	(1,027)
PROFIT/(LOSS) FOR THE YEAR		(50,517)	36,255
Attributable to:			
Equity holders of the parent	11	(50,928)	25,911
Minority interests		411	10,344
		(50,517)	36,255
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT – BASIC	12	HK(4.5) cents	HK2.3 cents

Consolidated Balance Sheet

31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	60,468	67,769
Investment properties	14	27,785	25,360
Interests in associates	17	99,111	95,446
Total non-current assets		187,364	188,575
CURRENT ASSETS			
Inventories	18	36,606	34,609
Systems integration contracts	19	106,907	70,735
Trade and bills receivables	20	132,935	181,022
Prepayments, deposits and other receivables		54,386	49,087
Equity investments at fair value through profit or loss	21	2,072	2,350
Pledged deposits	22	25,431	35,581
Cash and cash equivalents	23	314,888	230,057
Total current assets		673,225	603,441
CURRENT LIABILITIES			
Trade and bills payables	24	123,785	95,295
Other payables and accruals		348,270	287,836
Interest-bearing bank borrowings	25	10,670	–
Tax payable		44	4
Total current liabilities		482,769	383,135
NET CURRENT ASSETS		190,456	220,306
Net assets		377,820	408,881
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital	27	113,030	112,380
Reserves	29(a)	258,769	290,913
		371,799	403,293
Minority interests	29(a)	6,021	5,588
Total equity		377,820	408,881

Zhang Zhao Dong
Director

Liu Xiao Kun
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		408,881	470,894
Changes in equity during the year:			
Exchange differences on translation of the financial statements of foreign entities	29(a)	14,783	9,725
Revaluation surplus of land and buildings	29(a)	2,333	997
Net income recognised directly in equity		17,116	10,722
Profit/(loss) for the year	29(a)	(50,517)	36,255
Total recognised income and expense for the year		(33,401)	46,977
Issue of shares	27	5,460	–
Share of general reserve of associates	29(a)	–	575
Disposal/partial disposal of subsidiaries	29(a)	(3,120)	(109,565)
		(31,061)	(62,013)
Attributable to:			
Equity holders of the parent		(31,494)	35,040
Minority interests		433	(97,053)
		(31,061)	(62,013)
Total equity at 31 December		377,820	408,881

Consolidated Cash Flow Statement

Year ended 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before tax		(50,448)	37,282
Adjustments for:			
Finance costs	7	681	1,480
Share of profits and losses of associates		(4,454)	(3,194)
Bank Interest income	5	(3,777)	(3,002)
Other interest income	5	(242)	–
Gain on disposal/partial disposal of subsidiaries	5	(7,628)	(17,810)
Gain on deemed disposal of interest in an associate	5	(219)	–
Loss on disposal of items of property, plant and equipment	6	65	126
Depreciation	6	15,454	13,070
Fair value gains on equity investments at fair value through profit or loss	6	(212)	(162)
Revaluation surplus of land and buildings	5	–	(5,121)
Fair value gains of investment properties	5	(2,425)	(2,250)
		(53,205)	20,419
Increase in inventories		(2,042)	(22,237)
Increase in systems integration contracts		(37,315)	(25,992)
Decrease/(increase) in trade and bills receivables		33,595	(154,500)
Increase in prepayments, deposits and other receivables		(49,615)	(7,961)
Decrease/(increase) in equity investments at fair value through profit or loss		490	(207)
Increase in trade and bills payables		31,366	112,647
Increase in other payables and accruals		107,916	11,202
Exchange differences		(2,036)	(5,989)
Cash generated from/(used in) operations		29,154	(72,618)
Interest received		4,019	3,002
Interest paid		(681)	(1,438)
Interest element on finance lease rental payments		–	(42)
Hong Kong profits tax refunded		–	17
Overseas taxes paid		(29)	(48)
Mainland of the People's Republic of China ("Mainland China" or the "PRC") corporate income tax paid		–	(2,070)
Net cash inflow/(outflow) from operating activities		32,463	(73,197)

Consolidated Cash Flow Statement *(continued)*

Year ended 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
Net cash inflow/(outflow) from operating activities		32,463	(73,197)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		(16,517)	(16,974)
Proceeds from disposal of items of property, plant and equipment		1,143	292
Decrease in amounts due from associates		1,175	863
Increase in amounts due to associates		2,853	–
Disposal/partial disposal of subsidiaries	30(a)	15,564	(74,490)
Decrease/(increase) in time deposits with original maturity of more than three months when acquired		61,119	(59,871)
Increase in pledged deposits		10,150	(34,074)
Net cash inflow/(outflow) from investing activities		75,487	(184,254)
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans		21,220	–
Decrease in trust receipt loans		–	(2,214)
Capital element of finance lease rental payments		–	149
Proceeds from issue of shares	27	5,460	–
Net cash inflow/(outflow) from financing activities		26,680	(2,065)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		134,630	(259,516)
Cash and cash equivalents at beginning of year		168,174	412,874
Effect of foreign exchange rate changes, net		11,320	14,816
CASH AND CASH EQUIVALENTS AT END OF YEAR		314,124	168,174
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	23	282,868	94,310
Non-pledged time deposits with original maturity of less than three months when acquired		31,256	73,864
		314,124	168,174

Balance Sheet

31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
NON-CURRENT ASSETS			
Investments in subsidiaries	16	559,088	559,088
Interests in associates	17	101,715	82,824
Total non-current assets		660,803	641,912
CURRENT ASSETS			
Other receivables		327	363
Cash and bank balances	23	5	245
Total current assets		332	608
CURRENT LIABILITIES			
Other payables and accruals		173	478
NET CURRENT ASSETS		159	130
TOTAL ASSETS LESS CURRENT LIABILITIES		660,962	642,042
NON-CURRENT LIABILITIES			
Due to a subsidiary	16	306,576	310,907
Net assets		354,386	331,135
EQUITY			
Issued capital	27	113,030	112,380
Reserves	29(b)	241,356	218,755
Total equity		354,386	331,135

Zhang Zhao Dong
Director

Liu Xiao Kun
Director

Notes to Financial Statements

31 December 2007

1. CORPORATE INFORMATION

Founder Holdings Limited is a limited liability company incorporated in Bermuda. The head office and principal place of business of the Company are located at Unit 1408, 14th Floor, Cable TV Tower, 9 Hoi Shing Road, Tsuen Wan, New Territories, Hong Kong.

During the year, the Group was principally engaged in the software development and systems integration.

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 (the "HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties, certain land and buildings and equity investments, which have been measured at fair value. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand (HK$'000) except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (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.

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries. An acquisition of minority interests is accounted for using the parent entity extension method whereby the difference between the consideration and the book value of the share of the net assets acquired is recognised as goodwill.

Notes to Financial Statements

31 December 2007

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*

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 35 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 Group's share option scheme, 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)*

(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.

(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 Cancellation* [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 or after 1 July 2009

Notes to Financial Statements

31 December 2007

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

HKFRS 2 has been revised 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.

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.

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

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.

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.

Notes to Financial Statements

31 December 2007

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. Goodwill arising from the acquisition of associates is included as part of the Group's interests in associate. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

The results of associates are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in associates are treated as non-current assets and are stated at cost less any impairment losses.

Goodwill

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

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses. In the case of associates, goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

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31 December 2007

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Goodwill *(continued)*

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 of goodwill 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 unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. 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 circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

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

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, systems integration contracts assets, deferred tax assets, financial assets, investment properties and goodwill), the asset's recoverable amount is estimated. An asset's recoverable amount is 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, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

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

Related parties

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

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

(b) the party is an associate;

(c) the party is a 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 or valuation less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Changes in the values of property, plant and equipment are dealt with as movements in the asset revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the income statement. Any subsequent revaluation surplus is credited to the income statement to the extent of the deficit previously charged. On disposal of a revalued asset, the relevant portion of the asset revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

Depreciation is calculated on the straight-line basis to write off the cost or valuation of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Land and buildings	Over the lease terms
Leasehold improvements	20% or over the lease terms, whichever is shorter
Furniture, fixtures and office equipment	10% – $33^1/_3$%
Motor vehicles	10% – 30%

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

Residual values, useful lives and 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.

