FOUNDER HOLDINGS LIMITED
方正控股有限公司
*(Incorporated in Bermuda with limited liability)*
Stock Code: 00418

2011

# ANNUAL REPORT 2011

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# Corporate Information

## BOARD OF DIRECTORS

### Executive directors

Mr Fang Zhong Hua *(Chairman)*
Professor Xiao Jian Guo *(Deputy Chairman)*
Mr Liu Xiao Kun *(President)*
Ms Yi Mei
Professor Yang Bin
Mr Wo Fei Yu

### Independent non-executive directors

Mr Li Fat Chung
Ms Wong Lam Kit Yee
Mr Fung Man Yin, Sammy

## COMMITTEES

### Audit Committee

Mr Li Fat Chung *(Chairman)*
Ms Wong Lam Kit Yee
Mr Fung Man Yin, Sammy

### Remuneration Committee

Mr Li Fat Chung *(Chairman)*
Mr Zhang Zhao Dong
Ms Wong Lam Kit Yee

### Nomination Committee

Mr Fang Zhong Hua *(Chairman)*
Ms Wong Lam Kit Yee
Mr Fung Man Yin, Sammy

## COMPANY SECRETARY

Ms Tang Yuk Bo, Yvonne

## AUTHORISED REPRESENTATIVES

Mr Fang Zhong Hua
Ms Yi Mei

## 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 WEBSITE

www.irasia.com/listco/hk/founder

# Financial Highlights

| Year | 2011 | 2010 | 2009 | 2008 | 2007 |
|---|---|---|---|---|---|
| Turnover *(HK$' million)* | 1,647 | 2,241 | 1,912 | 1,286 | 784 |
| Net profit/(loss) *(HK$' million)* | 50 | 63 | 23 | 23 | (51) |
| Total assets *(HK$' million)* | 1,342 | 1,288 | 1,376 | 1,053 | 861 |
| Total liabilities *(HK$' million)* | 677 | 699 | 887 | 648 | 483 |
| Attributable to owners of the parent: | | | | | |
| Net assets *(HK$' million)* | 664 | 588 | 488 | 405 | 372 |
| Net asset value per share *(HK$)* | 0.59 | 0.52 | 0.43 | 0.36 | 0.33 |
| Working capital ratio | 1.64 | 1.39 | 1.25 | 1.33 | 1.39 |
| Earnings/(loss) per share – basic *(HK cents)* | 4.4 | 5.6 | 2.0 | 2.1 | (4.5) |
| Total number of staff *(As at the end of the year)* | 1,411 | 1,373 | 1,456 | 1,397 | 1,327 |

# Management Discussion and Analysis

## PERFORMANCE

The Group reported a profit attributable to equity holders of the parent for the year ended 31 December 2011 of approximately HK$49.9 million (year ended 31 December 2010: HK$62.8 million). The Group's turnover for the current financial year declined by 26.5% to approximately HK$1,647.2 million (year ended 31 December 2010: HK$2,240.7 million) due to the 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") in November 2010. Gross profit for the current year increased by 13.7% to HK$348.5 million compared with last financial year's HK$306.6 million. Gross profit ratio increased from last financial year's 13.7% to 21.2% for the current financial year because Founder Order's systems integration for non-media business had a much lower gross profit margin as compared with that of media business.

Basic and diluted earnings per share attributable to equity holders of the parent for the year was HK4.4 cents (year ended 31 December 2010: HK5.6 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 by 21.4% to approximately HK$1,115.2 million (year ended 31 December 2010: HK$918.5 million) while the segment results recorded a profit of approximately HK$43.4 million (year ended 31 December 2010: HK$38.7 million). The gross profit ratio for the Media Business was maintained at 31% for both years.

With the rapid growth and development in printing industry in China under the support by the government, the demand for printing software and systems integration increases accordingly so as to provide high quality and environmental friendly printing products. In addition, under the global change in needs and habit of readers under the rapid development of internet and mobile internet technology, the media industry such as newspaper publishers, television stations put more resources on improving their publishing and broadcasting systems in order to maintain their competitiveness. This leads to the significant improvement in turnover and results of the Media Business during the year.

At present, the massive coverage of iPad and iPhone become the important intelligent terminals for customers. After several years of development of digital reporting systems, Beijing Founder Electronics Co., Ltd. ("Founder Electronics") has achieved good progress in building up the know-how and technology in this area and therefore enjoyed a commanding position in this industry. Founder Electronics developed solutions of iPad and iPhone such as Founder mobile news release system which includes Back-end content management and distribution systems news system (後端的新聞內容管理和發佈系統) and news reader in iPhone/iPad (iPhone/iPad新聞閱讀器) for various newspaper publishers in the PRC. In April 2011, Founder Electronics was awarded by China Unicom as one of their application cooperation partners (集團級行業應用合作夥伴) to promote the application of mobile editing (移動採編應用). In October 2011, Founder Electronics entered into strategic cooperation agreement on the development of digital publishing system with Press and Publication Bureau of Guangxi Zhuang Autonomous Region (廣西壯族自治區新聞出版局) so as to promote the continuing development of publishing industry in China.

# Management Discussion and Analysis

In addition, in March 2011, Founder Electronics obtained the special honors of Radio and Television Technology Innovation Award 2010 (2010廣播電視科技創新獎) by China Radio and TV Equipment Industry Association（中國廣播電視設備工業協會）. In April 2011, one of the patents developed by Founder Electronics was awarded as Chinese Outstanding Patented Invention in Beijing (北京市發明專利獎) by the government in Beijing. In May 2011, Founder Electronics obtained the special award of China Creative Communication Award in the third China International Forum on Creative Communication (第三屆中國創意傳播國際論壇) jointly organised by 21st Media Advertising Magazine (《21世紀廣告》雙周刊), Advertising College of Communication University of China (中國傳媒大學廣告學院), Advertising Federation of Hong Kong (香港廣告業聯會) and Beijing CBD Chamber of Media Industry (北京CBD傳媒產業商會). In August 2011, Founder Electronics obtained the special awards of BIRTV2011 products, technologies and applications project (BIRTV2011產品、技術及應用項目獎) selected by the experts from The State Administration of Radio Film and Television（國家廣播電影電視總局）, Central National Radio（中央人民廣播電台）and CCTV（中央電視台）. In October 2011, Founder Electronics was awarded as The Most Valuable Brand of China's software and information services in 2011（2011中國軟件和信息服務業最有價值品牌）by China Software Industry Association（中國軟件行業協會）and Shenyang Economy and Information Technology Commission（瀋陽市經濟和信息化委員會）. In December 2011, Mr Liu Xiao Kun, the president of the Company, obtained the award of Contribution to China's software industry in ten years（中國軟件產業十年功勛人物）by China Software Industry Association（中國軟件行業協會）.

The Group's self-developed and advanced technology computer-to-plate ("CTP") product, Founder DiaoLong（方正雕龍）, has received encouraging support and strong demand from both domestic and overseas markets since 2007. The development of the CTP product has enabled the Group to integrate vertically as a software and hardware developer and horizontally as a system integrator and service provider. In June 2011, Founder Electronics entered into sales contract with People's Daily Printing Investment Group Co., Ltd.（人民日報社中聞印務投資集團有限公司）for the sales of CTP systems to the printing centres of People's Daily China News in various cities after the installation of CTP systems for their printing centres in Xian, Wuhan, Fuzhou, Nanjing and Qingdao in 2010. New model of Founder DiaoLong with better services and quality of product output was released in November 2011.

