FOUNDER HOLDINGS LIMITED
方正控股有限公司

(Incorporated in Bermuda with limited liability)

Stock Code: 00418

2010

ANNUAL REPORT 2010

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
Mr Li Fat Chung
Dr Hu Hung Lick, Henry
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

AUTHORISED REPRESENTATIVES
Zhang Zhao Dong
Professor Wei Xin

AUDITORS
Ernst & Young
Certified Public Accountants

LEGAL ADVISERS
DLA Piper Hong Kong
Morrison & Foerster

PRINCIPAL BANKERS
Bank of Beijing
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 Fulcrum Group (Bermuda) Limited
Rosebank Centre
11 Bermudiana Road
Pembroke HM08
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	**2010**	2009	2008	2007	2006
Turnover *(HK$' million)*	**2,241**	1,912	1,286	784	2,116
Net profit/(loss) *(HK$' million)*	**63**	23	23	(51)	36
Total assets *(HK$' million)*	**1,288**	1,376	1,053	861	792
Total liabilities *(HK$' million)*	**699**	887	648	483	383
Attributable to owners of the parent:					
Net assets *(HK$' million)*	**588**	488	405	372	403
Net asset value per share *(HK$)*	**0.52**	0.43	0.36	0.33	0.36
Working capital ratio	**1.39**	1.25	1.33	1.39	1.58
Earnings/(loss) per share					
– basic *(HK cents)*	**5.6**	2.0	2.1	(4.5)	2.3
Total number of staff (As at the end of the year)	**1,373**	1,456	1,397	1,327	1,603

Management Discussion and Analysis

OVERALL PERFORMANCE

The Group achieved encouraging results performance with its continuous effort in streamlining the operation. The Group reported a profit attributable to equity holders of the parent for the year ended 31 December 2010 of approximately HK$62.8 million (year ended 31 December 2009: HK$23.2 million). The Group's turnover for the current financial year surged by 17.2% to approximately HK$2,240.7 million (year ended 31 December 2009: HK$1,912.1 million). Gross profit for the current year increased by 9.9% to HK$306.6 million compared with last financial year's HK$278.9 million. However, gross profit ratio decreased slightly from last financial year's 14.6% to 13.7% for the current financial year. Basic and diluted earnings per share for the year was HK5.6 cents (year ended 31 December 2009: HK2.0 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 increased significantly by 22.0% to approximately HK$918.5 million (year ended 31 December 2009: HK$752.7 million) while the segment results recorded a profit of approximately HK$38.7 million (year ended 31 December 2009: HK$21.8 million). The gross profit ratio for the Media Business for the current financial year decreased slightly to 31.1% from last financial year's 33.1%. With the restructuring and reinforcement of our sales and research and development teams, our ability to monitor the completion status of sales contracts, capture opportunities in the market and provide more value added services to the customers is increased, leading to the significant improvement in turnover and results of the Media Business during the year.

Under the rapid development of internet and mobile internet technology, the needs and habit of readers change significantly. Beijing Founder Electronics Co., Ltd. ("Founder Electronics") has achieved good progress in building up the know-how and technology in the internet platform application solutions for digital publishing and therefore enjoyed a commanding position in this industry. The press materials collected from the site by the reporters can be transmitted directly through internet to centralised platform for editing and production of video news to be published in internet and mobile media. In addition, Founder Electronics utilised the video technology and developed the systems for 3G mobile television broadcasting for China Internet Television Station (中國網絡電視台手機台) for the live broadcasting of Asian Olympic Games in 2010.

On 1 February 2010, one of the patents developed by Founder Electronics was awarded as Chinese Outstanding Patented Invention (中國專利獎金獎) by State Intellectual Property Organisation (國家知識產權局). On 22 April 2010, our vice general manager of research and development centre of Founder Electronics obtained the special honor of Invention entrepreneurship award (發明創業獎) for the development of digital workflow system and digital printing system in Chinese inventors Forum (中國發明家論壇) jointly organised by China Invention Association (中國發明協會), State Office of Science and Technology Awards (國家科學技術獎勵工作辦公室), Science Daily (科技日報社) and China Intellectual Property Newspaper (中國知識權報社). Founder Electronics also obtained the special honor of "Special Contribution Awards" (特別貢獻獎) and "Outstanding Organisation in Beijing" (北京賽區優秀組織) in the second session of the National Printing Industry Vocational Skills Competition (第二屆全國印刷行業職業技能大賽) held on 19 December 2010. Founder Electronics was awarded as "2009 Tag Technology Industrial Technology Innovation Award" (2009年度標簽技術產業技術創新獎) organised by China Printing and Printing Equipment Industries Association (中國印刷及設備器材工業協會標簽印刷分會) for the contribution in the development of digital printing technology in 2010. In 2011, Founder Electronics obtained the special honor of "Key Software Enterprise in National Plan Department of 2010" (2010年度國家規劃佈局內重點軟件企業) and a preferential income tax concession pursuant to the certification as a Key New and High Technology Enterprise (重點高新技術企業). Founder Electronics has obtained this honor for three consecutive years since 2008.

(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 increased by 14.0% to approximately HK$1,321.9 million (year ended 31 December 2009: HK$1,159.2 million) while its segment results has recorded a profit of approximately HK$16.7 million (year ended 31 December 2009: a loss of HK$7.7 million) which included a gain on disposal of 北京方正奧德計算機系統有限公司 (Beijing Founder Order Computer Systems Co., Ltd.*) ("Founder Order") of HK$30.2 million.

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. On 18 March 2010, Beijing immunisation management information system (北京市免疫規劃信息管理系統) jointly developed by Founder Order and other systems integration services providers for Beijing Municipal Health Bureau (北京市衛生局) were awarded as Top 10 2009 Application Information Results in Beijing (2009信息北京十大應用成果) by Beijing Municipal Party Committee Propaganda Department (北京市委宣傳部).

The improvement in segment revenue is due to the increase in sales of information products to customers in Hong Kong. With the disposal of Founder Order which is engaged in the Non-Media Business in the PRC as disclosed in "Material acquisitions and disposals of subsidiaries and associates" section below, the Group will allocate more resources on the existing media and non-media businesses so as to generate more profitable results and increase the shareholders' value.

PROSPECTS

To deal with the business growth, the management will closely monitor changes in China's economy and its IT market. The Group will continue the development of innovative solutions and provide our customers with more cost-effective products and solutions to meet our customers' demands for enhancing their competitiveness. In addition, the Group will closely monitor the performance of each business sector to achieve effective cost control and minimise the loss.

Management Discussion and Analysis

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.

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.

Due to the disposal of Founder Order, as at 31 December 2010, the number of employees of the Group was approximately 1,373 (31 December 2009: 1,456).

FINANCIAL REVIEW

Liquidity, financial resources and capital commitments

During the current financial year, the Group generally financed its operations with internally generated resources and banking facilities provided by its principal bankers in Hong Kong and the PRC. As at 31 December 2010, the Group had interest-bearing bank borrowings of approximately HK$157.3 million (31 December 2009: HK$103.8 million), of which nil (31 December 2009: HK$26.6 million) were fixed interest bearing and HK$157.3 million (31 December 2009: HK$77.2 million) were floating interest bearing. The bank borrowings were denominated in Hong Kong Dollars ("HKD"), Renminbi ("RMB"), EURO and United States Dollars ("U.S. dollars"), of which approximately HK$157.3 million (31 December 2009: HK$102.7 million) and nil (31 December 2009: HK$1.1 million) were repayable within one year and two to five years, respectively. The Group's banking facilities were secured by corporate guarantees given by the Company and 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 Government of the Hong Kong Special Administrative Region under the SME Loan Guarantee Scheme, certain of the Group's land and buildings and investment properties and bank deposits, and certain of the subsidiary of Peking Founder's bank deposits.

At 31 December 2010, the Group recorded total assets of HK$1,288.1 million which were financed by liabilities of HK$698.8 million, non-controlling interests of HK$0.9 million and equity of HK$588.4 million. The Group's net asset value per share as at 31 December 2010 amounted to HK$0.52 (31 December 2009: HK$0.43).

The Group had total cash and bank balances of HK$306.2 million as at 31 December 2010 (31 December 2009: HK$425.6 million). After deducting total bank borrowings of HK$157.3 million (31 December 2009: HK$103.8 million), the Group recorded net cash and bank balances of HK$148.9 million as at 31 December 2010 as compared to HK$321.8 million as at 31 December 2009. The Group's borrowings, which are subject to little seasonality, consist of mainly short and long term bank loans and trust receipt loans. As at 31 December 2010, the Group's gearing ratio, measured on the basis of total borrowings as a percentage of total shareholders' equity, was 0.27 (31 December 2009: 0.21) while the Group's working capital ratio was 1.39 (31 December 2009: 1.25).

At 31 December 2010, 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 HKD, RMB and U.S. dollars. Surplus cash is generally placed in short term deposits denominated in HKD, RMB and U.S. dollars.

Exposure to fluctuations in exchange rates and related hedges

The Group operates mainly in Hong Kong and Mainland China. For the operations in Hong Kong, most of the transactions are denominated in HKD and U.S. dollars. The exchange rate of U.S. dollars against HKD is relatively stable and the related currency exchange risk is considered minimal. For the operations in Mainland China, most of the transactions are denominated in RMB. Given the appreciation of RMB against HKD during the year under review, no financial instrument was used for hedging purposes. It is expected that the appreciation of RMB would have a favourable impact on the Group.

Contracts

At 31 December 2010, the major contracts in hand for the software development and systems integration business amounted to approximately HK$308.7 million (31 December 2009: HK$801.1 million), which are all expected to be completed within one year time.

Material acquisitions and disposals of subsidiaries and associates

On 24 June 2010, Sparkling Idea Limited has entered into the disposal agreement with Founder International Co., Ltd. (方正國際軟件有限公司), a subsidiary of Peking Founder, to dispose of the entire equity interest in Founder Order for a cash consideration of HK$47.5 million. Details of the disposal are set out in the announcement of the Company dated 24 June 2010 and the circular of the Company dated 14 July 2010. The disposal was completed on 4 November 2010 and a gain of HK$30.2 million was recorded.

Charges on assets

At 31 December 2010, the Group's land and buildings in Hong Kong of approximately HK$41.8 million and investment properties of approximately HK$38.3 million and bank deposits of approximately HK$13.2 million were pledged to banks to secure banking facilities granted.

Future Plans for Material Investments or Capital Assets

The Group did not have any future plans for material investments or capital assets as at 31 December 2010.

Contingent liabilities

At 31 December 2010, the Group did not have any significant contingent liabilities.

* *For identification purpose only*

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

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

In the opinion of the directors, the Company met with the code provisions as set out in the Code throughout the year ended 31 December 2010.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules as the Company's code of conduct and rules governing dealings by all directors in the securities of the Company. Having made specific enquiry of all directors of the Company, they all confirmed that they have complied with the required standards set out in the Model Code throughout the year ended 31 December 2010.