Notes to Financial Statements

31 December 2007

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investment properties

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

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

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

Intangible assets (other than goodwill)

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

Research and development costs

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

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Notes to Financial Statements

31 December 2007

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Leases

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

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

Investments and other financial assets

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.

Financial assets at fair value through profit or loss

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

Notes to Financial Statements

31 December 2007

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets *(continued)*

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.

Fair value

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

Impairment of financial assets

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

Assets carried at amortised cost

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

Notes to Financial Statements

31 December 2007

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets *(continued)*

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.

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

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

Notes to Financial Statements

31 December 2007

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

Financial liabilities including trade and other payables and interest-bearing loans and 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*.

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 a 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.

Notes to Financial Statements

31 December 2007

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Systems integration contracts

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

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

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

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

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

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments 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 where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

Revenue recognition

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

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

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

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

(d) rental income, on a time proportion basis over the lease terms; and

(e) 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 a share option scheme 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.

Notes to Financial Statements

31 December 2007

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Employee benefits *(continued)*

Share-based payment transactions *(continued)*

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

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

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

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

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

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

Retirement benefits schemes

The Group operates defined contribution retirement benefits schemes for those employees who are eligible to participate. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the respective schemes. The assets of the schemes are held separately from those of the Group in independently administered funds.

Notes to Financial Statements

31 December 2007

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Employee benefits *(continued)*

Retirement benefits schemes *(continued)*

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

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. Contributions are made based on a percentage of the participating employees' salaries and are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

Borrowing costs

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

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to 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 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.

Notes to Financial Statements

31 December 2007

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies *(continued)*

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, 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.

Judgements

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

Operating lease commitments – Group as lessor

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

Classification between investment properties and owner-occupied properties

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

Estimation uncertainty

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

Notes to Financial Statements

31 December 2007

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(continued)*

Estimation uncertainty *(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. Further detail's are given note 20 to the financial statements.

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 market 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.

Percentage of completion of systems integration contracts

Because of the nature of the activity undertaken in systems integration contracts, the date at which the contract activity is entered into and the date when the activity is completed usually fall into different accounting periods. Management reviews and revises the estimates of contract costs in the budget prepared for each systems integration contract as the contract progresses. For costs attributable to work done that have not been billed to the Group but the corresponding revenue for the work done has been recognised, management estimates these costs by reference to the budget and the actual billings subsequently received. Management regularly reviews the progress of the contracts and the corresponding costs of the contract revenue. Management estimates the amount of foreseeable losses of systems integration contracts based on the budgets prepared for the systems integration contracts.

Fair value of investment properties and land and buildings

Investment properties and land and buildings situated in Hong Kong are carried in the balance sheet at their fair values. The fair value was based on a valuation on the properties conducted by an independent firm of professionally qualified valuers using property valuation techniques which involve making assumptions on certain market conditions. Favourable or infavourable changes to these assumptions would result in changes in the fair value of the Group's investment properties and land and buildings situated in Hong Kong and the corresponding adjustments to the gain or loss recognised in the income statement and asset revaluation reserve, respectively.

Notes to Financial Statements

31 December 2007

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(continued)*

Estimation uncertainty *(continued)*

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$343,789,000 (2006: HK$438,057,000). Further details are contained in note 26 to the financial statements.

4. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

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

(a) the software development and systems integration for media business segment provides electronic publishing and broadcasting systems to media companies;

(b) the software development and systems integration for non-media business segment provides banking and information systems to financial institutions, enterprises and government departments;

(c) the distribution of information products segment engages in the distribution of computer hardware;

(d) the corporate segment comprises corporate income and expense items; and

(e) the "others" segment comprises principally the Group's editing services for newspapers and magazines.

Notes to Financial Statements

31 December 2007

4. SEGMENT INFORMATION *(continued)*

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

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

(a) Business segments

The following tables present revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's business segments for the years ended 31 December 2007 and 2006.

Group

	Software development and systems integration for media business		Software development and systems integration for non-media business		Distribution of information products		Corporate		Others		Eliminations		Consolidated	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Segment revenue:														
Sales to external customers	500,740	511,634	277,377	306,859	-	1,289,258	-	-	6,094	8,169	-	-	784,211	2,115,920
Intersegment sales	-	2,077	-	-	-	41,448	-	-	-	-	-	(43,525)	-	-
Other income	30,401	34,252	4,574	5,545	-	299	4,127	2,102	18	305	-	-	39,120	42,503
Total	531,141	547,963	281,951	312,404	-	1,331,005	4,127	2,102	6,112	8,474	-	(43,525)	823,331	2,158,423
Segment results	(45,677)	1,251	(12,405)	4,045	-	20,361	(12,533)	(18,963)	(104)	399			(70,719)	7,093
Interest income and unallocated gains													16,498	28,475
Finance costs													(681)	(1,480)
Share of profits and losses of associates	889	277	-	-	3,565	2,917	-	-	-	-	-	-	4,454	3,194
Profit/(loss) before tax													(50,448)	37,282
Tax													(69)	(1,027)
Profit/(loss) for the year													(50,517)	36,255

Turnover and operating results for the year ended 31 December 2006 also included those of EC-Founder (Holdings) Company Limited ("EC-Founder") and its subsidiaries, the then subsidiaries of the Group.

On 31 July 2006, the Group's interest in EC-Founder decreased to below 50% and EC-Founder became an associated company of the Group. The results of EC-Founder were consolidated into the consolidated income statement of the Group up to the date of partial disposal and were equity accounted for thereafter.

Notes to Financial Statements

31 December 2007

4. SEGMENT INFORMATION *(continued)*

(a) Business segments *(continued)*

Group

	Software development and systems integration for media business		Software development and systems integration for non-media business		Distribution of information products		Others		Eliminations		Consolidated	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Assets and liabilities												
Segment assets	356,923	366,256	339,542	265,990	–	–	7,691	7,411	(1,310)	(427)	702,846	639,230
Interests in associates	14,303	13,060	–	–	84,808	82,386	–	–	–	–	99,111	95,446
Corporate and other unallocated assets											58,632	57,340
Total assets											860,589	792,016
Segment liabilities	200,741	175,350	270,005	205,742	–	–	1,321	1,477	(256)	–	471,811	382,569
Corporate and other unallocated liabilities											10,958	566
Total liabilities											482,769	383,135
Other segment information:												
Depreciation	13,705	9,379	1,156	1,678	–	1,249	593	764			15,454	13,070
Capital expenditure	15,745	14,112	667	970	–	2,452	105	146			16,517	17,680

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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

	Hong Kong		Mainland China		Overseas		Eliminations		Consolidated	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Segment revenue:										
Sales to external customers	121,722	147,572	653,298	1,956,250	9,191	12,098	-	-	784,211	2,115,920
Intersegment sales	90,781	284,576	-	-	-	-	(90,781)	(284,576)	-	-
Other income	3,042	3,227	35,215	37,709	863	1,567	-	-	39,120	42,503
Total	215,545	435,375	688,513	1,993,959	10,054	13,665	(90,781)	(284,576)	823,331	2,158,423

Group

	Hong Kong		Mainland China		Overseas		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
Other segment information:								
Segment assets	77,899	28,473	612,048	597,998	12,899	12,759	720,846	639,230
Capital expenditure	105	146	16,313	17,532	99	2	16,517	17,680

5. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts; an appropriate proportion of contract revenue of systems integration contracts; and the value of services rendered during the year.