Founder Electronics obtained the special honours 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 major new and high technology enterprise（重點高新技術企業）. Founder Electronics has obtained this special honour for three consecutive years since 2008 showing its competitiveness and innovative position in the market.

# Management Discussion and Analysis

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

The turnover of the Non-Media Business for the current financial year decreased by 59.8% to approximately HK$531.8 million (year ended 31 December 2010: HK$1,321.9 million) while its segment results has recorded a profit of approximately HK$4.5 million (year ended 31 December 2010: HK$16.7 million).

The major products provided by the Non-Media Business include various information products such as servers, storage devices and workstations of a number of internationally famed and branded information products manufacturers such as IBM, HP, Cisco and Hitachi. The decrease in segment revenue was mainly due to the disposal of Founder Order which was engaged in the Non-Media Business in the PRC in November 2010. The decrease in segment results was due to last year's results included gain on disposal of Founder Order of HK$30.2 million.

## 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 maximise shareholders' value.

## 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 granted share options to its eligible directors and employees during the current financial year.

As at 31 December 2011, the number of employees of the Group was approximately 1,411 (31 December 2010: 1,373).

## 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 2011, the Group had interest-bearing bank borrowings of approximately HK$76.0 million (31 December 2010: HK$157.3 million) which were floating interest bearing. The bank borrowings were denominated in Hong Kong Dollars ("HKD"), Renminbi ("RMB"), EURO and United States Dollars ("U.S. dollars") and were repayable within one year.

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 2011, the Group recorded total assets of HK$1,341.7 million which were financed by liabilities of HK$677.1 million, non-controlling interests of HK$0.9 million and equity of HK$663.7 million. The Group's net asset value per share as at 31 December 2011 amounted to HK$0.59 (31 December 2010: HK$0.52).

The Group had total cash and bank balances of HK$452.7 million as at 31 December 2011 (31 December 2010: HK$306.2 million). After deducting total bank borrowings of HK$76.0 million (31 December 2010: HK$157.3 million), the Group recorded net cash and bank balances of HK$376.7 million as at 31 December 2011 as compared to HK$148.9 million as at 31 December 2010. The Group's borrowings, which are subject to little seasonality, consist of mainly short term bank loans and trust receipt loans. As at 31 December 2011, the Group's gearing ratio, measured on the basis of total borrowings as a percentage of total shareholders' equity, was 0.11 (31 December 2010: 0.27) while the Group's working capital ratio was 1.64 (31 December 2010: 1.39). At 31 December 2011, 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.

# Management Discussion and Analysis

### 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 2011, the major contracts in hand for the software development and systems integration business amounted to approximately HK$392.0 million (31 December 2010: HK$308.7 million), which are all expected to be completed within one year time.

### Material acquisitions and disposals of subsidiaries and associates

On 29 August 2011, the Company has entered into a disposal agreement with Founder Information (Hong Kong) Limited, a subsidiary of Peking Founder, to dispose of the entire shareholding interest in EC-Founder (Holdings) Company Limited ("EC-Founder"), an associate of the Company, and to procure its wholly-owned subsidiary, Founder (Hong Kong) Limited ("Founder HK"), to sell the loan of HK$5.4 million due and owing by EC-Founder to Founder HK for an aggregate consideration of approximately HK$114.1 million. Details of the disposal are set out in the announcement of the Company dated 29 August 2011 and the circular of the Company dated 20 September 2011. The disposal was completed on 29 December 2011 and a gain of approximately HK$6.4 million was recorded.

### Charges on assets

At 31 December 2011, the Group's land and buildings in Hong Kong of approximately HK$53.1 million and investment properties of approximately HK$47.5 million and bank deposits of approximately HK$12.1 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 2011.

### Contingent liabilities

At 31 December 2011, the Group did not have any significant contingent liabilities.

# Corporate Governance Report

## CORPORATE GOVERNANCE PRACTICES

The Company is firmly committed to the overall standards of corporate governance and has always 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"), which has been renamed as Corporate Governance Code with effect from 1 April 2012, 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 2011.

## 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 2011.

## 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 list of Directors is set out in the section headed "Report of the Directors" of this Annual Report. 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 15 to 16 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.

# Corporate Governance Report

The Board held four regular Board meetings at approximately quarterly intervals during the year ended 31 December 2011. 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 Fang Zhong Hua *(Chairman)* | *(appointed on 30 December 2011)* | 0/0 |
| Professor Xiao Jian Guo | | 2/4 |
| Mr Liu Xiao Kun | | 2/4 |
| Ms Yi Mei | *(appointed on 30 December 2011)* | 0/0 |
| Professor Yang Bin | *(appointed on 30 December 2011)* | 0/0 |
| Mr Wo Fei Yu | *(appointed on 30 December 2011)* | 0/0 |
| Mr Zhang Zhao Dong | *(resigned on 30 December 2011)* | 4/4 |
| Professor Wei Xin | *(resigned on 30 December 2011)* | 2/4 |
| Mr Chen Geng | *(resigned on 30 December 2011)* | 3/4 |
| Mr Xie Ke Hai | *(resigned on 30 December 2011)* | 3/4 |
| *Independent Non-executive Directors* | | |
| Mr Li Fat Chung | | 2/4 |
| Ms Wong Lam Kit Yee | | 1/4 |
| Mr Fung Man Yin, Sammy | *(appointed on 30 June 2011)* | 1/3 |
| Dr Hu Hung Lick, Henry | *(retired on 30 June 2011)* | 0/1 |

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. Prior to 30 December 2011, Mr Zhang Zhao Dong continued to act as the Chairman of the Board. Mr Fang Zhong Hua succeeded Mr Zhang Zhao Dong as the Chairman of the Board from 30 December 2011. 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.

Before the end of appointment and retirement of Dr Hu Hung Lick, Henry on 30 June 2011, among the three independent non-executive directors, two are professional accountants practicing in Hong Kong. After the retirement of Dr Hu Hung Lick, Henry and appointment of Mr Fung Man Yin, Sammy on 30 June 2011, three 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

The Remuneration Committee of the Board was established in 2005 with specific written terms of reference which deal clearly with its authorities and duties. 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 2011, 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 2011 is set out in Note 8 to the Company's 2011 Financial Statements.

The members of the Remuneration Committee during the year and their attendance record at the meeting are as follows:

| **Name of member** | **Meetings attended/Eligible to attend** |
|---|---|
| Mr Fang Zhong Hua *(Chairman) (appointed as a member on 30 December 2011)* | 0/0 |
| Mr Zhang Zhao Dong *(Chairman) (ceased to be a member on 30 December 2011)* | 1/1 |
| Mr Li Fat Chung | 1/1 |
| Ms Wong Lam Kit Yee | 1/1 |

# Corporate Governance Report

## NOMINATION OF DIRECTORS

During the year, 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. Where vacancies arise at the Board, candidates are proposed and put forward to the Board for consideration and approval, with the objective of appointing to the Board individuals with expertise in the businesses of the Group and leadership qualities to complement the capabilities of the existing Directors thereby enabling the Company to retain as well as improve its competitive position. Shareholders may propose a candidate for election as Director in accordance with the Bye-laws of the Company. The procedures for such proposal are published on the website 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.