BOARD OF DIRECTORS

As at the date of this Corporate Governance Report, the board of directors of the Company (the "Board") comprises six executive directors and three independent non-executive directors. The executive directors are 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 and the independent non-executive directors are Mr Li Fat Chung, Dr Hu Hung Lick, Henry and Ms Wong Lam Kit Yee. 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 Board members have access to the Company Secretary who is responsible for ensuring that the Board procedures, and related rules and regulations, are followed. Minutes of Board/Committee meetings are kept by the Company Secretary and are open for inspection by Board members. 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. Appropriate directors' liability insurance cover has also been arranged to indemnify the Board members for liabilities arising out of corporate activities.

The Board held four regular Board meetings at approximately quarterly intervals during the year ended 31 December 2010. 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	Meetings attended/Eligible to attend
Executive Directors	
Mr Zhang Zhao Dong	4/4
Professor Xiao Jian Guo	2/4
Mr Liu Xiao Kun	2/4
Professor Wei Xin	2/4
Mr Chen Geng	2/4
Mr Xie Ke Hai	2/4
Independent Non-executive Directors	
Mr Li Fat Chung	2/4
Dr Hu Hung Lick, Henry	1/4
Ms Wong Lam Kit Yee	2/4

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

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.

In 2010, 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 Company's policy on remuneration is to maintain fair and competitive packages based on business needs and industry practice. For determining the level of fees paid to the directors, market rates and factors such as each director's workload and required commitment will be taken into account.

No individual director will be involved in decisions relating to his/her own remuneration. Information relating to the remuneration of each director for 2010 is set out in Note 8 to the Company's 2010 Financial Statements.

The attendance record of the members of the Committee at the meeting is as follows:

Name of member	**Meetings attended/Eligible to attend**
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. The Company's bye-laws provide that each director is required to retire by rotation once every three years and that one-third (or the number nearest to but not less than one-third) of the Directors shall retire from office every year at the Company's Annual General Meeting. A director's specific term of appointment, therefore, cannot exceed three years. Retiring Directors shall be eligible for re-election at the Annual General Meeting of the Company. Induction programmes are arranged for newly appointed Board members. All Board members are given opportunities to update and develop their skills and knowledge.

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

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.

The Group's internal control system comprises a well established organisational structure and comprehensive policies and standards. Areas of responsibilities for each business and functional unit are clearly defined to ensure effective checks and balances. Procedures have been designed for safeguarding assets against unauthorised use or disposition; for maintaining proper accounting records; and for ensuring the reliability of financial information used within the business or for publication. The procedures provide reasonable but not absolute assurance against material errors, losses or fraud. Procedures have also been designed to ensure compliance with applicable laws, rules and regulations.

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

AUDITORS' REMUNERATION

During the year, the remuneration in respect of audit and non-audit services provided by the Company's auditor, Ernst & Young, is summarised as follows:

	HK$'000
Statutory audit services	2,400
Non-audit services:	
Agreed-upon procedures on interim results	350
Agreed-upon procedures on connected transactions	100
Limited assurance services on continuing connected transactions	35
Compliance and tax advisory services	66
	551
Total	2,951

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.

In 2010, 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	Meetings attended/Eligible to attend
Mr Li Fat Chung *(Chairman)*	3/3
Dr Hu Hung Lick, Henry	1/3
Ms Wong Lam Kit Yee	3/3

DIRECTORS' AND AUDITORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for the preparation of the financial statements of the Group which give a true and fair view of the state of affairs of the Company and of the Group on a going concern basis in accordance with the statutory requirements and applicable accounting standards.

The statement of the Auditors of the Company about their reporting responsibilities on the financial statements of the Group is set out in the Independent Auditors' Report on pages 24 to 25 of this Annual Report.

ON BEHALF OF THE BOARD

Zhang Zhao Dong
Chairman

Hong Kong
25 March 2011

Biographical Details of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr Zhang Zhao Dong, aged 61, 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 director and president of Peking University Founder Group Company Limited. Mr Zhang graduated from the Department of Geophysics at the Peking University in 1977 and is a research fellow at the Peking University.

Professor Xiao Jian Guo, aged 54, 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. 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 51, is the President and an executive director of the Company. He is also the Chairman of Beijing Founder Electronics Co., Ltd. and Beijing Founder Order Computer Systems Co., Ltd. and the Chairman and President of Beijing Founder Century Information Systems Co., Ltd. He also holds directorships in certain subsidiaries and associated companies of the Company and Peking University Founder Group Company Limited. Mr Liu graduated from the Sichuan University and holds a master's degree in Economics. He 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 55, is an executive director of the Company. He is also the Chairman of Peking University Founder Group Company Limited and the non-independent non-executive director of PUC Founder (MSC) Berhad. Professor Wei obtained a Doctor's degree of Business Administration from the Peking University. He is also the Executive Dean of College of Education at the Peking University.

Mr Chen Geng, aged 40, 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 45, is an executive director of the Company. He is also an executive director of EC-Founder (Holdings) Company Limited and a Senior 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 extensive experience in human resources.

Biographical Details of Directors and Senior Management

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr Li Fat Chung, aged 50, 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 and is 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. He is also an associate member of the Institute of Chartered Accountants in England and Wales and a Certified Tax Adviser of 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.

Dr Hu Hung Lick, Henry, G.B.M., G.B.S., O.B.E., PhD, J.P., aged 91, is an independent non-executive director of the Company. Dr Hu has been practising as a barrister for over 55 years and is currently the President of Hong Kong Shue Yan University.

Ms Wong Lam Kit Yee, aged 47, is an independent non-executive director of the Company and EC-Founder (Holdings) Company Limited. Mrs 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 the Hong Kong Institute of Certified Public Accountants. Mrs Wong has extensive experience in auditing and accounting.

SENIOR MANAGEMENT

Ms Cheang Yee Wah Eva, aged 36, is the Group Financial Controller of the Company and EC-Founder (Holdings) Company Limited. Ms Cheang holds a bachelor's degree in Business Administration from The University of Hong Kong and is a member of the Hong Kong Institute of Certified Public Accountants. She has extensive knowledge and experience in financial management and corporate finance. Prior to joining the Group in August 2009, she was a senior manager of an international firm of Certified Public Accountants. Ms Cheang is 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 for the year ended 31 December 2010.

PRINCIPAL ACTIVITIES

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

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2010 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 26 to 105.

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 non-controlling interests of the Group for the last five financial years, as extracted from the audited financial statements, is set out on page 108 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 106 to 107 of the annual report.

SHARE CAPITAL AND SHARE OPTION

There were no movements in either the Company's authorised or issued share capital or share options during the year.

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.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 27(b) to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At 31 December 2010, the Company's reserves available for distribution amounted to approximately HK$226,363,000. 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 44% of the total purchases for the year and purchases from the largest supplier included therein amounted to 25%.

At 31 December 2010, Mr Zhang Zhao Dong, Professor Xiao Jian Guo and Professor Wei Xin, directors of the Company, have beneficial interests in EC-Founder (Holdings) Company Limited ("EC-Founder"), the associate of the Company and the holding company of one of the five largest suppliers of the Group. Save as disclosed above, none of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest suppliers and customers.

DIRECTORS

The directors of the Company during the year were:

Executive directors:

Mr Zhang Zhao Dong
Professor Xiao Jian Guo
Mr Liu Xiao Kun
Professor Wei Xin
Mr Chen Geng
Mr Xie Ke Hai

Independent non-executive directors:

Mr Li Fat Chung
Dr Hu Hung Lick, Henry
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 Mr Li Fat Chung, Dr Hu Hung Lick, Henry and Ms Wong Lam Kit Yee, and still considers them to be independent.

Report of the Directors

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 14 to 15 of the annual report.

DIRECTORS' SERVICE CONTRACTS

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

DIRECTORS' REMUNERATION

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

DIRECTORS' INTERESTS IN CONTRACTS

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

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 31 December 2010, 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 corporation:

EC-Founder

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

Long positions in underlying shares of associated corporation:

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 positions 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 2010, 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.

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 26 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 outstanding as at 1 January 2010 and 31 December 2010	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	5.2.2004	6.2.2004 to 4.2.2014	1.104
Professor Xiao Jian Guo	8,000,000	5.2.2004	6.2.2004 to 4.2.2014	1.104
Professor Wei Xin	8,000,000	5.2.2004	6.2.2004 to 4.2.2014	1.104
Subtotal	24,000,000			
Other employees				
In aggregate	8,000,000	5.2.2004	6.2.2004 to 4.2.2014	1.104
In aggregate	6,000,000	2.1.2004	3.1.2004 to 31.12.2013	0.840
Subtotal	14,000,000			
Total	38,000,000			

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.

Save as disclosed above, 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 spouses 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.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES

At 31 December 2010, 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 2010, 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.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

During the year, the Company and the Group had the following connected and continuing connected transactions, certain details of which are disclosed in compliance with the requirements of Chapter 14A of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

Connected transactions

Details of the connected transactions are set out in note 31(I)(i) to the financial statements.

Continuing connected transactions

The independent non-executive directors of the Company have reviewed the continuing connected transactions set out in 31(I)(b), 31(I)(c), 31(I)(g), 31(I)(h) and 31(I)(i) to the financial statements and have confirmed that these continuing connected transactions were entered into (i) in the ordinary and usual course of business of the Group; (ii) 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 (as appropriate) 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.

The directors of the Company wish to report that for the continuing connected transaction set out in 31(I)(g) to the financial statements, the maximum outstanding balance of the entrusted loan amount had slightly exceeded the 2010 annual cap in September 2010. The reasons for exceeding the 2010 annual cap are set out below.

Following the announcement dated 24 June 2010 and the circular dated 14 July 2010 and the approval by the independent shareholders at the special general meeting of the Company on 3 August 2010 in relation to the disposal of the entire equity interests in 北京方正奧德計算機系統有限公司 (Beijing Founder Order Computer Systems Co., Ltd.*) ("Founder Order") by the Company, the responsible staff of the Company's Beijing office mistakenly believed that disposal of Founder Order was completed in August 2010 which led him into believing that Founder Order was no longer a subsidiary of the Company and that the entrusted loan amount lent by Founder Order should be excluded from the balance of the entrusted loan amount in September 2010. However, as announced by the Company on 4 November 2010, the disposal of Founder Order had not been completed until 4 November 2010.

In early October 2010, the directors of the Company discovered that the 2010 annual cap was exceeded after reviewing the management accounts of the Group. The Company took immediate action by requiring the borrower to return the exceeded amounts. On 13 October 2010, the exceeded amounts were received and since then the maximum balance of the entrusted loan had been well below the 2010 annual cap up to and including 31 December 2010.

The directors (including independent non-executive directors) of the Company accept the fact that the balance of the entrusted loan in September 2010 had exceeded the 2010 annual cap was due to the misunderstanding of the responsible staff in the Company's Beijing office. Since the Company has rectified the situation as soon as it discovered the incident where the 2010 annual cap was exceeded by approximately RMB9.7 million representing approximately only 5% during such short period of time and no material financial loss was suffered by the Company, the directors (including independent non-executive directors) of the Company consider that disclosure of this incident by way of announcement and reporting in this annual report were appropriate.