Notes to Financial Statements

31 December 2007

5. REVENUE, OTHER INCOME AND GAINS *(continued)*

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

	Notes	Group 2007 HK$'000	Group 2006 HK$'000
Revenue			
Software development and systems integration		778,117	818,493
Distribution of information products		–	1,289,258
Others		6,094	8,169
		784,211	2,115,920
Other income			
Bank interest income		3,777	3,002
Other interest income		242	–
Gross rental income		1,879	1,965
Government grants *(Note)*		33,443	35,974
Others		3,798	4,564
		43,139	45,505
Gains			
Revaluation surplus of land and buildings		–	5,121
Fair value gains on investment properties	14	2,425	2,250
Gain on disposal/partial disposal of subsidiaries	30(a)	7,628	17,810
Gain on deemed disposal of interest in an associate		219	–
Foreign exchange differences, net		1,504	–
Others		703	292
		12,479	25,473
		55,618	70,978

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

Notes to Financial Statements

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6. PROFIT/(LOSS) BEFORE TAX

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

	Group	
	2007	2006
	HK$'000	*HK$'000*
Auditors' remuneration	2,520	3,095
Cost of inventories sold	447,028	1,701,794
Cost of services provided	55,610	41,567
Depreciation *(note 13)*	15,454	13,070
Loss on disposal of items of property, plant and equipment	65	126
Operating lease rentals in respect of land and buildings	12,891	18,824
Impairment/(reversal of impairment) of trade receivables*	(995)	7,466
Write off of other receivables*	1,716	–
Write-off of amount due from an associate*	885	–
Reversal of provision for obsolete inventories**	(2,275)	(973)
Research and development costs:		
Current year expenditure*	79,491	53,817
Employee benefits expense		
(including directors' remuneration – *note 8*):		
Wages and salaries	133,487	145,480
Pension schemes contributions	17,199	21,827
Net pension schemes contributions***	17,199	21,827
	150,686	167,307
Direct operating expenses (including repair and maintenance) arising on rental-earning investment properties	1,051	1,018
Fair value gains on equity investments at fair value through profit or loss held for trading	(212)	(162)
Foreign exchange differences, net	(1,504)	2,002

* These items are 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 forfeited contributions of approximately HK$30,000 (2006: Nil) available to reduce its contributions to the pension scheme in future years.

Notes to Financial Statements

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7. FINANCE COSTS

	Group	
	2007	2006
	HK$'000	*HK$'000*
Interest on bank loans and overdrafts	681	1,438
Interest on finance lease	–	42
	681	1,480

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	444	1,124
Other emoluments:		
Salaries, bonuses and benefits in kind	1,244	1,466
Pension schemes contributions	55	60
	1,299	1,526
	1,743	2,650

Notes to Financial Statements

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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*
Dr Hu Hung Lick, Henry	132	132
Mr Li Fat Chung	132	202
Ms Wong Lam Kit Yee	120	190
	384	524

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

Notes to Financial Statements

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8. DIRECTORS' REMUNERATION *(continued)*

(b) Executive directors

	Fees	Salaries, bonuses and benefits in kind	Pension schemes contributions	Total remuneration
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
2007				
Mr Zhang Zhao Dong (i)	**10**	**–**	**–**	**10**
Professor Xiao Jian Guo (i)	**10**	**–**	**–**	**10**
Professor Wei Xin (i)	**10**	**–**	**–**	**10**
Mr Chen Geng	**–**	**–**	**–**	**–**
Mr Xie Ke Hai	**–**	**–**	**–**	**–**
Mr Liu Xiao Kun	**–**	**844**	**35**	**879**
Mr Cheung Shuen Lung	**30**	**400**	**20**	**450**
Mr Xia Yang Jun (ii)	**–**	**–**	**–**	**–**
	60	**1,244**	**55**	**1,359**
2006				
Mr Cheung Shuen Lung	120	1,200	60	1,380
Professor Xiao Jian Guo	120	266	–	386
Professor Wei Xin	120	–	–	120
Mr Zhang Zhao Dong	120	–	–	120
Mr Xia Yang Jun	120	–	–	120
Mr Chen Geng	–	–	–	–
Mr Xie Ke Hai	–	–	–	–
	600	1,466	60	2,126

Notes:

(i) Mr Zhang Zhao Dong, Professor Xiao Jian Guo and Professor Wei Xin waived their remuneration effective from 1 February 2007.

(ii) On 25 January 2007, Mr Xia Yang Jun waived his remuneration in 2005, 2006 and 2007 in aggregate of HK$235,000.

Save as disclosed above, 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, allowances and benefits in kind	2,796	3,929
Pension schemes contributions	166	64
	2,962	3,993

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

	Number of employees	
	2007	2006
Nil – HK$1,000,000	4	3
HK$1,000,001 – HK$1,500,000	–	1
	4	4

10. TAX

	Group	
	2007	2006
	HK$'000	*HK$'000*
Current – Hong Kong	–	8
Current – Elsewhere	69	1,019
Total tax charge for the year	69	1,027

No Hong Kong profits tax has been provided as there are no assessable profits arising in Hong Kong during the year. Hong Kong profits tax for the prior year 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

31 December 2007

10. TAX *(continued)*

Taxes on profits assessable elsewhere have been calculated at the applicable rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

The share of tax attributable to associates amounting to approximately HK$609,000 (2006: HK$1,819,000) is included in "Share of profits and losses of associates" on the face of the consolidated income statement.

A reconciliation of the tax expense applicable to profit/(loss) before tax using the statutory rates for the 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		Overseas		Total	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Loss before tax	(2,215)		(48,183)		(50)		(50,448)	
Tax at the statutory tax rate	(388)	17.5	(15,900)	33.0	(20)	40.0	(16,308)	32.3
Lower tax rate for specific provinces or local authority	–	–	8,673	(18.0)	(54)	108.0	8,619	(17.1)
Profits and losses attributable to associates	(604)	27.3	–	–	(230)	460.0	(834)	1.7
Income not subject to tax	(3,967)	179.0	(4,154)	8.6	(9)	18.0	(8,130)	16.1
Expenses not deductible for tax	2,199	(99.3)	2,883	(6.0)	382	(764.0)	5,464	(10.8)
Tax losses utilised from previous years	(245)	11.0	–	–	–	–	(245)	0.5
Tax losses not recognised	3,005	(135.5)	8,498	(17.6)	–	–	11,503	(22.8)
Tax charge at the Group's effective rate	–	–	–	–	69	(138.0)	69	(0.1)

Notes to Financial Statements

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10. TAX *(continued)*

Group – 2006	Hong Kong		Mainland China		Overseas		Total	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Profit/(loss) before tax	4,294		33,457		(469)		37,282	
Tax at the statutory tax rate	752	17.5	11,041	33.0	(188)	40.0	11,605	31.1
Lower tax rate for specific provinces or local authority	–	–	(7,159)	(21.4)	(96)	20.5	(7,255)	(19.5)
Profits and losses attributable to associates	(511)	(11.9)	–	–	(25)	5.4	(536)	(1.4)
Income not subject to tax	(6,041)	(140.7)	(6,574)	(19.6)	(134)	28.6	(12,749)	(34.2)
Expenses not deductible for tax	3,241	75.5	2,682	8.0	491	(104.7)	6,414	17.2
Tax losses utilised from previous years	(418)	(9.7)	(1,767)	(5.3)	–	–	(2,185)	(5.8)
Tax losses not recognised	2,985	69.5	2,748	8.2	–	–	5,733	15.4
Tax charge at the Group's effective rate	8	0.2	971	2.9	48	(10.2)	1,027	2.8

On 16 March 2007, the National People's Congress approved the Corporate Income Tax Law in the People's Republic of China (the "PRC") (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 included, 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 form 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 specifiy 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 details requirements are issued.