During the year, Mr Fung Man Yin, Sammy, Mr Fang Zhong Hua, Ms Yi Mei, Professor Yang Bin and Mr Wo Fei Yu were proposed for directorship to replace to the casual vacancies caused by the resignation of Dr Hu Hung Lick, Henry, Mr Zhang Zhao Dong, Professor Wei Xin, Mr Chen Geng and Mr Xie Ke Hai.

## 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.

## 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 | 1,950 |
| Non-audit services: | |
| Agreed-upon procedures on interim results | 330 |
| Agreed-upon procedures on connected transactions | 160 |
| Limited assurance services on continuing connected transactions | 35 |
| Tax compliance services | 67 |
| | 592 |
| Total | 2,542 |

## AUDIT COMMITTEE

The Audit Committee of the Board has been established with specific written terms of reference in 1998 which deal clearly with its authorities and duties. The Audit Committee now solely comprises Independent Non-executive Directors of the Company, namely, Mr Li Fat Chung (Chairman), Ms Wong Lam Kit Yee and Mr Fung Man Yin, Sammy. All the committee members possess appropriate professional accounting and financial qualifications.

The primary responsibilities of the Audit Committee include making recommendation to the Board on the appointment, reappointment and removal of the external auditors, approving the remuneration and terms of engagement of the external auditors, reviewing and monitoring the external auditors' independence and objectivity and the effectiveness of the audit process in accordance with applicable standard, developing and implementing policy on the engagement of external auditors to 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 2011, 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 Audit Committee at the meetings are as follows:

| **Name of member** | **Meetings attended/Eligible to attend** |
|---|---|
| Mr Li Fat Chung *(Chairman)* | 3/3 |
| Ms Wong Lam Kit Yee | 2/3 |
| Mr Fung Man Yin, Sammy *(appointed as a member on 30 June 2011)* | 2/2 |
| Dr Hu Hung Lick, Henry *(ceased to be a member on 30 June 2011)* | 0/1 |

## 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

**Fang Zhong Hua**
*Chairman*

Hong Kong
27 March 2012

# Biographical Details of Directors and Senior Management

## EXECUTIVE DIRECTORS

**Mr Fang Zhong Hua**, aged 48, is the senior vice president of Peking University Founder Group Company Limited ("Peking Founder") and chief executive officer of Founder Information Industry Group（方正信息產業集團）("Founder Information"), a subsidiary of Peking Founder. He is the chairman of Founder Technology Group Corporation ("Founder Technology") (stock code: 600601), a company listed in the Shanghai Stock Exchange. He is also a director of a number of associated companies of Peking Founder. He is also a director of Founder Century (Hong Kong) Limited and Beijing Founder Century Information System Co., Ltd.. Mr Fang graduated from Zhengzhou Institute of Aeronautical Industry Management College and obtained a master's degree in Business Administration at the Peking University. He is also a Senior Economist in the People's Republic of China (the "PRC"). He is the overall team leader of National Digital Publishing Systems Engineering Project（國家數字複合出版系统工程）, the major digital publishing project included in National "Eleventh Five-Year" during the Cultural Development Plan（國家"十一五"時期文化發展規劃綱要）and News publishing industry "Eleventh Five-Year Plan"（新聞出版業"十一五"發展規劃）. He is the vice president of China Computer Industry Association（中國計算機行業協會）.

**Professor Xiao Jian Guo**, aged 55, is the Deputy Chairman and an executive director of the Company. He is also an executive director and Chief Technical Officer of Peking Founder. 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 52, 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.

**Ms Yi Mei**, aged 47, is the director of Beijing Founder Electronics Co., Ltd. ("Founder Electronics"), a subsidiary of the Company. She is a certified public accountant in the PRC. Ms Yi is also the assistant president of Peking Founder, the vice president and chief financial officer of Founder Information. She is a director of a number of associated companies of Peking Founder. She is a director of Founder Technology (stock code: 600601), a company listed in the Shanghai Stock Exchange. She is also a director of Founder Century (Hong Kong) Limited and Beijing Founder Century Information System Co., Ltd.. Ms Yi has extensive experience in finance and management and worked in various government departments and large enterprises in the PRC.

# Biographical Details of Directors and Senior Management

**Professor Yang Bin**, aged 42, is the president of Founder Electronics. He obtained a master's degree of Computer Science at the Peking University in 1994. Mr Yang has extensive experience in the research and development in the information technology industry. He was awarded the "Major Technological Inventions of Information Industry Award"(信息產業重大技術發明獎) by Ministry of Information Industry in the PRC(國家信息產業部), "China's Top Ten Scientific and Technological Progress in Higher Education Award"(中國高等學校十大科技進展獎) by Ministry of Education in the PRC(國家教育部), and First prize of Electronic Information Science and Technology Award(電子信息科學技術獎一等獎) by Chinese Institute of Electronics(中國電子學會).

**Mr Wo Fei Yu**, aged 42, is the vice president and general manager of strategy and investment department of PKU International Healthcare Group Co., Ltd.(北大國際醫院集團有限公司), an associated company of Peking Founder. He received his master's degree in Business Administration at Shanghai Maritime University(上海海事大學). Mr Wo has extensive experience in the strategic investment.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr Li Fat Chung**, aged 51, 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.

**Ms Wong Lam Kit Yee**, aged 48, 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.

**Mr Fung Man Yin, Sammy**, aged 52, is the Group Financial Controller of DVN (Holdings) Limited, the shares of which are listed on the main board of The Stock Exchange of Hong Kong Limited. Mr Fung was the Group Financial Controller of Management Investment & Technology (Holdings) Limited (now known as EC-Founder (Holdings) Company Limited and is a then associated company of the Company) from 1992 to 2000, and the Group Financial Controller of the Company from 2000 to 2006. He has nearly 20 years of experience in financial management of listed companies. Mr Fung holds a first class honours degree in Economics and Accounting from the University of Newcastle Upon Tyne, England. Mr Fung is a fellow member of the Institute of Chartered Accountants in England and Wales and a member of the Hong Kong Institute of Certified Public Accountants. He worked with several international accounting firms in UK and Hong Kong for 10 years, and he had been a practicing certified public accountant in Hong Kong for 17 years.

# Report of the Directors

The directors present their report and the audited financial statements for the year ended 31 December 2011.

## 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 2011 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 113.

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, are set out on page 116 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 114 to 115 of the annual report.

## SHARE CAPITAL AND SHARE OPTION

There were no movements in either the Company's authorised or issued share capital during the year. Details of movements in the Company's share options during the year are set out in note 25 to the financial statements.

## 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 26(b) to the financial statements and in the consolidated statement of changes in equity, respectively.

## DISTRIBUTABLE RESERVES

At 31 December 2011, the Company's reserves available for distribution amounted to approximately HK$207,074,000. 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 46% of the total purchases for the year and purchases from the largest supplier included therein amounted to 18%.