In order to avoid re-occurrence of this incident, the Company's board of directors has strengthened its internal control in monitoring all continuing connected transactions by, among others, regular review of annual cap amounts of all continuing connected transactions and provision of specific training to the responsible staff in the Company's Beijing office.

For reasons disclosed above, the Company's auditors were not able to confirm that the continuing connected transactions have not exceeded the 2010 annual cap for the financial year ended 31 December 2010.

Except for the continuing connected transactions set out in 31(I)(g) to the financial statements which exceeded the 2010 annual cap, the Company's auditors would be able to confirm all matters as required pursuant to Rule 14A.38 of the Listing Rules.

DISCLOSURES PURSUANT TO RULES 13.21 AND 13.22 OF THE LISTING RULES

In accordance with the disclosure requirements of Rule 13.21 of the Listing Rules, the following disclosures are included in respect of one of the Company's loan agreements, which contain covenants requiring performance obligations of the controlling shareholder of the Company. Pursuant to a loan agreement dated 12 May 2010 between the Company and DBS Bank (Hong Kong) Limited relating to a revolving term loan and credit facility of up to US$5,000,000, a termination event would arise if Peking Founder ceased to own beneficially, directly or indirectly, at least 32% of the shares in the Company's issued capital.

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.

AUDITORS

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

ON BEHALF OF THE BOARD

Zhang Zhao Dong
Chairman

Hong Kong
25 March 2011

Independent Auditors' Report

ERNST & YOUNG
安 永

To the shareholders of Founder Holdings Limited

(Incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Founder Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 26 to 105, which comprise the consolidated and company statements of financial position as at 31 December 2010, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view 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, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated 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 about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view 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 consolidated 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 consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2010, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

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

25 March 2011

Consolidated Income Statement

Year ended 31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
REVENUE	5	**2,240,732**	1,912,093
Cost of sales		**(1,934,117)**	(1,633,203)
Gross profit		**306,615**	278,890
Other income and gains	5	**92,895**	54,517
Selling and distribution costs		**(169,435)**	(138,514)
Administrative expenses		**(67,115)**	(67,269)
Other expenses, net		**(97,181)**	(113,472)
Finance costs	7	**(6,339)**	(2,902)
Share of profits and losses of associates		**6,120**	12,295
PROFIT BEFORE TAX	6	**65,560**	23,545
Income tax expense	10	**(2,616)**	(179)
PROFIT FOR THE YEAR		**62,944**	23,366
Attributable to:			
Owners of the parent	11	**62,823**	23,155
Non-controlling interests		**121**	211
		62,944	23,366
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	12		
Basic		**HK5.6 cents**	HK2.0 cents
Diluted		**HK5.6 cents**	HK2.0 cents

Consolidated Statement of Comprehensive Income

Year ended 31 December 2010

	2010 HK$'000	2009 HK$'000
PROFIT FOR THE YEAR	62,944	23,366
OTHER COMPREHENSIVE INCOME		
Revaluation surplus of land and buildings	35,503	63,520
Income tax effect	(2,348)	(5,907)
	33,155	57,613
Share of other comprehensive income of associates	3,885	876
Exchange differences on translation of foreign operations	9,122	1,810
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	46,162	60,299
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	109,106	83,665
Attributable to:		
Owners of the parent	108,961	83,449
Non-controlling interests	145	216
	109,106	83,665

Consolidated Statement of Financial Position

31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**152,453**	119,262
Investment properties	14	**39,200**	30,560
Investments in associates	16	**135,308**	123,882
Available-for-sale investment	17	**–**	802
Total non-current assets		**326,961**	274,506
CURRENT ASSETS			
Inventories	18	**34,410**	26,349
Gross amount due from contract customers	19	**28,061**	94,048
Trade and bills receivables	20	**290,545**	211,472
Prepayments, deposits and other receivables		**301,898**	344,053
Pledged deposits	21	**13,231**	92,572
Cash and cash equivalents	21	**292,987**	333,031
Total current assets		**961,132**	1,101,525
CURRENT LIABILITIES			
Trade and bills payables	22	**217,576**	368,913
Gross amount due to contract customers	19	**7,611**	44,758
Other payables and accruals		**305,328**	363,835
Interest-bearing bank borrowings	23	**157,282**	102,733
Tax payable		**2,578**	7
Total current liabilities		**690,375**	880,246
NET CURRENT ASSETS		**270,757**	221,279
TOTAL ASSETS LESS CURRENT LIABILITIES		**597,718**	495,785

Consolidated Statement of Financial Position (continued)

31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	23	–	1,062
Deferred tax liabilities	24	8,452	5,907
Total non-current liabilities		8,452	6,969
Net assets		589,266	488,816
EQUITY			
Equity attributable to owners of the parent			
Issued capital	25	113,030	113,030
Reserves	27(a)	475,384	375,079
		588,414	488,109
Non-controlling interests		852	707
Total equity		589,266	488,816

Zhang Zhao Dong
Director

Liu Xiao Kun
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2010

	Attributable to owners of the parent										
	Issued capital	Share premium account	Contributed surplus	Capital reserve	Land and buildings revaluation reserve	Exchange fluctuation reserve	General reserve	Accumulated losses	Total	Non-controlling interests	Total equity
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2009	113,030	32,470	867,910	3,685	1,534	35,251	45,687	(694,907)	404,660	491	405,151
Profit for the year	–	–	–	–	–	–	–	23,155	23,155	211	23,366
Other comprehensive income for the year:											
Revaluation surplus of land and buildings, net of tax	–	–	–	–	57,613	–	–	–	57,613	–	57,613
Share of other comprehensive income of associates	–	–	–	–	–	876	–	–	876	–	876
Exchange differences on translation of foreign operations	–	–	–	–	–	1,805	–	–	1,805	5	1,810
Total comprehensive income for the year	–	–	–	–	57,613	2,681	–	23,155	83,449	216	83,665
Transfer to general reserve	–	–	–	–	–	–	843	(843)	–	–	–
At 31 December 2009 and 1 January 2010	113,030	32,470*	867,910*	3,685*	59,147*	37,932*	46,530*	(672,595)*	488,109	707	488,816
Profit for the year	–	–	–	–	–	–	–	62,823	62,823	121	62,944
Other comprehensive income for the year:											
Revaluation surplus of land and buildings, net of tax	–	–	–	–	33,155	–	–	–	33,155	–	33,155
Share of other comprehensive income of associates	–	–	–	–	–	3,885	–	–	3,885	–	3,885
Exchange differences on translation of foreign operations	–	–	–	–	–	9,098	–	–	9,098	24	9,122
Total comprehensive income for the year	–	–	–	–	33,155	12,983	–	62,823	108,961	145	109,106
Disposal of a subsidiary	–	–	–	–	–	(8,656)	(4,017)	4,017	(8,656)	–	(8,656)
Transfer to general reserve	–	–	–	–	–	–	474	(474)	–	–	–
At 31 December 2010	113,030	32,470*	867,910*	3,685*	92,302*	42,259*	42,987*	(606,229)*	588,414	852	589,266

* These reserve accounts comprise the consolidated reserves of HK$475,384,000 (2009: HK$375,079,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended 31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		65,560	23,545
Adjustments for:			
Finance costs	7	6,339	2,902
Share of profits and losses of associates		(6,120)	(12,295)
Interest income	5	(8,605)	(4,641)
Gain on disposal of an available-for-sale investment		(72)	–
Gain on disposal of a subsidiary	5	(30,232)	–
Loss on disposal of items of property, plant and equipment	6	47	321
Depreciation	6	8,067	7,647
Impairment of trade receivables	6	9,531	21,531
Changes in fair value of investment properties	5	(8,640)	(4,737)
		35,875	34,273
Increase in inventories		(8,266)	(8,005)
Increase in gross amount due from contract customers		(83,715)	(29,702)
Increase in trade and bills receivables		(213,361)	(49,350)
Increase in prepayments, deposits and other receivables		(178,272)	(73,243)
Increase in trade and bills payables		204,834	146,295
Increase/(decrease) in gross amount due to contract customers		(32,999)	2,835
Increase in other payables and accruals		124,514	39,844
Exchange differences		2,310	(890)
Cash generated from/(used in) operations		(149,080)	62,057
Interest received		8,605	4,641
Interest paid		(6,339)	(2,902)
Mainland of the People's Republic of China ("Mainland China" or the "PRC") corporate income tax paid		(45)	(172)
Net cash flows from/(used in) operating activities		(146,859)	63,624

Consolidated Statement of Cash Flows (continued)

Year ended 31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
Net cash flows from/(used in) operating activities		**(146,859)**	63,624
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment	13	**(9,421)**	(5,063)
Decrease/(increase) in amounts due from associates		**(59)**	1,735
Decrease in amounts due to associates		**(245)**	(1,592)
Proceeds from disposal of an available-for-sale investment		**874**	–
Decrease/(increase) in non-pledged time deposits with original maturity of more than three months when acquired		**9,842**	(11,371)
Disposal of a subsidiary	28	**424**	–
Increase in pledged deposits		**(628)**	(50,195)
Net cash flows from/(used in) investing activities		**787**	(66,486)
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans		**103,101**	108,205
Repayment of bank loans		**(84,982)**	(51,202)
Increase/(decrease) in trust receipt loans		**92,611**	(12,485)
Net cash flows from financing activities		**110,730**	44,518
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**(35,342)**	41,656
Cash and cash equivalents at beginning of year		**321,070**	276,783
Effect of foreign exchange rate changes, net		**5,140**	2,631
CASH AND CASH EQUIVALENTS AT END OF YEAR		**290,868**	321,070
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	21	**238,681**	229,925
Non-pledged time deposits	21	**54,306**	103,106
Cash and cash equivalents as stated in the consolidated statement of financial position		**292,987**	333,031
Non-pledged time deposits with original maturity of more than three months when acquired		**(2,119)**	(11,961)
Cash and cash equivalents as stated in the consolidated statement of cash flows		**290,868**	321,070

Statement of Financial Position

31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
NON-CURRENT ASSETS			
Investments in subsidiaries	15	**559,088**	559,088
Investments in associates	16	**125,326**	192,530
Total non-current assets		**684,414**	751,618
CURRENT ASSETS			
Prepayments		**297**	315
Cash and cash equivalents	21	**827**	957
Total current assets		**1,124**	1,272
CURRENT LIABILITY			
Accruals		**580**	162
NET CURRENT ASSETS		**544**	1,110
TOTAL ASSETS LESS CURRENT LIABILITY		**684,958**	752,728
NON-CURRENT LIABILITY			
Due to a subsidiary	15	**313,095**	311,497
Net assets		**371,863**	441,231
EQUITY			
Issued capital	25	**113,030**	113,030
Reserves	27(b)	**258,833**	328,201
Total equity		**371,863**	441,231

Zhang Zhao Dong
Director

Liu Xiao Kun
Director

Notes to Financial Statements

31 December 2010

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 Company and its subsidiaries (collectively referred to as the "Group") were principally engaged in 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 and land and buildings, 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

Basis of consolidation from 1 January 2010

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2010. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. 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 intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate.