Notes to Financial Statements

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

The consolidated profit/(loss) attributable to equity holders of the parent for the year ended 31 December 2007 includes a profit of approximately HK$17,791,000 (2006: HK$2,832,000) which has been dealt with in the financial statements of the Company (note 29(b)).

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

The calculation of basic earnings/(loss) per share amounts is based on the loss for the year attributable to ordinary equity holders of the parent of approximately HK$50,928,000 (2006: profit of HK$25,911,000), and the weighted average number of approximately 1,127,050,000 (2006: 1,123,800,000) ordinary shares in issue during the year.

Diluted earnings/(loss) per share amounts for the years ended 31 December 2007 and 2006 have not been calculated as the exercise price of the outstanding share options during the year was higher than the average market price of the Company's shares during the year.

13. PROPERTY, PLANT AND EQUIPMENT

Group

	Land and buildings in Hong Kong	Land and buildings in Mainland China	Leasehold improvements	Furniture, fixtures and office equipment	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
31 December 2007						
At 31 December 2006 and 1 January 2007:						
Cost or valuation	30,920	15,138	12,737	64,165	10,359	133,319
Accumulated depreciation	–	(2,367)	(9,289)	(47,388)	(6,506)	(65,550)
Net carrying amount	30,920	12,771	3,448	16,777	3,853	67,769
At 1 January 2007, net of accumulated depreciation	30,920	12,771	3,448	16,777	3,853	67,769
Additions	–	–	341	16,176	–	16,517
Disposal of subsidiaries *(note 30(a))*	–	–	(2,022)	(9,946)	–	(11,968)
Disposals	–	–	–	(1,017)	(191)	(1,208)
Surplus on revaluation	2,333	–	–	–	–	2,333
Depreciation provided during the year	(298)	(325)	(1,777)	(12,091)	(963)	(15,454)
Exchange realignment	–	896	202	1,122	259	2,479
At 31 December 2007, net of accumulated depreciation	32,955	13,342	192	11,021	2,958	60,468
At 31 December 2007:						
Cost or valuation	32,955	16,200	9,818	60,498	9,976	129,447
Accumulated depreciation	–	(2,858)	(9,626)	(49,477)	(7,018)	(68,979)
Net carrying amount	32,955	13,342	192	11,021	2,958	60,468
Analysis of cost or valuation:						
At cost	–	16,200	9,818	60,498	9,976	96,492
At 31 December 2007 valuation	32,955	–	–	–	–	32,955
	32,955	16,200	9,818	60,498	9,976	129,447

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

Group

	Land and buildings in Hong Kong HK$'000	Land and buildings in Mainland China HK$'000	Leasehold improvements HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
31 December 2006						
At 1 January 2006:						
Cost or valuation	25,100	14,268	9,329	67,656	13,479	129,832
Accumulated depreciation	–	(1,850)	(7,990)	(50,347)	(6,316)	(66,503)
Net carrying amount	25,100	12,418	1,339	17,309	7,163	63,329
At 1 January 2006, net of accumulated depreciation	25,100	12,418	1,339	17,309	7,163	63,329
Additions	–	320	3,281	13,188	891	17,680
Partial disposal of subsidiaries *(note 30(a))*	–	–	–	(4,324)	(2,852)	(7,176)
Disposals	–	–	–	(194)	(224)	(418)
Surplus on revaluation	6,118	–	–	–	–	6,118
Depreciation provided during the year	(298)	(446)	(1,228)	(9,768)	(1,330)	(13,070)
Exchange realignment	–	479	56	566	205	1,306
At 31 December 2006, net of accumulated depreciation	30,920	12,771	3,448	16,777	3,853	67,769
At 31 December 2006:						
Cost or valuation	30,920	15,138	12,737	64,165	10,359	133,319
Accumulated depreciation	–	(2,367)	(9,289)	(47,388)	(6,506)	(65,550)
Net carrying amount	30,920	12,771	3,448	16,777	3,853	67,769
Analysis of cost or valuation:						
At cost	–	15,138	12,737	64,165	10,359	102,399
At 31 December 2006 valuation	30,920	–	–	–	–	30,920
	30,920	15,138	12,737	64,165	10,359	133,319

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

The Group's land and buildings in Hong Kong were revalued on 31 December 2007 by Centaline Surveyors Limited, independent professionally qualified valuers, on an open market value, existing use basis.

Had the Group's land and buildings in Hong Kong been carried at historical cost less accumulated depreciation, their carrying amounts would have been approximately HK$30,491,000 (2006: HK$31,332,000).

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

	Hong Kong	Mainland China	Total
	HK$'000	*HK$'000*	*HK$'000*
At cost:			
Long term leases	–	16,200	16,200
At valuation:			
Medium term leases	32,955	–	32,955
	32,955	16,200	49,155

At 31 December 2007 and 2006, the Group's land and buildings with a net book value of approximately HK$31,560,000 (2006: HK$29,630,000) in Hong Kong were pledged to banks to secure banking facilities (note 25).

14. INVESTMENT PROPERTIES

	Group	
	2007	2006
	HK$'000	*HK$'000*
Carrying amount at 1 January	**25,360**	23,110
Net profit from a fair value adjustment	**2,425**	2,250
Carrying amount at 31 December	**27,785**	25,360

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31 December 2007

14. INVESTMENT PROPERTIES *(continued)*

The Group's investment properties were revalued on 31 December 2007 by Centaline Surveyors Limited, independent professionally qualified valuers, on an open market value, existing use basis. The investment properties are leased to third parties under operating leases, further summary details of which are included in note 32(a) to the financial statements.

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

At 31 December 2007, certain of the Group's investment properties with an aggregate carrying value of approximately HK$27,320,000 (2006: HK$24,930,000) were pledged to banks to secure banking facilities (note 25).

Further particulars of the Group's investment properties are included on pages 100 to 101 of the Annual Report.

15. GOODWILL

	Group
	HK$'000
Cost, net of accumulated amortisation:	
At 1 January 2006	7,055
Partial disposal of subsidiaries	(7,055)
At 31 December 2006, 1 January 2007 and 31 December 2007	–

As further detailed in note 2.4 to the financial statements, the Group applied the transitional provisions of HKFRS 3 that permitted goodwill in respect of business combinations which occurred prior to 2001, to remain eliminated against consolidated reserves.

The amount of goodwill remaining in consolidated contributed surplus as at 31 December 2007 and 2006, arising from the acquisition of subsidiaries prior to the adoption of SSAP 30 in 2001, was approximately HK$284,760,000 which was fully impaired in prior years.

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16. INVESTMENTS IN SUBSIDIARIES

	Company	
	2007	2006
	HK$'000	HK$'000
Unlisted shares, at cost	559,088	559,088

The amount due to a subsidiary included in the Company's non-current liabilities is unsecured, interest-free and not repayable within one year. The carrying amount of the amount due to a subsidiary approximates to its fair value.