During the year ended 31 December 2011, Mr Zhang Zhao Dong and Professor Wei Xin, the then directors of the Company, and Professor Xiao Jian Guo, the director of the Company, have beneficial interests in EC-Founder (Holdings) Company Limited, the associated company of the Company before its disposal, and the holding company of the largest customer 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 Fang Zhong Hua | *(appointed on 30 December 2011)* |
| Professor Xiao Jian Guo | |
| Mr Liu Xiao Kun | |
| Ms Yi Mei | *(appointed on 30 December 2011)* |
| Professor Yang Bin | *(appointed on 30 December 2011)* |
| Mr Wo Fei Yu | *(appointed on 30 December 2011)* |
| Mr Zhang Zhao Dong | *(resigned on 30 December 2011)* |
| Professor Wei Xin | *(resigned on 30 December 2011)* |
| Mr Chen Geng | *(resigned on 30 December 2011)* |
| Mr Xie Ke Hai | *(resigned on 30 December 2011)* |

### Independent non-executive directors:

| | |
|---|---|
| Mr Li Fat Chung | |
| Ms Wong Lam Kit Yee | |
| Mr Fung Man Yin, Sammy | *(appointed on 30 June 2011)* |
| Dr Hu Hung Lick, Henry | *(retired on 30 June 2011)* |

In accordance with the bye-laws of the Company, Mr Fang Zhong Hua, Mr Liu Xiao Kun, Ms Yi Mei, Professor Yang Bin, Mr Wo Fei Yu and Mr Li Fat Chung will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

The Company has received annual confirmations of independence from Mr Li Fat Chung, Ms Wong Lam Kit Yee and Mr Fung Man Yin, Sammy, and still considers them to be independent.

## DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 15 to 16 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' EMOLUMENTS

The emoluments of the Directors are determined by reference to the market rates, commitments, contribution and their duties and responsibilities within 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 2011, 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:

# Report of the Directors

### Long positions in share options of the Company:

| Name of directors | Number of options directly beneficially owned |
|---|---|
| Mr Fang Zhong Hua | 7,388,000 |
| Professor Xiao Jian Guo | 7,388,000 |
| Mr Liu Xiao Kun | 7,388,000 |
| Ms Yi Mei | 7,388,000 |
| Professor Yang Bin | 7,388,000 |
| | 36,940,000 |

Save as disclosed above, as at 31 December 2011, 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.

## SHARE OPTION SCHEME

The Company operates a share option scheme (the "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 25 to the financial statements.

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

| Name or category of the participants | Number of share options: As at 1 January 2011 | Granted during the year | Cancelled during the year | Lapsed during the year | As at 31 December 2011 | Date of grant of the share options (Note 1) | Exercise period of the share options (Note 2) | Exercise price of the share options (Note 3) HK$ per share |
|---|---|---|---|---|---|---|---|---|
| **Executive Directors** | | | | | | | | |
| Mr Fang Zhong Hua | – | 7,388,000 | – | – | 7,388,000 | 17.11.2011 | 17.11.2012 to 16.11.2014 | 0.296 |
| Professor Xiao Jian Guo | – | 7,388,000 | – | – | 7,388,000 | 17.11.2011 | 17.11.2012 to 16.11.2014 | 0.296 |
| Professor Xiao Jian Guo | 8,000,000 | – | (8,000,000) | – | – | 5.2.2004 | 6.2.2004 to 4.2.2014 | 1.104 |
| Mr Liu Xiao Kun | – | 7,388,000 | – | – | 7,388,000 | 17.11.2011 | 17.11.2012 to 16.11.2014 | 0.296 |
| Ms Yi Mei | – | 7,388,000 | – | – | 7,388,000 | 17.11.2011 | 17.11.2012 to 16.11.2014 | 0.296 |
| Professor Yang Bin | – | 7,388,000 | – | – | 7,388,000 | 17.11.2011 | 17.11.2012 to 16.11.2014 | 0.296 |
| Mr Zhang Zhao Dong (Note 4) | 8,000,000 | – | (8,000,000) | – | – | 5.2.2004 | 6.2.2004 to 4.2.2014 | 1.104 |
| Professor Wei Xin (Note 4) | 8,000,000 | – | (8,000,000) | – | – | 5.2.2004 | 6.2.2004 to 4.2.2014 | 1.104 |
| Subtotal | 24,000,000 | 36,940,000 | (24,000,000) | – | 36,940,000 | | | |
| **Other employees** | | | | | | | | |
| In aggregate | – | 36,939,900 | – | – | 36,939,900 | 17.11.2011 | 17.11.2012 to 16.11.2014 | 0.296 |
| In aggregate | 8,000,000 | – | (8,000,000) | – | – | 5.2.2004 | 6.2.2004 to 4.2.2014 | 1.104 |
| In aggregate | 6,000,000 | – | – | (6,000,000) | – | 2.1.2004 | 3.1.2004 to 31.12.2013 | 0.840 |
| Subtotal | 14,000,000 | 36,939,900 | (8,000,000) | (6,000,000) | 36,939,900 | | | |
| Total | 38,000,000 | 73,879,900 | (32,000,000) | (6,000,000) | 73,879,900 | | | |

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

1. The vesting period of the share options is from the date of the grant until the commencement of the exercise period.

2. The options granted on 17 November 2011 are exercisable in the following two tranches:

   (i) First 40% of the options are exercisable from 17 November 2012 to 16 November 2013; and

   (ii) The remaining 60% of the options are exercisable from 17 November 2013 to 16 November 2014.

3. 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.

4. Mr Zhang Zhao Dong and Professor Wei Xin resigned as directors of the Company on 30 December 2011.

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 of the directors 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 2011, 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 2011, 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 30(I)(j) to the financial statements.

### Continuing connected transactions

The independent non-executive directors of the Company have reviewed the continuing connected transactions set out in note 30(I)(b), 30(I)(c), 30(I)(f), 30(I)(g), 30(I)(h) and 30(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.

Ernst & Young, the Company's auditors, were engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* and with reference to Practice Note 740 *Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules* issued by the Hong Kong Institute of Certified Public Accountants. Ernst & Young have issued their unqualified letter containing their findings and conclusions in respect of the continuing connected transactions disclosed above by the Group in accordance with Rule 14A.38 of the Listing Rules. A copy of the auditors' letter has been provided by the Company to the Stock Exchange.

## 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

**Fang Zhong Hua**
*Chairman*

Hong Kong
27 March 2012

# Independent Auditors' Report

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 113, which comprise the consolidated and company statements of financial position as at 31 December 2011, 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.

## 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 2011, 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*
22/F, CITIC Tower
1 Tim Mei Avenue
Central
Hong Kong

27 March 2012

# Consolidated Income Statement

Year ended 31 December 2011

| | Notes | 2011<br>HK$'000 | 2010<br>HK$'000 |
|---|---|---|---|
| REVENUE | 5 | **1,647,234** | 2,240,732 |
| Cost of sales | | **(1,298,706)** | (1,934,117) |
| Gross profit | | **348,528** | 306,615 |
| Other income and gains | 5 | **76,007** | 92,895 |
| Selling and distribution costs | | **(211,282)** | (169,435) |
| Administrative expenses | | **(57,788)** | (67,115) |
| Other expenses, net | | **(96,155)** | (97,181) |
| Finance costs | 7 | **(4,122)** | (6,339) |
| Share of profits and losses of associates | | **(1,593)** | 6,120 |
| PROFIT BEFORE TAX | 6 | **53,595** | 65,560 |
| Income tax expense | 10 | **(3,661)** | (2,616) |
| PROFIT FOR THE YEAR | | **49,934** | 62,944 |
| Attributable to: | | | |
| Owners of the parent | 11 | **49,913** | 62,823 |
| Non-controlling interests | | **21** | 121 |
| | | **49,934** | 62,944 |
| EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT | 12 | | |
| Basic | | **HK4.4 cents** | HK5.6 cents |
| Diluted | | **HK4.4 cents** | HK5.6 cents |