2.1 BASIS OF PREPARATION *(continued)*

Basis of consolidation *(continued)*

Basis of consolidation prior to 1 January 2010

Certain of the above-mentioned requirements have been applied on a prospective basis. The following differences, however, are carried forward in certain instances from the previous basis of consolidation:

- Acquisition of non-controlling interests (formerly known as minority interests), prior to 1 January 2010, were accounted for using the parent entity extension method, whereby the differences between the consideration and the book value of the share of the net assets acquired were recognised in goodwill.

- Losses incurred by the Group were attributed to the non-controlling interest until the balance was reduced to nil. Any further excess losses were attributable to the parent, unless the non-controlling interest had a binding obligation to cover these. Losses prior to 1 January 2010 were not reallocated between non-controlling interest and the parent shareholders.

- Upon loss of control, the Group accounted for the investment retained at its proportionate share of net asset value at the date control was lost. The carrying amount of such investment at 1 January 2010 has not been restated.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements.

HKFRS 1 (Revised)	*First-time Adoption of Hong Kong Financial Reporting Standards*
HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards - Additional Exemptions for First-time Adopters*
HKFRS 2 Amendments	Amendments to HKFRS 2 *Share-based Payment - Group Cash-settled Share-based Payment Transactions*
HKFRS 3 (Revised)	*Business Combinations*
HKAS 27 (Revised)	*Consolidated and Separate Financial Statements*
HKAS 39 Amendment	Amendment to HKAS 39 *Financial Instruments: Recognition and Measurement - Eligible Hedged Items*
HK(IFRIC)-Int 17	*Distributions of Non-cash Assets to Owners*
HKFRS 5 Amendments included in *Improvements to HKFRSs* issued in October 2008	Amendments to HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations - Plan to sell the controlling interest in a subsidiary*
Improvements to HKFRSs 2009	Amendments to a number of HKFRSs issued in May 2009
HK Interpretation 4 Amendment	Amendment to HK Interpretation 4 *Leases - Determination of the Length of Lease Term in respect of Hong Kong Land Leases*
HK Interpretation 5	*Presentation of Financial Statements - Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause*

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES *(continued)*

Other than as further explained below regarding the impact of HKFRS 3 (Revised), HKAS 27 (Revised), amendments to HKAS 7 and HKAS 17 included in *Improvements to HKFRSs 2009* and HK Interpretation 4 (Revised in December 2009), the adoption of these new and revised HKFRSs has had no significant financial effect on these financial statements.

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

(a) HKFRS 3 (Revised) *Business Combinations* and HKAS 27 (Revised) *Consolidated and Separate Financial Statements*

HKFRS 3 (Revised) introduces a number of changes in the accounting for business combinations that affect the initial measurement of non-controlling interests, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and further reported results.

HKAS 27 (Revised) requires that a change in the ownership interest of a subsidiary without loss of control is 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 revised standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Consequential amendments were made to various standards, including, but not limited to HKAS 7 *Statement of Cash Flows*, HKAS 12 *Income Taxes*, HKAS 21 *The Effects of Changes in Foreign Exchange Rates*, HKAS 28 *Investments in Associates* and HKAS 31 *Interests in Joint Ventures*.

The changes introduced by these revised standards are applied prospectively and affect the accounting of acquisitions, loss of control and transactions with non-controlling interests after 1 January 2010.

(b) *Improvements to HKFRSs 2009* issued in May 2009 sets out amendments to a number of HKFRSs. There are separate transitional provisions for each standard. While the adoption of some of the amendments results in changes in accounting policies, none of these amendments has had a significant financial impact on the Group. Details of the key amendments most applicable to the Group are as follows:

- HKAS 7 *Statement of Cash Flows*: Requires that only expenditures that result in a recognised asset in the statement of financial position can be classified as a cash flow from investing activities.

- HKAS 17 *Leases*: Removes the specific guidance on classifying land as a lease. As a result, leases of land should be classified as either operating or finance leases in accordance with the general guidance in HKAS 17.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES *(continued)*

Amendment to HK Interpretation 4 *Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases* is revised as a consequence of the amendment to HKAS 17 *Leases* included in *Improvements to HKFRSs 2009*. Following this amendment, the scope of HK Interpretation 4 has been expanded to cover all land leases, including those classified as finance leases. As a result, this interpretation is applicable to all leases of property accounted for in accordance with HKAS 16, HKAS 17 and HKAS 40.

2.3 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.

HKFRS 1 Amendment	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters* [2]
HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters* [4]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures - Transfers of Financial Assets* [4]
HKFRS 9	*Financial Instruments* [6]
HKAS 12 Amendments	Amendments to HKAS 12 *Income Taxes – Deferred tax: Recovery of Underlying Assets* [5]
HKAS 24 (Revised)	*Related Party Disclosures* [3]
HKAS 32 Amendment	Amendment to HKAS 32 *Financial Instruments: Presentation - Classification of Rights Issues* [1]
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 *Prepayments of a Minimum Funding Requirement* [3]
HK(IFRIC)-Int 19	*Extinguishing Financial Liabilities with Equity Instruments* [2]

Apart from the above, the HKICPA has issued *Improvements to HKFRSs 2010* which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to HKFRS 3 and HKAS 27 are effective for annual periods beginning on or after 1 July 2010, whereas the amendments to HKFRS 1, HKFRS 7, HKAS 1, HKAS 34 and HK(IFRIC)-Int 13 are effective for annual periods beginning on or after 1 January 2011 although there are separate transitional provisions for each standard.

1 Effective for annual periods beginning on or after 1 February 2010
2 Effective for annual periods beginning on or after 1 July 2010
3 Effective for annual periods beginning on or after 1 January 2011
4 Effective for annual periods beginning on or after 1 July 2011
5 Effective for annual periods beginning on or after 1 January 2012
6 Effective for annual periods beginning on or after 1 January 2013

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

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, the Group considers that these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

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

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments 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 investments in associates are stated in the consolidated statement of financial position 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. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's investments in associates, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of associates is included as part of the Group's investments in associates and is not individually tested for impairment. 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Business combinations and goodwill

Business combinations from 1 January 2010

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability is recognised in accordance with HKAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the net identifiable assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets of the subsidiary acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Business combinations and goodwill *(continued)*

Business combinations from 1 January 2010 *(continued)*

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.

Business combinations prior to 1 January 2010 but after 1 January 2005

In comparison to the above-mentioned requirements which were applied on a prospective basis, the following differences applied to business combinations prior to 1 January 2010:

Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest was measured at the proportionate share of the acquiree's identifiable net assets.

Business combinations achieved in stages were accounted for as separate steps. Any additional acquired share of interest did not affect previously recognised goodwill.

When the Group acquired a business, embedded derivatives separated from the host contract by the acquiree were not reassessed on acquisition unless the business combination resulted in a change in the terms of the contract that significantly modified the cash flows that otherwise would have been required under the contract.

Contingent consideration was recognised if, and only if, the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration were recognised as part of goodwill.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, systems integration contract 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.

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 the end of each reporting period as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an 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;

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Related parties *(continued)*

(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.

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 the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation.

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%

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment and depreciation *(continued)*

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 least at each financial year end.

An item of property, plant and equipment and any significant part initially recognised 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.

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 end of the reporting period.

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)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently 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 financial year end.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Intangible assets (other than goodwill) *(continued)*

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.

Operating leases

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

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

Initial recognition and measurement

Financial assets within the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition. 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets *(continued)*

Initial recognition and measurement (continued)

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.

The Group's financial assets include cash and cash equivalents, pledged deposits, trade and bills receivables, deposits and other receivables.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in the income statement. The loss arising from impairment is recognised in the income statement in other expenses.

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in unlisted equity securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment valuation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the income statement in other income, or until the investment is determined to be impaired, at which time the cumulative gain or loss is recognised in the income statement and removed from the available-for-sale investment revaluation reserve. Interest earned are reported as interest income, respectively and are recognised in the income statement as other income in accordance with the policies set out for "Revenue recognition" below.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets *(continued)*

Available-for-sale financial investments *(continued)*

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

The Group evaluates its available-for-sale financial assets whether the ability and intention to sell them in the near term are still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intent to do so significantly changes in the foreseeable future, the Group may elect to reclassify these financial assets in rare circumstances. Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Group has the intent and ability to hold these assets for the foreseeable future or to maturity. Reclassification to the held-to-maturity category is permitted only when the entity has the ability and intent to hold until the maturity date of the financial asset.

For a financial asset reclassified out of the available-for-sale category, any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the income statement.

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 when:

- the rights to receive cash flows from the asset have expired; or

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Derecognition of financial assets *(continued)*

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, 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. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

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.

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets *(continued)*

Financial assets carried at amortised cost *(continued)*

If there is objective evidence that an impairment loss 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). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced either directly or through the use of an allowance account and the amount of the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the income statement.

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, 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 discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is removed from other comprehensive income and recognised in the income statement.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Available-for-sale financial investments *(continued)*

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. The determination of what is "significant" or "prolonged" requires judgement. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement – is removed from other comprehensive income and recognised in the income statement. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement. Increases in their fair value after impairment are recognised directly in other comprehensive income.

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of HKAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

The Group's financial liabilities include trade and bills payables, other payables and interest-bearing bank borrowings.

Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate method amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the income statement.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial liabilities *(continued)*

Financial guarantee contracts

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to issuance of the guarantee. Subsequent to initial recognition, the Company measures the financial guarantee contract at the higher of: (i) the amount of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation.

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.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments where there is no active market, the fair value is determined using appropriate 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 other valuation models.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Inventories

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

Systems integration contracts

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

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

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 statement of cash flows, 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 statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including 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 relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax *(continued)*

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, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

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

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

- where the deferred tax liability arises from the initial recognition of goodwill or 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 the end of each reporting period 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. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax *(continued)*

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

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

Government grants

Government grants are recognised at their fair value 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 rate method by applying the rate that exactly discounts the estimated future cash receipts through the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 for grants after 7 November 2002 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.

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. The cumulative expense recognised for equity-settled transactions at the end of each reporting period 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 equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service 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, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payment transaction, 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. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. 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. All cancellations of equity-settled transaction awards are treated equally.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Other employee benefits

Pension schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

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

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

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 recorded by the entities in the Group are initially recorded using their respective functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. 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. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies *(continued)*

The functional currencies of certain overseas subsidiaries and associates are currencies other than the Hong Kong dollar. As at the end of reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at exchange rates ruling at the end of the reporting period and their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the income statement.

For the purpose of the consolidated statement of cash flows, 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 end of the reporting period. 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, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

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

Judgements *(continued)*

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 end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Impairment 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 details are given in note 20 to the financial statements.

Provision for obsolete inventories

Management reviews the ageing analysis of inventories of the Group at the end of each reporting period, 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.