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
Founder (Hong Kong) Limited ("Founder HK")	Hong Kong	Ordinary HK$110,879,989	100	–	Systems integration and investment holding
Beijing Founder Electronics Co., Ltd. ("Founder Electronics")#	Mainland China	Registered HK$230 million	–	100	Software development and systems integration
北京方正印捷數碼技術有限公司(Beijing Founder EasiPrint Digital Technology Co., Ltd.@)#	Mainland China	Registered RMB10 million	–	100	Software development and systems integration
Founder Electronics (HK) Limited	Hong Kong	Ordinary HK$2	–	100	Systems integration
Sparkling Idea Limited	British Virgin Islands/ Hong Kong	Ordinary US$1	–	100	Investment holding

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16. INVESTMENTS IN SUBSIDIARIES *(continued)*

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Beijing Founder Order Computer System Co., Ltd. ("Founder Order")#	Mainland China	Registered HK$100 million	–	100	Software development and systems integration
Founder Systems (BVI) Limited	British Virgin Islands/ Mainland China	Ordinary US$1	–	100	Systems integration
Royal Bright Limited	Hong Kong	Ordinary HK$2	–	100	Property holding
Royal Leader Limited	Hong Kong	Ordinary HK$2	–	100	Property holding
Royal Power Limited	Hong Kong	Ordinary HK$2	–	100	Property holding
Sharp Century Limited	Hong Kong	Ordinary HK$2	–	100	Property holding
Founder Technology (Canada) Corp.*	Canada	Ordinary CAN$67,633	–	100	Systems integration
PUC Founder (M) Sdn. Bhd.*	Malaysia	Ordinary RM500,000	–	100	Investment holding

@ For identification purpose only

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

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

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

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17. INTERESTS IN ASSOCIATES

	Group		Company	
	2007	2006	2007	2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Share listed in Hong Kong, at cost	–	–	233,529	233,529
Share of net assets	97,719	90,026	–	–
Goodwill on acquisition	4,245	4,245	–	–
	101,964	94,271	233,529	233,529
Due from associates	–	1,175	–	–
Due to associates	(2,853)	–	–	–
	99,111	95,446	233,529	233,529
Provision for impairment	–	–	(131,814)	(150,705)
	99,111	95,446	101,715	82,824
Market value of listed shares	–	–	101,715	82,824

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

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

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17. INTERESTS IN ASSOCIATES *(continued)*

Particulars of the principal associates are as follows:

Name	Particulars of issued share/registered capital held	Place of incorporation/ registration and operations	Percentage of ownership interest attributable to the Group 2007	2006	Principal activities
EC-Founder**	Ordinary shares of HK$0.10 each	Bermuda/ Hong Kong	32.84	33.00	Investment holding
Beijing Founder Century Information System Co., Ltd.@	Registered RMB150,000,000	Mainland China	32.84	33.00	Distribution of information products
Founder Century (Hong Kong) Limited	Ordinary shares of HK$1 each	Hong Kong	32.84	33.00	Distribution of information products
PUC Founder (MSC) Berhad*#	Ordinary shares of RM0.1 each	Malaysia	35.70	35.70	Software development and systems integration
Founder Globaltech Limited*	Ordinary shares of HK$1 each	Hong Kong	35.70	35.70	Systems integration

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

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

Listed on MESDAQ Market of Bursa Malaysia Securities Berhad

@ Registered as wholly-foreign-owned enterprise under the PRC law

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.

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17. INTERESTS IN ASSOCIATES *(continued)*

Except for EC-Founder, which is held directly by the Company, the shareholdings in the other associates are held through subsidiaries.

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 or financial statements:

	2007 *HK$'000*	2006 *HK$'000*
Assets	337,602	314,533
Liabilities	239,883	224,516
Revenue	917,882	779,406
Profit after tax	4,454	3,194

18. INVENTORIES

	Group	
	2007 *HK$'000*	2006 *HK$'000*
Trading stocks	36,606	34,609

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19. SYSTEMS INTEGRATION CONTRACTS

	Group	
	2007	2006
	HK$'000	*HK$'000*
Gross amount due from contract customers	106,907	70,735
Contract costs incurred plus recognised profits less recognised losses and foreseeable losses to date	141,407	136,207
Less: Progress billings	(34,500)	(65,472)
	106,907	70,735

20. TRADE AND BILLS RECEIVABLES

	Group	
	2007	2006
	HK$'000	*HK$'000*
Trade and bills receivables	149,788	212,299
Impairment	(16,853)	(31,277)
	132,935	181,022

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.

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20. 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	107,298	155,925
7-12 months	13,619	12,232
13-24 months	9,749	12,033
Over 24 months	2,269	832
	132,935	181,022

Included in the Group's trade and bills receivables are amounts due from the Group's related companies and associates of approximately HK$2,924,000 (2006: HK$61,000) and HK$2,088,000 (2006: HK$2,579,000), respectively, which are repayable on similar credit terms to those offered to the major customers of the Group.

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

	Group	
	2007	2006
	HK$'000	*HK$'000*
At 1 January	31,277	33,025
Impairment losses recognised/(reversed) *(note 6)*	(995)	7,466
Amount written off as uncollectible	(9,796)	–
Disposal/partial disposal of subsidiaries	(5,002)	(10,229)
Exchange realignment	1,369	1,015
At 31 December	16,853	31,277

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of approximately HK$3,629,000 (2006: HK$5,369,000) with carrying amount of approximately HK$3,629,000 (2006: HK$5,369,000). 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.

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20. 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	73,186	114,635
Past due but not impaired:		
Less than 6 month past due	49,619	47,631
7 to 12 months past due	4,043	6,629
13 to 24 months past due	3,900	8,004
Over 24 months past due	2,187	4,123
	132,935	181,022

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.

21. EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group	
	2007	2006
	HK$'000	*HK$'000*
Overseas listed equity investments, at market value	2,072	2,350

The above equity investments at 31 December 2006 and 2007 were classified as held for trading.

22. PLEDGED DEPOSITS

The Group's bank deposits were pledged to banks to secure the banking facilities granted to the Group. The 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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23. CASH AND CASH EQUIVALENTS

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Cash and bank balances	**282,868**	94,310	**5**	245
Time deposits	**32,020**	135,747	**–**	–
	314,888	230,057	**5**	245

At the balance sheet date, the cash and cash equivalents of the Group denominated in Renminbi ("RMB") amounted to approximately HK$269,363,000 (2006: HK$218,296,000). 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 of between seven days and three months depending on the immediate cash requirements of the Group, and earn 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.

24. 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	**96,780**	90,693
7-12 months	**19,616**	938
13-24 months	**4,204**	2,525
Over 24 months	**3,185**	1,139
	123,785	95,295

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24. TRADE AND BILLS PAYABLES *(continued)*

Included in the Group's trade and bills payables are amounts due to the Group's related companies and associates of approximately HK$3,581,000 (2006: HK$5,521,000) and HK$7,778,000 (2006: HK$11,647,000), respectively, which are repayable on similar credit terms to those obtained from the major suppliers of the Group.

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

25. INTEREST-BEARING BANK BORROWINGS

Group

	2007			2006
	Contractual interest rate (%)	Maturity	HK$'000	HK$'000
Bank loan, unsecured	8.019 (Floating)	2008	10,670	–

Notes:

(a) The unsecured bank loan was 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. The bank loan were denominated in RMB. The carrying amount of the Group's borrowings approximate to its fair value.

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

(i) charges over certain of the Group's investment properties which had an aggregate carrying value at the balance sheet date of approximately HK$27,320,000 (2006: HK$24,930,000);

(ii) charges over certain of the Group's land and buildings in Hong Kong which had an aggregate net book value at the balance sheet date of approximately HK$31,560,000 (2006: HK$29,630,000); and

(iii) the pledge of the Group's bank deposits amounting to approximately HK$25,431,000 (2006: HK$35,581,000).