# Consolidated Statement of Comprehensive Income

Year ended 31 December 2011

| | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|
| PROFIT FOR THE YEAR | **49,934** | 62,944 |
| OTHER COMPREHENSIVE INCOME | | |
| Revaluation surplus of land and buildings | **27,114** | 35,503 |
| Income tax effect | **(1,306)** | (2,348) |
| | **25,808** | 33,155 |
| Share of other comprehensive income/(loss) of associates | **(1,198)** | 3,885 |
| Exchange differences on translation of foreign operations | **13,341** | 9,122 |
| OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX | **37,951** | 46,162 |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR | **87,885** | 109,106 |
| Attributable to: | | |
| Owners of the parent | **87,828** | 108,961 |
| Non-controlling interests | **57** | 145 |
| | **89,885** | 109,106 |

# Consolidated Statement of Financial Position

31 December 2011

| | Notes | 2011<br>HK$'000 | 2010<br>HK$'000 |
|---|---|---|---|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | 13 | **184,787** | 152,453 |
| Investment properties | 14 | **48,355** | 39,200 |
| Investments in associates | 16 | **16,425** | 135,308 |
| Total non-current assets | | **249,567** | 326,961 |
| CURRENT ASSETS | | | |
| Inventories | 17 | **61,775** | 34,410 |
| Gross amount due from contract customers | 18 | **146,726** | 28,061 |
| Trade and bills receivables | 19 | **232,621** | 290,545 |
| Prepayments, deposits and other receivables | | **198,261** | 301,898 |
| Pledged deposits | 20 | **12,121** | 13,231 |
| Cash and cash equivalents | 20 | **440,611** | 292,987 |
| Total current assets | | **1,092,115** | 961,132 |
| CURRENT LIABILITIES | | | |
| Trade and bills payables | 21 | **292,566** | 217,576 |
| Gross amount due to contract customers | 18 | **18,679** | 7,611 |
| Other payables and accruals | | **279,748** | 305,328 |
| Interest-bearing bank borrowings | 22 | **76,031** | 157,282 |
| Tax payable | | **–** | 2,578 |
| Total current liabilities | | **667,024** | 690,375 |
| NET CURRENT ASSETS | | **425,091** | 270,757 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | **674,658** | 597,718 |

# Consolidated Statement of Financial Position (continued)

31 December 2011

| | Notes | 2011<br>HK$'000 | 2010<br>HK$'000 |
|---|---|---|---|
| NON-CURRENT LIABILITIES | | | |
| Deferred tax liabilities | 23 | 10,110 | 8,452 |
| Net assets | | 664,548 | 589,266 |
| EQUITY | | | |
| **Equity attributable to owners of the parent** | | | |
| Issued capital | 24 | 113,030 | 113,030 |
| Reserves | 26(a) | 550,609 | 475,384 |
| | | 663,639 | 588,414 |
| **Non-controlling interests** | | 909 | 852 |
| Total equity | | 664,548 | 589,266 |

**Fang Zhong Hua**
*Director*

**Liu Xiao Kun**
*Director*

# Consolidated Statement of Changes in Equity

Year ended 31 December 2011

| | Attributable to owners of the parent | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Issued capital HK$'000 | Share premium account HK$'000 | Contributed surplus HK$'000 | Capital reserve HK$'000 | Land and buildings revaluation reserve HK$'000 | Exchange fluctuation reserve HK$'000 | General reserve HK$'000 | Accumulated losses HK$'000 | Total HK$'000 | Non–controlling interests HK$'000 | Total equity HK$'000 |
| At 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 |

# Consolidated Statement of Changes in Equity (continued)

Year ended 31 December 2011

| | Note | Issued capital HK$'000 | Share premium account HK$'000 | Contributed surplus HK$'000 | Employee share-based compensation reserve HK$'000 | Capital reserve HK$'000 | Land and buildings revaluation reserve HK$'000 | Exchange fluctuation reserve HK$'000 | General reserve HK$'000 | Accumulated losses HK$'000 | Total HK$'000 | Non-controlling interests HK$'000 | Total equity HK$'000 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Attributable to owners of the parent | | | | | | | | | | | |
| At 1 January 2011 | | 113,030 | 32,470 | 867,910 | - | 3,685 | 92,302 | 42,259 | 42,987 | (606,229) | 588,414 | 852 | 589,266 |
| Profit for the year | | - | - | - | - | - | - | - | - | 49,913 | 49,913 | 21 | 49,934 |
| Other comprehensive income for the year: | | | | | | | | | | | | | |
| Revaluation surplus of land and buildings, net of tax | | - | - | - | - | - | 25,808 | - | - | - | 25,808 | - | 25,808 |
| Share of other comprehensive loss of associates | | - | - | - | - | - | - | (1,198) | - | - | (1,198) | - | (1,198) |
| Exchange differences on translation of foreign operations | | - | - | - | - | - | - | 13,305 | - | - | 13,305 | 36 | 13,341 |
| Total comprehensive income for the year | | - | - | - | - | - | 25,808 | 12,107 | - | 49,913 | 87,828 | 57 | 87,885 |
| Disposal of an associate | | - | - | - | - | - | - | (13,260) | (3,457) | 3,457 | (13,260) | - | (13,260) |
| Equity-settled share option arrangements | 25 | - | - | - | 657 | - | - | - | - | - | 657 | - | 657 |
| At 31 December 2011 | | 113,030 | 32,470* | 867,910* | 657* | 3,685* | 118,110* | 41,106* | 39,530* | (552,859)* | 663,639 | 909 | 664,548 |

* These reserve accounts comprise the consolidated reserves of HK$550,609,000 (2010: HK$475,384,000) in the consolidated statement of financial position.

# Consolidated Statement of Cash Flows

Year ended 31 December 2011

| | Notes | 2011 HK$'000 | 2010 HK$'000 (Restated) |
|---|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Profit before tax | | **53,595** | 65,560 |
| Adjustments for: | | | |
| Finance costs | 7 | **4,122** | 6,339 |
| Share of profits and losses of associates | | **1,593** | (6,120) |
| Interest income | 5 | **(6,370)** | (8,605) |
| Gain on disposal of an available-for-sale investment | | **–** | (72) |
| Gain on disposal of a subsidiary | 5 | **–** | (30,232) |
| Gain on disposal of an associate | 5 | **(6,410)** | – |
| Loss on disposal of items of property, plant and equipment | 6 | **277** | 47 |
| Depreciation | 6 | **7,799** | 8,067 |
| Impairment of trade receivables | 6 | **1,219** | 9,531 |
| Reversal of impairment of trade receivables | 6 | **(1,300)** | – |
| Impairment of other receivables | 6 | **2,130** | – |
| Changes in fair value of investment properties | 5 | **(9,155)** | (8,640) |
| Equity-settled share option expense | 6 | **657** | – |
| | | **48,157** | 35,875 |
| Increase in inventories | | **(27,365)** | (8,266) |
| Increase in gross amount due from contract customers | | **(118,665)** | (83,715) |
| Decrease/(increase) in trade and bills receivables | | **58,005** | (213,361) |
| Decrease/(increase) in prepayments, deposits and other receivables | | **48,190** | (108,326) |
| Increase in trade and bills payables | | **74,990** | 204,834 |
| Increase/(decrease) in gross amount due to contract customers | | **11,068** | (32,999) |
| Increase/(decrease) in other payables and accruals | | **(25,580)** | 124,514 |
| Exchange differences | | **3,150** | 2,310 |
| Cash generated from/(used in) operations | | **71,950** | (79,134) |
| Interest received | | **2,028** | 2,161 |
| Interest paid | | **(4,122)** | (6,339) |
| Mainland of the People's Republic of China ("Mainland China" or the "PRC") corporate income tax paid | | **(6,239)** | (45) |
| Net cash flows from/(used in) operating activities | | **63,617** | (83,357) |