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

Estimation uncertainty *(continued)*

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 are carried in the statement of financial position 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 and the corresponding adjustments to the gain or loss recognised in the income statement and asset revaluation reserve, respectively.

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 profits 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 2010 was approximately HK$264,186,000 (2009: HK$351,433,000). Further details are given in note 24 to the financial statements.

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has four reportable operating segments 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 corporate segment comprises corporate income and expense items; and

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

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/(loss), which is a measure of adjusted profit/(loss) before tax. The adjusted profit/(loss) before tax is measured consistently with the Group's profit before tax except that interest income and finance costs from the Group's financial instruments as well as head office and corporate expenses are excluded from such measurement.

Segment assets exclude pledged deposits, cash and cash equivalents and other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude interest-bearing bank borrowings, tax payable and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

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

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4. OPERATING SEGMENT INFORMATION *(continued)*

	Software development and systems integration for media business		Software development and systems integration for non-media business		Corporate		Others		Total	
	2010 HK$'000	2009 HK$'000	2010 HK$'000	2009 HK$'000	2010 HK$'000	2009 HK$'000	2010 HK$'000	2009 HK$'000	2010 HK$'000	2009 HK$'000
Segment revenue:										
Sales to external customers	918,521	752,689	1,321,927	1,159,180	–	–	284	224	2,240,732	1,912,093
Intersegment sales	14,983	9,169	–	–	–	–	–	–	14,983	9,169
	933,504	761,858	1,321,927	1,159,180	–	–	284	224	2,255,715	1,921,262
Reconciliation:										
Elimination of intersegment sales									(14,983)	(9,169)
Revenue									2,240,732	1,912,093
Segment results	38,735	21,826	16,664	(7,675)	(1,277)	(7,337)	1,905	1,879	56,027	8,693
Reconciliation:										
Interest income and unallocated gains									9,752	5,459
Finance costs									(6,339)	(2,902)
Share of profits and losses of associates									6,120	12,295
Profit before tax									65,560	23,545

4. OPERATING SEGMENT INFORMATION *(continued)*

	Software development and systems integration for media business		Software development and systems integration for non-media business		Others		Total	
	2010 HK$'000	2009 HK$'000	2010 HK$'000	2009 HK$'000	2010 HK$'000	2009 HK$'000	2010 HK$'000	2009 HK$'000
Segment assets	579,434	335,281	242,850	481,125	83,893	65,060	906,177	881,466
Reconciliation:								
Elimination of intersegment receivables							(59,907)	(55,233)
Investments in associates							135,308	123,882
Corporate and other unallocated assets							306,515	425,916
Total assets							1,288,093	1,376,031
Segment liabilities	442,820	292,039	144,383	535,819	10,552	10,525	597,755	838,383
Reconciliation:								
Elimination of intersegment payables							(59,907)	(55,233)
Corporate and other unallocated liabilities							160,979	104,065
Total liabilities							698,827	887,215
Other segment information:								
Depreciation	6,944	6,068	1,107	1,564	16	15	8,067	7,647
Capital expenditure*	4,382	4,758	5,035	305	4	–	9,421	5,063

* Capital expenditure consists of additions to property, plant and equipment.

4. OPERATING SEGMENT INFORMATION *(continued)*

Geographical information

(a) Revenue from external customers

	2010 HK$'000	2009 HK$'000
Hong Kong	**645,010**	255,461
Mainland China	**1,594,606**	1,652,990
Others	**1,116**	3,642
	2,240,732	1,912,093

The revenue information above is based on the location of the customers.

(b) Non-current assets

	2010 HK$'000	2009 HK$'000
Hong Kong	**202,941**	172,742
Mainland China	**107,736**	86,723
Others	**16,284**	14,239
	326,961	273,704

The non-current asset information above is based on the location of assets and excludes financial instruments.

Information about a major customer

Revenue of approximately HK$409,511,000 (2009: HK$274,748,000) was derived from sales by the software development and systems integration for non-media segment to a single customer.

5. REVENUE, OTHER INCOME AND GAINS

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

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

		Group	
		2010	2009
	Notes	HK$'000	HK$'000
Revenue			
Software development and systems integration		2,240,448	1,911,869
Others		284	224
		2,240,732	1,912,093
Other income			
Bank interest income		2,161	2,459
Other interest income		6,444	2,182
Gross rental income		1,214	1,242
Government grants *(Note)*		39,013	36,987
Others		3,870	5,984
		52,702	48,854
Gains			
Fair value gains on investment properties	14	8,640	4,737
Foreign exchange differences, net		1,147	818
Gain on disposal of a subsidiary	28	30,232	–
Others		174	108
		40,193	5,663
		92,895	54,517

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

6. PROFIT BEFORE TAX

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

	Notes	Group 2010 HK$'000	Group 2009 HK$'000
Auditors' remuneration		2,400	2,400
Cost of inventories sold		1,758,848	1,428,269
Cost of services provided		95,765	114,288
Depreciation	13	8,067	7,647
Loss on disposal of items of property, plant and equipment		47	321
Operating lease rentals in respect of land and buildings		11,317	12,234
Impairment of trade receivables*	20	9,531	21,531
Write-off of trade receivables*		852	–
Reversal of write-off of trade receivables*		(1,704)	–
Write-off of other receivables*		2,797	1,608
Provision for obsolete inventories**		7,526	2,935
Research and development costs:			
Current year expenditure*		85,214	90,435
Employee benefit expense (including directors' remuneration – note 8):			
Wages and salaries		136,307	119,015
Pension scheme contributions***		15,473	17,989
		151,780	137,004
Direct operating expenses (including repair and maintenance) arising on rental-earning investment properties		788	893

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

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

*** At 31 December 2010, the Group have no forfeited contributions available to reduce its contributions to the pension schemes in future years (2009: Nil).

7. FINANCE COSTS

An analysis of finance costs is as follows:

	Group	
	2010	2009
	HK$'000	HK$'000
Interest on bank loans wholly repayable within five years	6,339	2,902

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	
	2010	2009
	HK$'000	HK$'000
Fees	396	390
Other emoluments:		
Salaries, bonuses and benefits in kind	858	1,638
Pension scheme contributions	25	17
	883	1,655
	1,279	2,045

(a) Independent non-executive directors

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

	2010	2009
	HK$'000	HK$'000
Mr Li Fat Chung	138	135
Dr Hu Hung Lick, Henry	132	132
Ms Wong Lam Kit Yee	126	123
	396	390

There were no other emoluments payable to the independent non-executive directors during the year (2009: Nil).

8. DIRECTORS' REMUNERATION *(continued)*

(b) Executive directors

	Fees HK$'000	Salaries, bonuses and benefits in kind HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
2010				
Mr Zhang Zhao Dong	–	–	–	–
Professor Xiao Jian Guo	–	–	–	–
Mr Liu Xiao Kun	–	858	25	883
Professor Wei Xin	–	–	–	–
Mr Chen Geng	–	–	–	–
Mr Xie Ke Hai	–	–	–	–
	–	858	25	883
2009				
Mr Zhang Zhao Dong	–	–	–	–
Professor Xiao Jian Guo	–	–	–	–
Mr Liu Xiao Kun	–	1,638	17	1,655
Professor Wei Xin	–	–	–	–
Mr Chen Geng	–	–	–	–
Mr Xie Ke Hai	–	–	–	–
	–	1,638	17	1,655

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

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included one (2009: one) director, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining four (2009: four) non-director, highest paid employees for the year are as follows:

	Group	
	2010	2009
	HK$'000	HK$'000
Salaries, bonuses and benefits in kind	**3,907**	3,912
Pension scheme contributions	**138**	121
	4,045	4,033

The number of non-director, highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2010	2009
Nil to HK$1,000,000	**2**	3
HK$1,000,001 to HK$1,500,000	**2**	1
	4	4

10. INCOME TAX

	2010	2009
	HK$'000	HK$'000
Group:		
Current – PRC		
Charge for the year	**2,590**	160
Underprovision in prior years	**26**	19
Total tax charge for the year	**2,616**	179

No Hong Kong profits tax has been provided as there are no assessable profits arising in Hong Kong during the year or the Group has available tax losses brought forward from prior years to offset the assessable profits generated during the year (2009: Nil).

10. INCOME TAX *(continued)*

On 16 March 2007, the PRC promulgated the Law of the People's Republic of China on Corporate Income Tax (the "New Corporate Income Tax Law") by Order No.63 of the President of the PRC. On 6 December 2007, the State Council issued the Implementation Regulation of the New Corporate Income Tax Law. The New Corporate Income Tax Law and Implementation Regulation changed the tax rate of the PRC subsidiaries to 25% from 1 January 2008 onwards.

Pursuant to the relevant approval document issued by the PRC tax bureau, Beijing Founder Electronics Co., Ltd. ("Founder Electronics"), a wholly-owned subsidiary of the Company, being registered as a Key Software Enterprise, is granted a tax concession to pay PRC corporate income tax at a preferential rate of 10% on its assessable profits for the years ended 31 December 2009 and 2010.

北京方正奧德計算機系統有限公司 (Beijing Founder Order Computer Systems Co., Ltd.*) ("Founder Order"), a wholly-owned subsidiary of the Company disposed of during the year ended 31 December 2010 as detailed in note 28 to financial statements, was registered as a new and high technology enterprise. Pursuant to the New Corporate Income Tax Law, Founder Order is subject to PRC corporate income tax at a rate of 15% on its assessable profits.

Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates.

The share of tax attributable to associates amounting to approximately HK$296,000 (2009: HK$830,000) is included in "Share of profits and losses of associates" in the consolidated income statement.

A reconciliation of the tax expense applicable to profit/(loss) before tax at 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:

* *For identification purpose only*

10. INCOME TAX *(continued)*

Group-2010

	Hong Kong		Mainland China		Overseas		Total	
	HK$'000	%	HK$'000	%	HK$'000	%	HK$'000	%
Profit/(loss) before tax	44,393		21,761		(594)		65,560	
Tax at the statutory tax rate	7,325	16.5	5,440	25.0	(135)	22.7	12,630	19.3
Lower tax rate for specific provinces or enacted by local authority	–	–	(3,330)	(15.3)	1	(0.2)	(3,329)	(5.1)
Adjustment in respect of current tax of previous period	–	–	26	0.1	–	–	26	–
Profits and losses attributable to associates	(854)	(1.9)	–	–	(234)	39.4	(1,088)	(1.7)
Income not subject to tax	(8,691)	(19.6)	(3,943)	(18.1)	(20)	3.4	(12,654)	(19.3)
Expenses not deductible for tax	2,658	6.0	4,070	18.7	388	(65.3)	7,116	10.9
Tax losses utilised from previous years	(821)	(1.9)	(112)	(0.5)	–	–	(933)	(1.4)
Tax losses not recognised	383	0.9	465	2.1	–	–	848	1.3
Tax charge at the Group's effective rate	–	–	2,616	12.0	–	–	2,616	4.0

10. INCOME TAX *(continued)*

Group-2009

	Hong Kong		Mainland China		Overseas		Total	
	HK$'000	%	HK$'000	%	HK$'000	%	HK$'000	%
Profit/(loss) before tax	13,641		11,438		(1,534)		23,545	
Tax at the statutory tax rate	2,251	16.5	2,860	25.0	(384)	25.0	4,727	20.1
Lower tax rate for specific provinces or enacted by local authority	–	–	(1,451)	(12.7)	–	–	(1,451)	(6.2)
Adjustment in respect of current tax of previous period	–	–	19	0.2	–	–	19	0.1
Profits and losses attributable to associates	(1,806)	(13.2)	–	–	(352)	23.0	(2,158)	(9.2)
Income not subject to tax	(1,122)	(8.3)	(4,327)	(37.8)	–	–	(5,449)	(23.1)
Expenses not deductible for tax	160	1.2	4,681	40.9	736	(48.0)	5,577	23.7
Tax losses utilised from previous years	(439)	(3.2)	(1,603)	(14.0)	–	–	(2,042)	(8.7)
Tax losses not recognised	956	7.0	–	–	–	–	956	4.1
Tax charge at the Group's effective rate	–	–	179	1.6	–	–	179	0.8

11. PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

The consolidated profit attributable to owners of the parent for the year ended 31 December 2010 includes a loss of approximately HK$69,368,000 (2009: a profit of HK$154,655,000) which has been dealt with in the financial statements of the Company (note 27(b)).