* *For identification purpose only*

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26. DEFERRED TAX

Deferred tax assets/(liabilities) have not been recognised in respect of the following items:

	Group	
	2007	2006
	HK$'000	*HK$'000*
Depreciation allowances in excess of related depreciation	(4,581)	(2,193)
Tax losses	348,061	440,025
General provision for obsolete inventories	–	46
Impairment of trade receivables	309	179
	343,789	438,057

The unused tax losses include an amount of approximately HK$55,481,000 (2006: HK$164,308,000) arising in Mainland China that is due to expire within one to five years for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of the unused tax losses and other deductible temporary differences as they have arisen in subsidiaries that have not generated any assessable profits for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

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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27. SHARE CAPITAL

	Group and Company 2007 HK$'000	2006 HK$'000
Authorised:		
2,100,000,000 ordinary shares of HK$0.10 each	210,000	210,000
Issued and fully paid:		
1,130,299,893 (2006: 1,123,799,893) ordinary shares of HK$0.10 each	113,030	112,380

During the year, 6,500,000 shares of HK$0.10 each were issued for cash at a subscription price of HK$0.84 per share pursuant to the exercise of the Company's share options for a total cash consideration, before expenses, of HK$5,460,000.

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 HK$'000	Share premium account HK$'000	Total HK$'000
At 1 January 2006, 31 December 2006 and 1 January 2007	1,123,799,893	112,380	27,660	140,040
Share options exercised	6,500,000	650	4,810	5,460
At 31 December 2007	1,130,299,893	113,030	32,470	145,500

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28. SHARE OPTION SCHEME

On 24 May 2002, the Company adopted a share option scheme in compliance with Chapter 17 of the Listing Rules.

The purpose of the 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 scheme include (i) any part-time or full-time employee or officer of any member of the Group or of any substantial shareholder of the Company or of any associated company of the Company; (ii) any substantial shareholder of the Company; (iii) the chief executive or director (executive, non-executive or independent non-executive) of any member of the Group or of any substantial shareholder of the Company or of any associated company of the Company; and (iv) any supplier, agent, customer, partner or business associate of, or adviser or consultant to any member of the Group. The 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 scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue as at the date when the 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 scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

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

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

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28. SHARE OPTION SCHEME *(continued)*

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

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

The following share options were outstanding under the scheme during the year:

	2007		2006	
	Weighted average exercise price HK$ per share	Number of options '000	Weighted average exercise price HK$ per share	Number of options '000
At 1 January	0.987	57,500	0.941	83,500
Exercised during the year	0.840	(6,500)	–	–
Lapsed during the year	–	–	0.840	(26,000)
At 31 December	1.006	51,000	0.987	57,500

The weighted average share price at the date of exercise for share options exercised during the year was HK$0.689.

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28. SHARE OPTION SCHEME *(continued)*

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

2007

Number of options	Exercise price*	Exercise period
'000	*HK$*	
	per share	
32,000	**1.104**	**6.2.2004 to 4.2.2014**
19,000	**0.840**	**3.1.2004 to 31.12.2013**
51,000		

2006

Number of options	Exercise price*	Exercise period
'000	*HK$*	
	per share	
32,000	1.104	6.2.2004 to 4.2.2014
25,500	0.840	3.1.2004 to 31.12.2013
57,500		

* 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.

At the balance sheet date, the Company had 51,000,000 share options outstanding under the share option scheme. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 51,000,000 additional ordinary shares of the Company and additional share capital of HK$5,100,000 and share premium of HK$46,188,000 (before issue expenses).

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29. RESERVES

(a) Group

	Share premium account HK$'000	Contributed surplus HK$'000	Capital reserve HK$'000	Land and buildings revaluation reserve HK$'000	Exchange fluctuation reserve HK$'000	General reserve HK$'000	Accumulated losses HK$'000	Total HK$'000	Minority interests HK$'000	Total HK$'000
	Attributable to equity holders of the parent									
At 1 January 2006	27,660	867,910	3,685	601	4,319	44,799	(693,101)	255,873	102,641	358,514
Exchange realignment	–	–	–	–	8,813	–	–	8,813	912	9,725
Partial disposal of subsidiaries	–	–	–	–	(1,256)	(624)	624	(1,256)	(108,309)	(109,565)
Share of general reserve of associates	–	–	–	–	–	575	–	575	–	575
Profit for the year	–	–	–	–	–	–	25,911	25,911	10,344	36,255
Revaluation surplus	–	–	–	997	–	–	–	997	–	997
Transfer to general reserve	–	–	–	–	–	68	(68)	–	–	–
At 31 December 2006 and beginning of year	27,660	867,910	3,685	1,598	11,876	44,818	(666,634)	290,913	5,588	296,501
Issue of shares *(note 27)*	4,810	–	–	–	–	–	–	4,810	–	4,810
Exchange realignment	–	–	–	–	14,761	–	–	14,761	22	14,783
Disposal of subsidiaries	–	–	–	–	(3,120)	–	–	(3,120)	–	(3,120)
Loss for the year	–	–	–	–	–	–	(50,928)	(50,928)	411	(50,517)
Revaluation surplus	–	–	–	2,333	–	–	–	2,333	–	2,333
Transfer to general reserve	–	–	–	–	–	505	(505)	–	–	–
At 31 December 2007	32,470	867,910	3,685	3,931	23,517	45,323	(718,067)	258,769	6,021	264,790

The contributed surplus of the Group represents the difference between the nominal value of the shares and the share premium account of Founder HK acquired pursuant to the Group reorganisation on 31 March 2000, over the nominal value of the Company's shares issued in exchange therefor.

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

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29. RESERVES *(continued)*

(a) Group *(continued)*

In accordance with the relevant PRC regulations, each of the Group's PRC subsidiaries and associates is required to transfer not less than 10% of its profit after tax, as determined in accordance with PRC accounting standards and regulations, to the general reserve until such reserve reaches 50% of its registered capital. The quantum of the annual transfer is subject to the approval of the board of directors of the PRC subsidiaries and associates in accordance with their articles of association. During the year, a PRC associate transferred approximately HK$362,000 (2006: HK$557,000), which represented the Group's share of 10% of the PRC associate's profit after tax for the year ended 31 December 2007 as determined in accordance with the PRC accounting standards, to the general reserve.

In accordance with the relevant Taiwanese regulations, each of the Group's Taiwanese subsidiaries and associates is required to transfer not less than 10% of its profit after tax, as determined in accordance with Taiwanese accounting standards and regulations, to the general reserve. During the year, the Taiwanese subsidiaries and associates transferred in total approximately HK$143,000 (2006: HK$86,000), which represented 10% of their profit after tax, to the general reserve.

(b) Company

	Share premium account HK$'000	Contributed surplus HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2006	27,660	448,209	(259,946)	215,923
Profit for the year	–	–	2,832	2,832
At 31 December 2006 and beginning of year	27,660	448,209	(257,114)	218,755
Issue of shares *(note 27)*	4,810	–	–	4,810
Profit for the year	–	–	17,791	17,791
At 31 December 2007	32,470	448,209	(239,323)	241,356

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

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30. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Disposal/partial disposal of subsidiaries

	2007 *HK$'000*	2006 *HK$'000*
Net assets disposed of:		
Property, plant and equipment	11,968	7,176
Interests in associates	–	34,946
Inventories	45	158,704
Systems integration contracts	1,143	–
Trade and bills receivables	14,492	333,775
Prepayments, deposits and other receivables	44,316	78,186
Tax recoverable	–	66
Pledged deposits	–	71,029
Cash and cash equivalents	11,636	143,011
Trade and bills payables	(2,876)	(455,615)
Other payables and accruals	(47,482)	(95,092)
Interest-bearing bank borrowings	(10,550)	(39,000)
Finance lease payable	–	(557)
Exchange fluctuation reserve	(3,120)	(1,256)
Minority interests	–	(108,309)
	19,572	127,064
Goodwill arising on acquisition	–	2,810
	19,572	129,874
Gain on disposal/partial disposal of subsidiaries *(note 5)*	7,628	17,810
	27,200	147,684
Satisfied by:		
Cash	27,200	68,521
Interests in associates	–	79,163
	27,200	147,684

Notes to Financial Statements

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

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

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

	2007 *HK$'000*	2006 *HK$'000*
Cash consideration	27,200	68,521
Cash and cash equivalents disposed of	(11,636)	(143,011)
Net inflow/(outflow) of cash and cash equivalents in respect of the disposal/partial disposal of subsidiaries	15,564	(74,490)

(b) 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 leases of approximately HK$706,000.