# Consolidated Statement of Cash Flows (continued)

Year ended 31 December 2011

| | Notes | 2011 HK$'000 | 2010 HK$'000 (Restated) |
|---|---|---|---|
| Net cash flows from/(used in) operating activities | | **63,617** | (83,357) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Interest received | | **2,729** | 6,434 |
| Purchases of items of property, plant and equipment | 13 | **(8,812)** | (9,421) |
| Decrease/(increase) in amounts due from associates | | **452** | (59) |
| Increase/(decrease) in amounts due to associates | | **63** | (245) |
| 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 | | **(149)** | 9,842 |
| Disposal of a subsidiary | 27 | **–** | 424 |
| Disposal of an associate | 16 | **108,707** | – |
| Advance of entrusted loans to related companies | | **(98,080)** | (310,646) |
| Repayment of entrusted loans from related companies | | **153,010** | 240,710 |
| Decrease/(increase) in pledged deposits | | **1,110** | (628) |
| Net cash flows from/(used in) investing activities | | **159,030** | (62,715) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| New bank loans | | **111,566** | 103,101 |
| Repayment of bank loans | | **(123,816)** | (84,982) |
| Increase/(decrease) in trust receipt loans | | **(70,569)** | 92,611 |
| Net cash flows (used in)/from financing activities | | **(82,819)** | 110,730 |
| NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS | | **139,828** | (35,342) |
| Cash and cash equivalents at beginning of year | | **290,868** | 321,070 |
| Effect of foreign exchange rate changes, net | | **7,647** | 5,140 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | | **438,343** | 290,868 |
| ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS | | | |
| Cash and bank balances | 20 | **276,404** | 238,681 |
| Non-pledged time deposits | 20 | **164,207** | 54,306 |
| Cash and cash equivalents as stated in the consolidated statement of financial position | | **440,611** | 292,987 |
| Non-pledged time deposits with original maturity of more than three months when acquired | | **(2,268)** | (2,119) |
| Cash and cash equivalents as stated in the consolidated statement of cash flows | | **438,343** | 290,868 |

# Statement of Financial Position

31 December 2011

| | Notes | 2011<br>HK$'000 | 2010<br>HK$'000 |
|---|---|---|---|
| NON-CURRENT ASSETS | | | |
| Investments in subsidiaries | 15 | **559,088** | 559,088 |
| Investments in associates | 16 | **–** | 125,326 |
| Total non-current assets | | **559,088** | 684,414 |
| CURRENT ASSETS | | | |
| Prepayments | | **321** | 297 |
| Cash and cash equivalents | 20 | **1,222** | 827 |
| Total current assets | | **1,543** | 1,124 |
| CURRENT LIABILITIES | | | |
| Accruals | | **700** | 580 |
| NET CURRENT ASSETS | | **843** | 544 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | **559,931** | 684,958 |
| NON-CURRENT LIABILITY | | | |
| Due to a subsidiary | 15 | **206,700** | 313,095 |
| Net assets | | **353,231** | 371,863 |
| EQUITY | | | |
| Issued capital | 24 | **113,030** | 113,030 |
| Reserves | 26(b) | **240,201** | 258,833 |
| Total equity | | **353,231** | 371,863 |

**Fang Zhong Hua**
*Director*

**Liu Xiao Kun**
*Director*

# Notes to Financial Statements

31 December 2011

## 1. CORPORATE INFORMATION

Founder Holdings Limited (the "Company") 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

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2011. 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.

Total comprehensive income within a subsidiary is 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 any 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.

## 2.2 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 Amendment | Amendment to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters* |
| HKAS 24 (Revised) | *Related Party Disclosures* |
| HKAS 32 Amendment | Amendment to HKAS 32 *Financial Instruments: Presentation – Classification of Rights Issues* |
| HK(IFRIC)-Int 14 Amendments | Amendments to HK(IFRIC)-Int 14 *Prepayments of a Minimum Funding Requirement* |
| HK(IFRIC)-Int 19 | *Extinguishing Financial Liabilities with Equity Instruments* |
| *Improvements to HKFRSs 2010* | Amendments to a number of HKFRSs issued in May 2010 |

Other than as further explained below regarding the impact of HKAS 24 (Revised), and amendments to HKFRS 3, HKAS 1 and HKAS 27 included in *Improvements to HKFRSs 2010*, the adoption of the new and revised HKFRSs has had no significant financial effect on these financial statements.

The principal effects of adopting these HKFRSs are as follows:

(a) HKAS 24 (Revised) *Related Party Disclosures*

HKAS 24 (Revised) clarifies and simplifies the definitions of related parties. The new definitions emphasise a symmetrical view of related party relationships and clarify the circumstances in which persons and key management personnel affect related party relationships of an entity. The revised standard also introduces an exemption from the general related party disclosure requirements for transactions with a government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The accounting policy for related parties has been revised to reflect the changes in the definitions of related parties under the revised standard. The adoption of the revised standard did not have any impact on the financial position or performance of the Group. Details of the related party transactions, including the related comparative information, are included in note 30 to the consolidated financial statements.

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

(b) *Improvements to HKFRSs 2010* issued in May 2010 sets out amendments to a number of HKFRSs. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments has had a significant financial impact on the financial position or performance of the Group. Details of the key amendments most applicable to the Group are as follows:

- HKFRS 3 *Business Combinations*: The amendment clarifies that the amendments to HKFRS 7, HKAS 32 and HKAS 39 that eliminate the exemption for contingent consideration do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of HKFRS 3 (as revised in 2008).

  In addition, the amendment limits the scope of measurement choices for non-controlling interests. Only the components of non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the acquiree's net assets in the event of liquidation are measured at either fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by another HKFRS.

  The amendment also added explicit guidance to clarify the accounting treatment for non-replaced and voluntarily replaced share-based payment awards.

- HKAS 1 *Presentation of Financial Statements*: The amendment clarifies that an analysis of each component of other comprehensive income can be presented either in the statement of changes in equity or in the notes to the financial statements. The Group elects to present the analysis of each component of other comprehensive income in the statement of changes in equity.

- HKAS 27 *Consolidated and Separate Financial Statements*: The amendment clarifies that the consequential amendments from HKAS 27 (as revised in 2008) made to HKAS 21, HKAS 28 and HKAS 31 shall be applied prospectively for annual periods beginning on or after 1 July 2009 or earlier if HKAS 27 is applied earlier.