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

The calculation of basic earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of approximately 1,130,300,000 (2009: 1,130,300,000) in issue during the year.

No adjustment has been made to the basic earnings per share amounts presented for the years ended 31 December 2010 and 2009 in respect of a dilution as the impact of the share options outstanding had an anti-dilutive effect on the basic earnings per share amounts presented.

13. PROPERTY, PLANT AND EQUIPMENT

Group

	Land and buildings HK$'000	Leasehold improvements HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
31 December 2010					
At 31 December 2009 and at 1 January 2010:					
Cost or valuation	106,950	11,075	65,525	11,239	194,789
Accumulated depreciation	–	(10,300)	(57,802)	(7,425)	(75,527)
Net carrying amount	106,950	775	7,723	3,814	119,262
At 1 January 2010, net of accumulated depreciation	106,950	775	7,723	3,814	119,262
Additions	–	4,748	4,323	350	9,421
Disposals	–	–	(47)	–	(47)
Disposal of a subsidiary (note 28)	–	(5,087)	(1,089)	(240)	(6,416)
Surplus on revaluation	35,503	–	–	–	35,503
Depreciation provided during the year	(2,177)	(374)	(4,888)	(628)	(8,067)
Exchange realignment	2,423	12	239	123	2,797
At 31 December 2010, net of accumulated depreciation	142,699	74	6,261	3,419	152,453
At 31 December 2010:					
Cost or valuation	142,699	9,983	49,758	9,854	212,294
Accumulated depreciation	–	(9,909)	(43,497)	(6,435)	(59,841)
Net carrying amount	142,699	74	6,261	3,419	152,453
Analysis of cost or valuation:					
At cost	–	9,983	49,758	9,854	69,595
At 31 December 2010 valuation	142,699	–	–	–	142,699
	142,699	9,983	49,758	9,854	212,294

Notes to Financial Statements

31 December 2010

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

Group

	Land and buildings HK$'000	Leasehold improvements HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
31 December 2009					
At 1 January 2009:					
Cost or valuation	47,289	10,941	65,241	9,554	133,025
Accumulated depreciation	(3,361)	(9,781)	(54,502)	(7,043)	(74,687)
Net carrying amount	43,928	1,160	10,739	2,511	58,338
At 1 January 2009, net of accumulated depreciation	43,928	1,160	10,739	2,511	58,338
Additions	–	84	2,829	2,150	5,063
Disposals	–	–	(171)	(150)	(321)
Surplus on revaluation	63,520	–	–	–	63,520
Depreciation provided during the year	(644)	(480)	(5,799)	(724)	(7,647)
Exchange realignment	146	11	125	27	309
At 31 December 2009, net of accumulated depreciation	106,950	775	7,723	3,814	119,262
At 31 December 2009:					
Cost or valuation	106,950	11,075	65,525	11,239	194,789
Accumulated depreciation	–	(10,300)	(57,802)	(7,425)	(75,527)
Net carrying amount	106,950	775	7,723	3,814	119,262
Analysis of cost or valuation:					
At cost	–	11,075	65,525	11,239	87,839
At 31 December 2009 valuation	106,950	–	–	–	106,950
	106,950	11,075	65,525	11,239	194,789

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

The Group's land and buildings were revalued individually at the end of the reporting period by LCH (Asia-Pacific) Surveyors Limited, independent professionally qualified valuers, at an aggregate open market value of HK$142,699,000 based on their existing use. A revaluation surplus of HK$35,503,000, resulting from the above valuations, has been credited to other comprehensive income.

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
Long term leases	–	98,169	98,169
Medium term leases	44,530	–	44,530
	44,530	98,169	142,699

At 31 December 2010, certain of the Group's land and buildings with a net carrying amount of approximately HK$41,830,000 (2009: HK$32,770,000) in Hong Kong were pledged to secure general banking facilities granted to the Group (note 23).

14. INVESTMENT PROPERTIES

	Group	
	2010	2009
	HK$'000	HK$'000
Carrying amount at 1 January	**30,560**	25,823
Net profit from a fair value adjustment (note 5)	**8,640**	4,737
Carrying amount at 31 December	**39,200**	30,560

The Group's investment properties were revalued on 31 December 2010 by LCH (Asia-Pacific) Surveyors Limited, independent professionally qualified valuers, on an open market value, based on their existing use. The investment properties are leased to third parties under operating leases, further summary details of which are included in note 30(a) to the financial statements.

14. INVESTMENT PROPERTIES *(continued)*

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

At 31 December 2010, certain of the Group's investment properties with a carrying amount of approximately HK$38,300,000 (2009: HK$30,040,000) were pledged to secure general banking facilities granted to the Group (note 23).

Further particulars of the Group's investment properties are included on pages 106 to 107 of the annual report.

15. INVESTMENTS IN SUBSIDIARIES

	Company	
	2010	2009
	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 liability is unsecured, interest-free and not repayable within one year.

As at 31 December 2010, the 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
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

15. 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
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
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
PUC Founder (M) Sdn. Bhd.*	Malaysia	Ordinary RM500,000	–	100	Investment holding

@ *For identification purpose only*

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

Registered as wholly-foreign-owned enterprises under PRC law.

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

16. INVESTMENTS IN ASSOCIATES

	Group		Company	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
Shares listed in Hong Kong, at cost	**–**	–	**233,529**	233,529
Share of net assets	**130,572**	119,450	**–**	–
Goodwill on acquisition	**4,245**	4,245	**–**	–
	134,817	123,695	**233,529**	233,529
Due from associates	**491**	432	**–**	–
Due to associates	**–**	(245)	**–**	–
	135,308	123,882	**233,529**	233,529
Provision for impairment	**–**	–	**(108,203)**	(40,999)
	135,308	123,882	**125,326**	192,530
Market value of listed shares	**–**	–	**125,326**	192,530

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

The Group's trade receivable and payable balances with the associates are disclosed in notes 20 and 22 to the financial statements, respectively.

16. INVESTMENTS 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 2010	2009	Principal activities
EC-Founder (Holdings) Company Limited ("EC-Founder")**	Ordinary shares of HK$0.10 each	Bermuda/ Hong Kong	32.84	32.84	Investment holding
Beijing Founder Century Information System Co., Ltd.*@	Registered RMB150,000,000	Mainland China	32.84	32.84	Distribution of information products
Founder Century (Hong Kong) Limited	Ordinary shares of HK$1 each	Hong Kong	32.84	32.84	Distribution of information products
PUC Founder (MSC) Berhad*#	Ordinary shares of RM0.1 each	Malaysia	32.39	35.45	Software development and systems integration

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

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

\# Listed on ACE Market of Bursa Malaysia Securities Berhad.

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

16. INVESTMENTS IN ASSOCIATES *(continued)*

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

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

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 extracted from their management accounts or financial statements:

	2010	2009
	HK$'000	HK$'000
Assets	**2,187,724**	1,513,909
Liabilities	**1,790,973**	1,146,534
Revenue	**4,707,921**	3,838,299
Profit after tax	**18,432**	37,150

17. AVAILABLE-FOR-SALE INVESTMENT

	Group	
	2010	2009
	HK$'000	HK$'000
Unlisted equity investment, at cost	**–**	802

As at 31 December 2009, the unlisted equity investment of the Group was stated at cost because the range of reasonable fair value estimates was so significant that the directors were of the opinion that the fair value could not be measured reliably. Such investment was disposed of during the year ended 31 December 2010.

18. INVENTORIES

	Group	
	2010	2009
	HK$'000	HK$'000
Trading stocks	34,410	26,349

19. GROSS AMOUNTS DUE FROM/TO CONTRACT CUSTOMERS

	Group	
	2010	2009
	HK$'000	HK$'000
Gross amount due from contract customers	28,061	94,048
Gross amount due to contract customers	(7,611)	(44,758)
	20,450	49,290
Contract costs incurred plus recognised profits less recognised losses to date	133,601	352,808
Less: Progress billings	(113,151)	(303,518)
	20,450	49,290

20. TRADE AND BILLS RECEIVABLES

	Group	
	2010	2009
	HK$'000	HK$'000
Trade and bills receivables	310,601	256,449
Impairment	(20,056)	(44,977)
	290,545	211,472

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 and bills receivables are non-interest-bearing.

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

	Group	
	2010	2009
	HK$'000	HK$'000
Within 6 months	265,461	149,191
7 to 12 months	15,131	33,833
13 to 24 months	9,953	26,461
Over 24 months	–	1,987
	290,545	211,472

20. TRADE AND BILLS RECEIVABLES *(continued)*

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

	Group	
	2010	2009
	HK$'000	HK$'000
At 1 January	44,977	23,175
Impairment losses recognised (note 6)	9,531	21,531
Disposal of a subsidiary	(34,713)	–
Exchange realignment	261	271
At 31 December	20,056	44,977

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of approximately HK$2,432,000 (2009: HK$6,725,000) with a carrying amount before provision of approximately HK$2,432,000 (2009: HK$6,725,000). 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.

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

	Group	
	2010	2009
	HK$'000	HK$'000
Neither past due nor impaired	181,346	107,061
Less than 6 months past due	101,467	69,392
7 to 12 months past due	83	456
13 to 24 months past due	–	972
Over 24 months past due	–	1,074
	282,896	178,955

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.

20. TRADE AND BILLS RECEIVABLES *(continued)*

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

Included in the Group's trade and bills receivables are amounts due from the Group's related companies and associates of approximately HK$5,408,000 (2009: HK$497,000) and HK$85,614,000 (2009: HK$3,613,000), respectively, which are repayable on similar credit terms to those offered to the major customers of the Group.

21. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

		Group		Company	
		2010	2009	**2010**	2009
	Note	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Cash and bank balances		**238,681**	229,925	**827**	957
Time deposits		**67,537**	195,678	**–**	–
		306,218	425,603	**827**	957
Less: Pledged bank balances and time deposits	23	**(13,231)**	(92,572)	**–**	–
Cash and cash equivalents		**292,987**	333,031	**827**	957

At the end of the reporting period, the cash and cash equivalents of the Group denominated in Renminbi ("RMB") amounted to approximately HK$198,943,000 (2009: HK$285,651,000). 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.

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 and pledged deposits are deposited with creditworthy banks with no recent history of default.

22. TRADE AND BILLS PAYABLES

An aged analysis of the trade and bills payables as at the end of the reporting period, based on the invoice date, is as follows:

	Group	
	2010	2009
	HK$'000	HK$'000
Within 6 months	206,281	275,996
7 to 12 months	7,292	57,470
13 to 24 months	1,467	27,365
Over 24 months	2,536	8,082
	217,576	368,913

Included in the trade and bills payables are trade payables of approximately HK$1,514,000 (2009: HK$17,864,000) due to related companies which are repayable on similar credit terms to those offered by the related companies to their major customers.

Included in the trade and bills payables as at 31 December 2009 were trade payables of approximately HK$92,305,000 due to associates which were repayable on similar credit terms to those offered by the associates to their major customers.

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

23. INTEREST-BEARING BANK BORROWINGS

Group	2010 Effective contractual interest rate (%)	2010 Maturity	2010 HK$'000	2009 Effective contractual interest rate (%)	2009 Maturity	2009 HK$'000
Current						
Bank loans – unsecured	–	–	–	0.001 – 5.25 (Fixed)	2010	25,553
Bank loans – unsecured	1.74 – 5.60 (Floating)	2011	50,136	4.86 – 5.84 (Floating)	2010	62,645
Trust receipt loans – secured	1.18 – 3.80 (Floating)	2011	107,146	1.61 – 1.78 (Floating)	2010	14,535
			157,282			102,733
Non-current						
Bank loans – unsecured	–	–	–	0.001 (Fixed)	2011	1,062
			157,282			103,795

	Group 2010 HK$'000	Group 2009 HK$'000
Analysed into:		
Bank loans repayable:		
Within one year or on demand	157,282	102,733
In the second year	–	1,062
	157,282	103,795

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

Notes:

(a) The unsecured bank loans of approximately HK$45,036,000 (2009: HK$89,260,000) were 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.

(b) The Group's trade finance facilities at the end of the reporting period were secured by:

(i) charges over certain of the Group's investment properties which had an aggregate carrying value at the end of the reporting period of approximately HK$38,300,000 (2009: HK$30,040,000);

(ii) charges over certain of the Group's land and buildings which had an aggregate carrying value at the end of the reporting period of approximately HK$41,830,000 (2009: HK$32,770,000);

(iii) the pledge of certain of the Group's time deposits amounting to approximately HK$13,231,000 (2009: HK$92,572,000);

(iv) the pledge of certain time deposits of Founder International Co., Ltd. ("Founder International"), a subsidiary of Peking Founder, amounting to approximately HK$21,798,000 (2009: Nil); and

(v) the guarantees by the Company and the Government of the Hong Kong Special Administrative Region under the SME Loan Guarantee Scheme.

(c) The Group's bank borrowings with carrying amounts of approximately HK$5,100,000 (2009: Nil), HK$102,341,000 (2009: HK$14,535,000), HK$12,177,000 (2009: Nil) and HK$37,664,000 (2009: HK$89,260,000) were denominated in Hong Kong dollars, United States dollars, EURO and RMB, respectively.

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

* *For identification purpose only*

24. DEFERRED TAX

Deferred tax liabilities

	Group Revaluation of properties HK$'000
At 1 January 2009	–
Deferred tax debited to equity during the year	5,907
Gross deferred tax liabilities at 31 December 2009 and 1 January 2010	**5,907**
Deferred tax debited to equity during the year	**2,348**
Exchange difference	**197**
Gross deferred tax liabilities at 31 December 2010	**8,452**

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

	Group	
	2010 HK$'000	2009 HK$'000
Depreciation allowances in excess of related depreciation	**(32,956)**	(8,106)
Tax losses	**296,953**	359,350
Impairment of trade receivables	**189**	189
	264,186	351,433

24. DEFERRED TAX *(continued)*

The Group has tax losses arising in Hong Kong of approximately HK$296,953,000 (2009: HK$308,368,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses and other deductible temporary differences as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and jurisdiction of the foreign investors. For the Group, the applicable rate is 5% or 10%. The Group is therefore liable to withholding taxes on dividends distributed by those associates established in Mainland China in respect of earnings generated from 1 January 2008.

At 31 December 2010, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately HK$93,039,000 at 31 December 2010 (2009: HK$46,225,000).

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

25. SHARE CAPITAL

	Group and Company	
	2010	2009
	HK$'000	HK$'000
Authorised:		
2,100,000,000 (2009: 2,100,000,000) ordinary shares of HK$0.10 each	**210,000**	210,000
Issued and fully paid:		
1,130,299,893 (2009: 1,130,299,893) ordinary shares of HK$0.10 each	**113,030**	113,030

26. 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.

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.

26. SHARE OPTION SCHEME *(continued)*

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:

	2010		2009	
	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 and 31 December	1.062	38,000	1.062	38,000

The exercise prices and exercise periods of the share options outstanding as at the end of the reporting period are as follows:

2010 and 2009

Number of options '000	Exercise price* HK$ per share	Exercise period
32,000	1.104	6.2.2004 to 4.2.2014
6,000	0.840	3.1.2004 to 31.12.2013
38,000		

* 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 end of the reporting period, the Company had 38,000,000 share options outstanding under the share option scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 38,000,000 additional ordinary shares of the Company and additional share capital of HK$3,800,000 and share premium of HK$36,568,000 (before issue expenses).

27. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 30 of the financial statements.

The Group's contributed surplus represents the excess of 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.

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$474,000 (2009: HK$843,000), which represented the Group's share of 10% of the PRC associate's profit after tax for the year ended 31 December 2010 as determined in accordance with the PRC accounting standards, to the general reserve.

27. RESERVES *(continued)*

(b) Company

	Share premium account HK$'000	Contributed surplus HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2009	32,470	448,209	(307,133)	173,546
Total comprehensive income for the year	–	–	154,655	154,655
At 31 December 2009	32,470	448,209	(152,478)	328,201
Total comprehensive loss for the year	–	–	(69,368)	(69,368)
At 31 December 2010	32,470	448,209	(221,846)	258,833

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

28. DISPOSAL OF A SUBSIDIARY

Pursuant to a sale and purchase agreement dated 24 June 2010, the Group disposed of its entire equity interest in Founder Order to Founder International for a cash consideration of HK$47,500,000.

	Notes	2010 HK$'000
Net assets disposed of:		
Property, plant and equipment	13	6,416
Inventories		205
Gross amount due from contract customers		149,702
Trade and bills receivables		124,757
Prepayments, deposits and other receivables		220,427
Pledged deposits		79,969
Cash and cash equivalents		47,076
Trade and bills payables		(356,171)
Gross amount due to contract customers		(4,148)
Other payables and accruals		(183,021)
Interest-bearing bank borrowings		(59,288)
Exchange fluctuation reserve		(8,656)
		17,268
Gain on disposal of a subsidiary	5	30,232
		47,500
Satisfied by:		
Cash		47,500

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

	2010 HK$'000
Cash consideration	47,500
Cash and cash equivalents disposed of	(47,076)
Net inflow of cash and cash equivalents in respect of the disposal of a subsidiary	424

29. CONTINGENT LIABILITIES

At the end of the reporting period, contingent liabilities not provided for in the financial statements were as follows:

	Company	
	2010	2009
	HK$'000	HK$'000
Guarantees given to banks in connection with facilities granted to subsidiaries	159,000	130,170

As at 31 December 2010, 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$139,977,000 (2009: HK$71,473,000).

At the end of the reporting period, the Group did not have any significant contingent liabilities.

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

At 31 December 2010, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2010	2009
	HK$'000	HK$'000
Within one year	1,102	1,098
In the second to fifth years, inclusive	579	1,352
	1,681	2,450

30. OPERATING LEASE ARRANGEMENTS *(continued)*

(b) As lessee

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

At 31 December 2010, the Group had total future minimum lease payments under the non-cancellable operating leases falling due as follows:

	Group	
	2010	2009
	HK$'000	HK$'000
Within one year	**14,062**	13,168
In the second to fifth years, inclusive	**1,056**	11,726
	15,118	24,894

31. RELATED PARTY TRANSACTIONS

(I) Transactions with related parties

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

(a)

	Notes	Group 2010 HK$'000	2009 HK$'000
Sale of goods to associates	(i)	–	974
Purchase of goods from associates	(i)	670	775
Sale of goods to a company, in which a 11.65% (2009: 11.39%) equity interest was held by Peking Founder	(i)	–	835
Purchase of goods from a company, in which a 11.65% (2009: 11.39%) equity interest was held by Peking Founder	(i)	1,430	95
Sale of goods to an associate of Peking Founder	(i)	–	281
Purchase of goods from an associate of Peking Founder	(i)	–	29,483
Management fee income received from an associate	(i)	1,016	863
Management fee income received from a company, in which a 11.65% (2009: 11.39%) equity interest was held by Peking Founder	(i)	600	600
Rental income received from associates	(i)	–	84
Interest income from an associate	(i)	700	–
Banking facilities guarantees given by Peking Founder and its subsidiary	(ii)	188,320	416,874

Notes:

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

(ii) 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$59,980,000 at 31 December 2010 (2009: HK$219,741,000).

31. RELATED PARTY TRANSACTIONS *(continued)*

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

(b) On 15 August 2008, Founder Electronics entered into the lease renewal agreement with a subsidiary of Peking Founder to lease certain office premises in Beijing, the PRC, for a term of three years from 1 January 2009 to 31 December 2011 for the aggregate of annual rental and management fees of RMB10,185,000 (equivalent to approximately HK$11,718,000).

During the year, rental and management fee expenses of approximately HK$11,718,000 (2009: HK$11,572,000) were paid by Founder Electronics to a subsidiary of Peking Founder. The directors consider that the rental and management fee expenses were paid in accordance with the terms of the lease agreement.

(c) On 15 August 2008, the Company and Founder International Inc., a subsidiary of Peking Founder, entered into a master agreement pursuant to which the Group shall from time to time for a term up to 31 December 2010 sell software, hardware, and/or systems integration products and/or provide software, hardware, and/or systems integration development services to Founder International Inc. and its subsidiaries.

During the year, sale of products and provision of product related services in an aggregate amount of approximately HK$10,048,000 (2009: HK$1,398,000) to the related companies 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 master agreement.

(d) 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 a 11.65% (2009: 11.39%) equity interest was held by Peking Founder), 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$466,000 (2009: HK$2,866,000) and HK$9,000 (2009: HK$60,000) were received from the company (in which 11.65% (2009: 11.39%) equity interest was held by Peking Founder), and a subsidiary of Peking Founder, respectively. The directors considered that the agency fees were made in accordance with the terms of agency agreements.