31. CONTINGENT LIABILITIES

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

	Company	
	2007 *HK$'000*	2006 *HK$'000*
Guarantees given to banks in connection with facilities granted to subsidiaries	71,000	58,000
Guarantees given to suppliers in connection with credit facilities granted to subsidiaries	–	12,761
	71,000	70,761

As at 31 December 2007, the banking facilities granted to the subsidiaries subject to guarantees given to the banks by the Company were utilised to the extent of approximately HK$29,018,000 (2006: HK$21,805,000).

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31. CONTINGENT LIABILITIES *(continued)*

As at 31 December 2006, the credit facilities granted to the subsidiaries subject to guarantees given to the suppliers by the Company were utilised to the extent of approximately HK$1,371,000.

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

32. OPERATING LEASE ARRANGEMENTS

(a) As lessor

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

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

	Group	
	2007	2006
	HK$'000	*HK$'000*
Within one year	962	986
In the second to fifth years, inclusive	507	1,331
	1,469	2,317

32. OPERATING LEASE ARRANGEMENTS *(continued)*

(b) As lessee

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

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

	Group	
	2007	2006
	HK$'000	*HK$'000*
Within one year	10,139	14,591
In the second to fifth years, inclusive	131	15,623
	10,270	30,214

Notes to Financial Statements

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33. RELATED PARTY TRANSACTIONS

(I) Transactions with related parties

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

(a)

		Group	
	Notes	2007 HK$'000	2006 HK$'000
Sale of goods to associates	(i)	1,900	1,984
Purchase of goods from associates	(ii)	1,037	1,404
Purchase of goods from a company in which 11.39% equity interest was held by Peking Founder and its subsidiary and one director of the Company was director	(ii)	365	5,907
Purchase of goods from an associate of Peking Founder	(ii)	78	604
Purchase of goods from subsidiaries of Peking Founder	(ii)	533	2,468
Management fee income received from a company in which 11.39% of equity interests was held by Peking Founder and its subsidiary and one director of the Company was director	(ii)	600	600
Banking facilities guarantees given by Peking Founder and its subsidiary	(iii)	149,380	99,700

Notes:

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

(ii) These transactions were conducted on the basis of rates agreed between the Group and the related companies.

(iii) The banking facilities guarantees were given to PRC banks for credit facilities granted to subsidiaries of the Company and utilised to the extent of approximately HK$25,102,000 at 31 December 2007 (2006: HK$15,927,000).

33. RELATED PARTY TRANSACTIONS *(continued)*

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

(b) On 16 October 2007, Founder HK entered into a conditional sale and purchase agreement with Founder Information (Hong Kong) Limited, a subsidiary of Peking Founder, to dispose of its entire equity interests in Founder Apabi International Limited ("Founder Apabi") at a cash consideration of HK$27.2 million. Further details of the transaction were set out in the announcement of the Company dated 10 October 2007 and the circular of the Company dated 6 November 2007. The disposal was completed on 30 November 2007.

On 5 November 2007, a master agreement in relation to sales of information products by the Group to Peking Founder and its subsidiaries ("Peking Founder Group") (the "Master Sales Agreement") and a master agreement in relation to purchase of media products by the Group from Peking Founder Group (the "Master Purchase Agreement") were entered into between Peking Founder and the Company in order to govern and specify the terms adopted and the annual cap for the total amount of the ongoing sales and purchases of media products and information products between the Group and Peking Founder Group for the three years ending 31 December 2009.

During the year, purchase of media products of approximately HK$570,000 (2006: Nil) from Founder Apabi and Sales of information products of approximately HK$103,000 (2006: Nil) to Founder Apabi were made by the Group, respectively, after the disposal of Founder Apabi by the Group. The directors considered that the sale and purchase of products were made in accordance with the Master Sales Agreement and the Master Purchase Agreement respectively.

(c) On 31 October 2005, Founder Order entered into a software development agreement with Beijing Founder International Co., Limited ("Beijing Founder International"), a subsidiary of Peking Founder, to engage Beijing Founder International for the development of a software at a consideration of RMB10 million (equivalent to approximately HK$10.67 million) for an automatic fare collection system (the "AFC System Project").

In April 2007, Founder Order purchased certain software from Beijing Founder International at a consideration of approximately RMB0.66 million (equivalent to approximately HK$0.67 million). The purchase of goods was conducted on the basis of rates agreed between Founder Order and Beijing Founder International.

Notes to Financial Statements

31 December 2007

33. RELATED PARTY TRANSACTIONS *(continued)*

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

(d) On 10 January 2006, the Group entered into lease agreements with Peking Founder to lease from Peking Founder certain office premises in Beijing, the PRC, effective from 1 January 2006 to 31 December 2008 for a total floor area of 2,643.07 square metres. On 14 March 2006, Founder Order entered into a supplemental agreement with Peking Founder, with effect from 1 April 2006, to reduce the total area of 240.45 square metres of the leased premises to 2,402.62 square metres. On 2 January 2007, Founder Order entered into a new lease agreement with a subsidiary of Peking Founder, with effect from 1 January 2007, to further reduce the total floor area to 1,210 square metres of the leased premises and revise the unit rental from RMB3.40 per square metre per day to RMB1.56 per square metre per day. During the year, rental and management fee expenses of approximately HK$9,130,000 (2006: HK$12,403,000) were paid by the Group to Peking Founder. The directors consider that the rental and management fee expenses were paid in accordance with the terms of the lease agreements.

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

During the year, sale of products and provision of product related services in an aggregate amount of approximately HK$8,850,000 (2006: HK$6,578,000) to the related company were made by the Group. The directors consider that the sale of products and provision of services were made in accordance with the terms of the Japan Software Agreement.

(f) Since Founder Order holds a valid quality assurance certificate for provision of certain prescribed software development and systems integration services, Founder Order agreed to allow a company (in which 11.93% equity interests was held by Peking Founder and its subsidiary and one director of the Company was director), and a subsidiary of Peking Founder, to participate in public tenders in the capacity of Founder Order subject to the terms and conditions under the relevant agency agreements. Having succeeded in securing a contract in a public tender, Founder Order will enter into the sale contracts with the relevant independent third party in connection with provision of software development and systems integration services. During the year, agency fees of approximately HK$624,000 (2006: HK$493,000) and HK$123,000 (2006: Nil) were received from the company (in which 11.93% equity interests were held by Peking Founder and its subsidiary and one director of the Company was director), and a subsidiary of Peking Founder, respectively. The directors considered the agency fees were made in accordance with the terms of agency agreements.

Notes to Financial Statements

31 December 2007

33. RELATED PARTY TRANSACTIONS *(continued)*

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

(g) On 5 January 2006, the Company entered into a master agreement with EC-Founder to govern the purchase of information products from EC-Founder and its subsidiaries (collectively "EC-Founder Group") for a term of three years from 1 January 2006 to 31 December 2008. On 15 November 2006, the Company entered into a supplemental agreement with EC-Founder to amend the cap amount. The supplemental agreement was subsequently superseded by the revised supplemental agreement which was entered into between the Company and EC-Founder on 5 December 2006. During the year, products in the amount of approximately HK$55,143,000 (2006: HK$33,914,000) were purchased from EC-Founder Group.