## 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 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*[1] |
| HKFRS 7 Amendments | Amendments to HKFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets*[1] |
| HKFRS 7 Amendments | Amendments to HKFRS 7 *Financial Instruments: Disclosures –Offsetting Financial Assets and Financial Liabilities*[4] |
| HKFRS 9 | *Financial Instruments*[6] |
| HKFRS 10 | *Consolidated Financial Statements*[4] |
| HKFRS 11 | *Joint Arrangements*[4] |
| HKFRS 12 | *Disclosure of Interests in Other Entities*[4] |
| HKFRS 13 | *Fair Value Measurement*[4] |
| HKAS 1 Amendments | *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income*[3] |
| HKAS 12 Amendments | Amendments to HKAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets*[2] |
| HKAS 19 (2011) | *Employee Benefits*[4] |
| HKAS 27 (2011) | *Separate Financial Statements*[4] |
| HKAS 28 (2011) | *Investments in Associates and Joint Ventures*[4] |
| HKAS 32 Amendments | Amendments to HKAS 32 *Financial Instruments: Presentations –Offsetting Financial Assets and Financial Liabilities*[5] |
| HK(IFRIC)-Int 20 | *Stripping Costs in the Production Phase of a Surface Mine*[4] |

1 Effective for annual periods beginning on or after 1 July 2011
2 Effective for annual periods beginning on or after 1 January 2012
3 Effective for annual periods beginning on or after 1 July 2012
4 Effective for annual periods beginning on or after 1 January 2013
5 Effective for annual periods beginning on or after 1 January 2014
6 Effective for annual periods beginning on or after 1 January 2015

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

Further information about those changes that are expected to significantly affect the Group is as follows:

HKFRS 9 issued in November 2009 is the first part of phase 1 of a comprehensive project to entirely replace HKAS 39 *Financial Instruments: Recognition and Measurement*. This phase focuses on the classification and measurement of financial assets. Instead of classifying financial assets into four categories, an entity shall classify financial assets as subsequently measured at either amortised cost or fair value, on the basis of both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. This aims to improve and simplify the approach for the classification and measurement of financial assets compared with the requirements of HKAS 39.

In November 2010, the HKICPA issued additions to HKFRS 9 to address financial liabilities (the "Additions") and incorporated in HKFRS 9 the current derecognition principles of financial instruments of HKAS 39. Most of the Additions were carried forward unchanged from HKAS 39, while changes were made to the measurement of financial liabilities designated at fair value through profit or loss using the fair value option ("FVO"). For these FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in other comprehensive income ("OCI"). The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. However, loan commitments and financial guarantee contracts which have been designated under the FVO are scoped out of the Additions.

HKAS 39 is aimed to be replaced by HKFRS 9 in its entirety. Before this entire replacement, the guidance in HKAS 39 on hedge accounting and impairment of financial assets continues to apply. The Group expects to adopt HKFRS 9 from 1 January 2015.

HKFRS 10 establishes a single control model that applies to all entities including special purpose entities or structured entities. It includes a new definition of control which is used to determine which entities are consolidated. The changes introduced by HKFRS 10 require management of the Group to exercise significant judgement to determine which entities are controlled, compared with the requirements in HKAS 27 and HK(SIC)-Int 12 *Consolidation – Special Purpose Entities*. HKFRS 10 replaces the portion of HKAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also includes the issues raised in HK(SIC)-Int 12.

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

HKFRS 12 includes the disclosure requirements for subsidiaries, joint arrangements, associates and structured entities that are previously included in HKAS 27 *Consolidated and Separate Financial Statements*, HKAS 31 *Interests in Joint Ventures* and HKAS 28 *Investments in Associates*. It also introduces a number of new disclosure requirements for these entities.

Consequential amendments were made to HKAS 27 and HKAS 28 as a result of the issuance of HKFRS 10, HKFRS 11 and HKFRS 12. The Group expects to adopt HKFRS 10, HKFRS 12 and the consequential amendments to HKAS 27 and HKAS 28 from 1 January 2013.

HKFRS 13 provides a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The standard does not change the circumstances in which the Group is required to use fair value, but provides guidance on how fair value should be applied where its use is already required or permitted under other HKFRSs. The Group expects to adopt HKFRS 13 prospectively from 1 January 2013.

Amendments to HKAS 1 change the grouping of items presented in OCI. Items that could be reclassified to profit or loss at a future point in time would be presented separately from items which will never be reclassified. The Group expects to adopt the amendments from 1 January 2013.

HKAS 12 Amendments clarify the determination of deferred tax for investment property measured at fair value. The amendments introduce a rebuttable presumption that deferred tax on investment property measured at fair value should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, the amendments incorporate the requirement previously in HK(SIC)-Int 21 *Income Taxes – Recovery of Revalued Non-Depreciable Assets* that deferred tax on non-depreciable assets, measured using the revaluation model in HKAS 16, should always be measured on a sale basis. The Group expects to adopt HKAS 12 Amendments from 1 January 2012. Upon the adoption, the Group's deferred tax liability with respect to investment properties located in Hong Kong is expected to be reduced.

HKAS 19 (2011) includes a number of amendments that range from fundamental changes to simple clarifications and re-wording. The revised standard introduces significant changes in the accounting for defined benefit pension plans including removing the choice to defer the recognition of actuarial gains and losses. Other changes include modifications to the timing of recognition for termination benefits, the classification of short-term employee benefits and disclosures of defined benefit plans. The Group expects to adopt HKAS 19 (2011) from 1 January 2013.

HKAS 32 Amendments clarify the requirements for offsetting financial instruments. The amendments address inconsistencies in current practice when applying the offsetting criteria and clarify the meaning of "currently has a legally enforceable right of set-off" and some gross settlement systems may be considered equivalents to net settlements. The Group expects to adopt the amendments from 1 January 2014.

## 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.

### Business combinations and goodwill

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 Group elects whether it measures the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition costs are expensed as incurred.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Business combinations and goodwill *(continued)*

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 will be 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 will not be remeasured. Subsequent settlement is accounted for within equity. In instances where the contingent consideration does not fall within the scope of HKAS 39, it is measured in accordance with the appropriate HKFRS.

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 identifiable net 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.

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.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Business combinations and goodwill *(continued)*

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.

### 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.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Related parties

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

(a) the party is a person or a close member of that person's family and that person

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a); and

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost or valuation less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where 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 depreciates them accordingly.

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 | 20% to $33^1/_3$% |
| Motor vehicles | 10% to 30% |

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at 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.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Investment properties

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

#### *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.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 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 net of any incentives received from the lessor 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 transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

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:

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Investments and other financial assets *(continued)*

#### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. 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 finance costs for loans and in other expenses for receivables.

#### *Available-for-sale financial investments*

Available-for-sale financial investments are non-derivative financial assets in unlisted equity investments. 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 revaluation 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, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to the income statement in other expenses. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in the income statement as other income in accordance with the policies set out for "Revenue recognition" below.

When the fair value of unlisted equity investments 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 investments are stated at cost less any impairment losses.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Investments and other financial assets *(continued)*

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

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, 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. 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 Group has the ability and intent to hold until the maturity date of the financial asset.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and 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 maturity amount 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.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it 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.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Derecognition of financial assets *(continued)*

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 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.

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 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.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Impairment of financial assets *(continued)*

***Financial assets carried at amortised cost*** *(continued)*

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 other expenses in 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.

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.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 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 plus, in the case of loans and borrowings, directly attributable transaction costs.

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

***Subsequent measurement***

The subsequent 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 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.

***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 Group 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.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Derecognition of financial liabilities

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

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and 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.

### 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 work performed to date to the estimated total contract sum of the relevant contract.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Systems integration contracts *(continued)*

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.

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:

- when 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, when 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.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Income tax *(continued)*

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when 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.

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.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Revenue recognition

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

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

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

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

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

(e) interest income, on an accrual basis using the effective interest method by applying the rate that 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.