(e) On 15 December 2008, 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 2009 to 31 December 2011. On 12 June 2009, the Company entered into a supplemental agreement with EC-Founder to revise the annual caps for the three years ending 31 December 2011.

During the year, information products in the amount of approximately HK$175,763,000 (2009: HK$255,795,000) were purchased from EC-Founder Group.

31. RELATED PARTY TRANSACTIONS *(continued)*

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

(f) On 15 December 2008, the Company entered into a master agreement with EC-Founder for the sales of information products to EC-Founder Group for a term of three years from 1 January 2009 to 31 December 2011.

During the year, sales of products and commission fee in the amounts of approximately HK$409,511,000 (2009: HK$176,954,000) and HK$1,229,000 (2009: HK$527,000) were received from EC-Founder Group, respectively. The directors considered that the sales of products and commission fee were made in accordance with the master agreement.

(g) On 15 July 2009, the Company entered into an entrusted loan master agreement with Peking Founder (the "Entrusted Loan Master Agreement"), pursuant to which the Group would provide short term loans through a financial institution to Peking Founder and its subsidiaries (collectively "Peking Founder Group") for the three years ending 31 December 2011.

For the year ended 31 December 2009, entrusted loans in the amount of RMB170,000,000 (equivalent to approximately HK$193,630,000) were provided to the Peking Founder Group. The entrusted loans were unsecured, bore interest at 5.35% per annum, and were settled by 9 March 2010 as to the amount of RMB60,000,000 (equivalent to approximately HK$68,340,000), by 23 March 2010 as to the amount of RMB60,000,000 (equivalent to approximately HK$68,340,000) and by 29 June 2010 as to the amount of RMB50,000,000 (equivalent to approximately HK$56,950,000). These entrusted loans and related interest receivable in the aggregate amount of approximately HK$195,812,000 were included in prepayments, deposits and other receivables as at 31 December 2009.

For the year ended 31 December 2010, entrusted loans in the amount of RMB270,000,000 (equivalent to approximately HK$310,646,000) were provided to the Peking Founder Group. The entrusted loans are unsecured and bear interest at rates ranging from 4.86% to 5.35% per annum, and were settled by 8 December 2010 as to the amount of RMB40,000,000 (equivalent to approximately HK$47,080,000). The entrusted loans of RMB130,000,000 (equivalent to approximately HK$153,010,000) and related interest receivable remained undue and were included in prepayments, deposits and other receivables as at 31 December 2010. Subsequent to the end of the reporting period, these entrusted loans were fully settled by the Peking Founder Group.

During the year, interest income earned by the Group amounted to HK$6,444,000 (2009: HK$2,182,000). The directors considered that the provision of entrusted loans to Peking Founder Group was made in accordance with the Entrusted Loan Master Agreement.

31. RELATED PARTY TRANSACTIONS *(continued)*

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

(h) On 18 November 2008, the Company entered into a master agreement with Peking Founder for the purchase of information products and research and development services from Peking Founder Group for a term of three years from 1 January 2009 to 31 December 2011.

On 14 December 2010, the Company entered into a supplemental agreement with Peking Founder to revise the annual cap for the two years ending 31 December 2011. Further details of the transaction were set out in the announcement of the Company dated 14 December 2010.

During the year, products and services of approximately HK$8,215,000 (2009: Nil) were purchased from Peking Founder Group. The directors considered that the purchase of products and services was made in accordance with the master agreement.

(i) On 24 June 2010, Sparkling Idea Limited, a wholly-owned subsidiary of the Company, entered into the disposal agreement with Founder International to dispose of the entire equity interest in Founder Order. Further details of the transaction were set out in note 28 to the financial statements.

On 3 August 2010, the Company entered into a master agreement with Peking Founder to govern the sale of information products to Peking Founder Group for a term of three years ending 31 December 2012.

During the year, sale of information products and commission fee in the amount of approximately HK$56,784,000 (2009: Nil) and HK$170,000 (2009: Nil) were made to Peking Founder Group, respectively. The directors considered that the sale of products and commission fee were made in accordance with the master agreement.

(j) On 5 November 2007, a master agreement in relation to sales of information products by the Group to 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 ended 31 December 2009.

During the year ended 31 December 2009, purchases of media products of approximately HK$4,884,000 from Peking Founder Group and sales of information products of approximately HK$1,982,000 to Peking Founder Group were made by the Group, respectively. 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.

The related party transactions in respect of items (b), (c), (g), (h) and (i) above for the current year also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

31. RELATED PARTY TRANSACTIONS *(continued)*

(II) Outstanding balances with related parties

(a) As at 31 December 2010, except for the entrusted loan receivables from Peking Founder Group disclosed in note 31(I)(g) to the financial statements, other balances due from Peking Founder Group included in prepayments, deposits and other receivables are approximately HK$8,947,000 (2009: HK$8,048,000) and the balances due to Peking Founder Group included in other payables and accruals are approximately HK$1,716,000 (2009: HK$1,823,000). These balances are unsecured, interest-free and have no fixed terms of repayment.

(b) The balance due to a company (in which a 11.65% (2009: 11.39%) equity interest was held by Peking Founder) and its subsidiary included in other payables and accruals as at 31 December 2009 was approximately HK$14,114,000. The balance due from this related company included in prepayments, deposits and other receivables as at 31 December 2010 is approximately HK$111,000 (2009: HK$186,000). The balances are unsecured, interest-free and have no fixed terms of repayment.

(c) The balances due from associates included in prepayments, deposits and other receivables as at 31 December 2010 are approximately HK$263,000 (2009: HK$3,688,000). The balances are unsecured, interest-free and have no fixed terms of repayment.

(d) The balances due to associates included in other payables and accruals as at 31 December 2010 are approximately HK$9,000 (2009: HK$1,115,000). The balances are unsecured, interest-free and have no fixed terms of repayment.

(e) Details of the Group's amounts due from its associates as at the end of the reporting period are included in note 16 to the financial statements.

(f) Details of the Group's trade balances with its associates and related companies as at the end of the reporting period are disclosed in notes 20 and 22 to the financial statements.

31. RELATED PARTY TRANSACTIONS *(continued)*

(III) Compensation of key management personnel of the Group

	2010 HK$'000	2009 HK$'000
Short term employee benefits	1,254	2,028
Post-employment benefits	25	17
Total compensation paid to key management personnel	1,279	2,045

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

32. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

Group - 2010

Financial assets - Loans and receivables

	HK$'000
Due from associates	491
Trade and bills receivables	290,545
Financial assets included in prepayments, deposits and other receivables	175,186
Pledged deposits	13,231
Cash and cash equivalents	292,987
	772,440

Financial liabilities - Financial liabilities at amortised cost

	HK$'000
Trade and bills payables	217,576
Financial liabilities included in other payables and accruals	59,663
Interest-bearing bank borrowings	157,282
	434,521

32. FINANCIAL INSTRUMENTS BY CATEGORY *(continued)*

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows: *(continued)*

Group - 2009

	Available-for-sale investment HK$'000	Loans and receivables HK$'000	Total HK$'000
Due from associates	–	432	432
Available-for-sale investment	802	–	802
Trade and bills receivables	–	211,472	211,472
Financial assets included in prepayments, deposits and other receivables	–	232,667	232,667
Pledged deposits	–	92,572	92,572
Cash and cash equivalents	–	333,031	333,031
	802	870,174	870,976

Financial liabilities – Financial liabilities at amortised cost

	HK$'000
Due to associates	245
Trade and bills payables	368,913
Financial liabilities included in other payables and accruals	81,768
Interest-bearing bank borrowings	103,795
	554,721

	Company 2010 HK$'000	Company 2009 HK$'000
Financial assets – Loans and receivables		
Cash and cash equivalents	827	957
Financial liabilities – Financial liabilities at amortised cost		
Due to a subsidiary	313,095	311,497

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

The main risks arising from the Group's financial instruments are credit risk and liquidity risk. The board of directors 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 29 to the financial statements.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty, by geographical region and by industry sector. There are no significant concentrations of credit risk 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.

33. 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 purposes.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

Group

	2010		
	Within 1 year HK$'000	**Over 1 year HK$'000**	**Total HK$'000**
Trade and bills payables	**217,576**	**–**	**217,576**
Financial liabilities included in other payables and accruals	**59,663**	**–**	**59,663**
Interest-bearing bank borrowings	**158,815**	**–**	**158,815**
	436,054	**–**	**436,054**

	2009		
	Within 1 year HK$'000	Over 1 year HK$'000	Total HK$'000
Due to associates	245	–	245
Trade and bills payables	368,913	–	368,913
Financial liabilities included in other payables and accruals	81,768	–	81,768
Interest-bearing bank borrowings	104,827	1,063	105,890
	555,753	1,063	556,816

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

Liquidity risk *(continued)*

The maturity profile of the Company's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

Company	2010		
	Within 1 year HK$'000	Over 1 year HK$'000	Total HK$'000
Due to a subsidiary	–	313,095	313,095
Guarantees given to banks in connection with facilities granted to subsidiaries	139,977	–	139,977
	139,977	313,095	453,072

	2009		
	Within 1 year HK$'000	Over 1 year HK$'000	Total HK$'000
Due to a subsidiary	–	311,497	311,497
Guarantees given to banks in connection with facilities granted to subsidiaries	71,473	–	71,473
	71,473	311,497	382,970

Capital management

The primary objectives of the Group's capital management are 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 for managing capital during the years ended 31 December 2010 and 31 December 2009.

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

Capital management *(continued)*

The Group monitors capital using a gearing ratio, which is interest-bearing bank borrowings divided by the total equity attributable to owners of the parent. The Group's policy is to maintain a stable gearing ratio. The gearing ratios as at the ends of the reporting periods were as follows:

	Group	
	2010	2009
	HK$'000	HK$'000
Interest-bearing bank borrowings	**157,282**	103,795
Total equity attributable to owners of the parent	**588,414**	488,109
Gearing ratio	**27%**	21%

34. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 25 March 2011.

Particulars of Investment Properties

31 December 2010

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 2010

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 non-controlling 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				
	2010	2009	2008	2007	2006
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
REVENUE	2,240,732	1,912,093	1,285,617	784,211	2,115,920
PROFIT/(LOSS) FOR THE YEAR	62,944	23,366	23,354	(50,517)	36,255
Attributable to:					
Owners of the parent	62,823	23,155	23,535	(50,928)	25,911
Non-controlling interests	121	211	(181)	411	10,344
	62,944	23,366	23,354	(50,517)	36,255

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	As at 31 December				
	2010	2009	2008	2007	2006
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
TOTAL ASSETS	1,288,093	1,376,031	1,052,621	860,589	792,016
TOTAL LIABILITIES	(698,827)	(887,215)	(647,470)	(482,769)	(383,135)
NON-CONTROLLING INTERESTS	(852)	(707)	(491)	(6,021)	(5,588)
	588,414	488,109	404,660	371,799	403,293