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

(II) Outstanding balances with related parties

(a) The balances due from subsidiaries of Peking Founder included in prepayments, deposits and other receivables as at 31 December 2007 are approximately HK$1,276,000 (2006: Nil). The balance due to Peking Founder included in other payables and accruals as at 31 December 2007 is approximately HK$1,532,000 (2006: HK$1,431,000). The balances are unsecured, interest-free and have no fixed terms of repayment.

(b) The balance due to a company (in which 11.39% equity interests was held by Peking Founder and its subsidiary and one director of the Company was director) included in other payables and accruals as at 31 December 2007 is approximately HK$9,816,000 (2006: HK$4,173,000). The balance due from a subsidiary of this related company included in prepayments, deposits and other receivables as at 31 December 2007 is approximately HK$607,000 (2006: HK$4,332,000). The balances are unsecured, interest-free and have no fixed terms of repayment.

(c) The balance due to an associate of Peking Founder included in other payables and accruals as at 31 December 2006 was approximately HK$199,000. The balance was unsecured, interest-free and settled during the year.

(d) The balance due to Beijing Founder International included in other payables and accruals as at 31 December 2007 is approximately HK$2,333,000 (2006: HK$2,096,000). The balance is unsecured, interest-free and has no fixed terms of repayment.

Notes to Financial Statements

31 December 2007

33. RELATED PARTY TRANSACTIONS *(continued)*

(II) Outstanding balances with related parties *(continued)*

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

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

(III) Compensation of key management personnel of the Group

	2007 *HK$'000*	2006 *HK$'000*
Short term employee benefits	3,291	5,589
Post-employment benefits	107	86
Total compensation paid to key management personnel	3,398	5,675

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

34. 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 – 2007

Financial assets

	Financial assets at fair value through profit or loss *HK$'000*	Loans and receivables *HK$'000*	Total *HK$'000*
Trade and bills receivables	–	132,935	132,935
Financial assets included in prepayments, deposits and other receivables	–	29,065	29,065
Equity investments at fair value through profit or loss	2,072	–	2,072
Pledged deposits	–	25,431	25,431
Cash and cash equivalents	–	314,888	314,888
	2,072	502,319	504,391

34. FINANCIAL INSTRUMENTS BY CATEGORY *(continued)*

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

Group – 2007

Financial liabilities – Financial liabilities at amortised cost

	HK$'000
Due to associates	**2,853**
Trade and bills payables	**123,785**
Financial liabilities included in other payables and accruals	**184,251**
Interest-bearing bank borrowings	**10,670**
	321,559

Group – 2006

Financial assets

	Financial assets at fair value through profit or loss *HK$'000*	Loans and receivables *HK$'000*	Total *HK$'000*
Due from associates	–	1,175	1,175
Trade and bills receivables	–	181,022	181,022
Financial assets included in prepayments, deposits and other receivables	–	23,406	23,406
Equity investments at fair value through profit or loss	2,350	–	2,350
Pledged deposits	–	35,581	35,581
Cash and cash equivalents	–	230,057	230,057
	2,350	471,241	473,591

Financial liabilities – Financial liabilities at amortised cost

	HK$'000
Trade and bills payables	95,295
Financial liabilities included in other payables and accruals	205,382
	300,677

Notes to Financial Statements

31 December 2007

34. FINANCIAL INSTRUMENTS BY CATEGORY *(continued)*

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

	Company	
	2007	2006
	HK$'000	*HK$'000*
Financial assets – Loans and receivables		
Financial assets included in prepayments, deposits and other receivables	327	363
Cash and cash equivalents	5	245
	332	608
Financial liabilities – Financial liabilities at amortised cost		
Due to a subsidiary	306,576	310,907
Financial liabilities included in other payables and accruals	173	478
	306,749	311,385

Notes to Financial Statements

31 December 2007

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

The main risks arising from the Group's financial instruments are 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, other receivables and amounts due from associates, 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 31 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 within the Group as the customer bases of the Group's trade 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 20 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.

Notes to Financial Statements

31 December 2007

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

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 overdrafts and bank loans. 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$321,559,000 (2006: HK$300,677,000) were matured within one year. Further details of the financial liabilities of the Group are set out in note 34 of the financial statements.

The Company's financial liabilities as at 31 December 2007, based on the contracted undiscounted payments, of approximately HK$173,000 (2006: HK$478,000) and HK$306,576,000 (2006: HK$310,907,000) were matured within one year and over one year, respectively. Further details of the financial liabilities of the Company are set out in note 34 of 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 and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. 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 interest-bearing bank borrowings divided by the total equity attributable to equity holders of the parent. The Group's policy is to maintain a stable gearing ratio. The gearing ratios as at the balance sheet dates were as follows:

	Group	
	2007	2006
	HK$'000	*HK$'000*
Interest-bearing bank borrowings	10,670	–
Total equity attributable to equity holders of the parent	371,799	403,293
Gearing ratio	0.03	N/A

Notes to Financial Statements

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36. POST BALANCE SHEET EVENT

On 11 January 2008, Founder Order entered into a software development agreement of approximately RMB12.9 million (equivalent to approximately HK$13.79 million) to engage Beijing Founder International to develop the additional software for the AFC System Project. Further details of the transaction were set out in the announcement of the Company dated 15 January 2008.

37. APPROVAL OF THE FINANCIAL STATEMENTS

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

Particulars of Investment Properties

31 December 2007

Location	Use	Tenure	Percentage of interest attributable to the Group
Units 1, 2a, 2b, 3a, 3b, 4a, 4b and 5 on 14th Floor Cable TV Tower 9 Hoi Shing Road Tsuen Wan New Territories Hong Kong	Office premises/ warehouse for rental	Medium term lease	100
Office car parking space P38 on 3rd Floor Cable TV Tower 9 Hoi Shing Road Tsuen Wan New Territories Hong Kong	Car parking space for rental	Medium term lease	100
Residential car parking space No. 324 on Podium Level 2 Rhine Garden 38 Castle Peak Road Sham Tseng New Territories Hong Kong	Car parking space for rental	Medium term lease	100
Flat B, 29th Floor, Block 3 Locwood Court Kingswood Villas 1 Tin Wu Road Tin Shui Wai Yuen Long New Territories Hong Kong	Residential premises for rental	Medium term lease	100

Particulars of Investment Properties

31 December 2007

Location	Use	Tenure	Percentage of interest attributable to the Group
Flat B, 8th Floor, Block 2 and car parking space No. 60 on Level 1 Dragon Inn Court 9 Tsing Ha Lane Tuen Mun New Territories Hong Kong	Residential premises and car parking space for rental	Medium term lease	100
Flat D, 12th Floor, Block 2 Belvedere Garden Phase 2 620 Castle Peak Road Tsuen Wan New Territories Hong Kong	Residential premises for rental	Medium term lease	100

Five Year Financial Summary

A summary of the results and of the assets, liabilities and minority interests 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	784,211	2,115,920	2,593,915	2,013,831	1,553,796
PROFIT/(LOSS) FOR THE YEAR	(50,517)	36,255	61,244	(25,792)	(7,615)
Attributable to:					
Equity holders of the parent	(50,928)	25,911	47,929	(27,183)	7,215
Minority interests	411	10,344	13,315	1,391	(14,830)
	(50,517)	36,255	61,244	(25,792)	(7,615)

ASSETS, LIABILITIES AND MINORITY INTERESTS

	As at 31 December				
	2007	2006	2005	2004	2003
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
TOTAL ASSETS	860,589	792,016	1,322,509	1,086,496	960,702
TOTAL LIABILITIES	(482,769)	(383,135)	(851,615)	(677,105)	(532,051)
MINORITY INTERESTS	(6,021)	(5,588)	(102,641)	(93,796)	(86,667)
	371,799	403,293	368,253	315,595	341,984