### 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, further details of which are given in note 25 to the financial statements.

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.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Share-based payment transactions *(continued)*

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.

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

### Other employee benefits

#### *Pension schemes*

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

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Other employee benefits *(continued)*

#### *Pension schemes* *(continued)*

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 arising on settlement or translation of monetary items 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. The gain or loss arising on retranslation of a non-monetary item is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation differences on item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

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 the 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.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Foreign currencies *(continued)*

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.

***Classification between investment properties and owner-occupied properties***

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

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

### 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 described 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 19 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 unfavourable changes to these assumptions would result in changes in the fair values 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 total amount of unrecognised deductible temporary differences and unrecognised tax losses at 31 December 2011 was approximately HK$269,831,000 (2010: HK$281,503,000). Further details are contained in note 23 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, gain on disposal of an associate, foreign exchange differences, net, finance costs and share of profits and losses of associates 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.

## 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 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **Segment revenue:** | | | | | | | | | | |
| Sales to external customers | 1,115,151 | 918,521 | 531,753 | 1,321,927 | – | – | 330 | 284 | 1,647,234 | 2,240,732 |
| Intersegment sales | – | 14,983 | – | – | – | – | – | – | – | 14,983 |
| | 1,115,151 | 933,504 | 531,753 | 1,321,927 | – | – | 330 | 284 | 1,647,234 | 2,255,715 |
| *Reconciliation:* | | | | | | | | | | |
| Elimination of intersegment sales | | | | | | | | | – | (14,983) |
| Revenue | | | | | | | | | 1,647,234 | 2,240,732 |
| **Segment results** | 43,415 | 38,735 | 4,522 | 16,664 | (2,600) | (1,277) | 2,004 | 1,905 | 47,341 | 56,027 |
| *Reconciliation:* | | | | | | | | | | |
| Interest income | | | | | | | | | 6,370 | 8,605 |
| Gain on disposal of an associate | | | | | | | | | 6,410 | – |
| Foreign exchange differences, net | | | | | | | | | (811) | 1,147 |
| Finance costs | | | | | | | | | (4,122) | (6,339) |
| Share of profits and losses of associates | | | | | | | | | (1,593) | 6,120 |
| Profit before tax | | | | | | | | | 53,595 | 65,560 |

## 4. OPERATING SEGMENT INFORMATION *(continued)*

| | Software development and systems integration for media business | | Software development and systems integration for non-media business | | Others | | Total | |
|---|---|---|---|---|---|---|---|---|
| | 2011 HK$'000 | 2010 HK$'000 | 2011 HK$'000 | 2010 HK$'000 | 2011 HK$'000 | 2010 HK$'000 | 2011 HK$'000 | 2010 HK$'000 |
| **Segment assets** | 554,005 | 579,434 | 272,324 | 242,850 | 104,491 | 83,893 | 930,820 | 906,177 |
| *Reconciliation:* | | | | | | | | |
| Elimination of intersegment receivables | | | | | | | (58,615) | (59,907) |
| Investments in associates | | | | | | | 16,425 | 135,308 |
| Corporate and other unallocated assets | | | | | | | 453,052 | 306,515 |
| Total assets | | | | | | | 1,341,682 | 1,288,093 |
| **Segment liabilities** | 460,400 | 442,820 | 188,085 | 144,383 | 10,568 | 10,552 | 659,053 | 597,755 |
| *Reconciliation:* | | | | | | | | |
| Elimination of intersegment payables | | | | | | | (58,615) | (59,907) |
| Corporate and other unallocated liabilities | | | | | | | 76,696 | 160,979 |
| Total liabilities | | | | | | | 677,134 | 698,827 |
| **Other segment information:** | | | | | | | | |
| Depreciation | 7,430 | 6,944 | 353 | 1,107 | 16 | 16 | 7,799 | 8,067 |
| Capital expenditure* | 8,806 | 4,382 | 6 | 5,035 | – | 4 | 8,812 | 9,421 |

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

## 4. OPERATING SEGMENT INFORMATION *(continued)*

### Geographical information

#### *(a) Revenue from external customers*

| | 2011<br>HK$'000 | 2010<br>HK$'000 |
|---|---|---|
| Hong Kong | **694,364** | 645,010 |
| Mainland China | **952,715** | 1,594,606 |
| Others | **155** | 1,116 |
| | **1,647,234** | 2,240,732 |

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

#### *(b) Non-current assets*

| | 2011<br>HK$'000 | 2010<br>HK$'000 |
|---|---|---|
| Hong Kong | **104,468** | 202,941 |
| Mainland China | **128,674** | 107,736 |
| Others | **16,425** | 16,284 |
| | **249,567** | 326,961 |

The non-current asset information above is based on the location of assets.

### Information about a major customer

Revenue of approximately HK$229,095,000 (2010: HK$409,511,000) 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:

| | Notes | Group 2011 HK$'000 | Group 2010 HK$'000 |
|---|---|---|---|
| **Revenue** | | | |
| Software development and systems integration | | 1,646,904 | 2,240,448 |
| Others | | 330 | 284 |
| | | 1,647,234 | 2,240,732 |
| **Other income** | | | |
| Bank interest income | | 2,028 | 2,161 |
| Other interest income | | 4,342 | 6,444 |
| Gross rental income | | 1,117 | 1,214 |
| Government grants (Note) | | 49,325 | 39,013 |
| Others | | 3,528 | 3,870 |
| | | 60,340 | 52,702 |
| **Gains** | | | |
| Fair value gains on investment properties | 14 | 9,155 | 8,640 |
| Foreign exchange differences, net | | – | 1,147 |
| Gain on disposal of a subsidiary | 27 | – | 30,232 |
| Gain on disposal of an associate | 16 | 6,410 | – |
| Others | | 102 | 174 |
| | | 15,667 | 40,193 |
| | | 76,007 | 92,895 |

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 2011 HK$'000 | Group 2010 HK$'000 |
|---|---|---|---|
| Auditors' remuneration | | 1,950 | 2,400 |
| Cost of inventories sold | | 1,146,124 | 1,758,848 |
| Cost of services provided | | 69,011 | 95,765 |
| Depreciation | 13 | 7,799 | 8,067 |
| Loss on disposal of items of property, plant and equipment* | | 277 | 47 |
| Operating lease rentals in respect of land and buildings | | 11,071 | 11,317 |
| Impairment of trade receivables* | 19 | 1,219 | 9,531 |
| Reversal of impairment of trade receivables* | 19 | (1,300) | – |
| Write-off of trade receivables* | | – | 852 |
| Reversal of write-off of trade receivables* | | – | (1,704) |
| Impairment of others receivables* | | 2,130 | – |
| Write-off of other receivables* | | – | 2,797 |
| Provision for obsolete inventories** | | 19,243 | 7,526 |
| Research and development costs: | | | |
| Current year expenditure* | | 93,984 | 85,214 |
| Employee benefit expense (including directors' remuneration – note 8): | | | |
| Wages and salaries | | 147,253 | 136,307 |
| Pension scheme contributions*** | | 18,874 | 15,473 |
| Equity-settled share option expense | | 657 | – |
| | | 166,784 | 151,780 |
| Foreign exchange differences, net | | 811 | (1,147) |
| Direct operating expenses (including repair and maintenance) arising on rental-earning investment properties | | 855 | 788 |

* 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 2011, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (2010: Nil).

## 7. FINANCE COSTS

An analysis of finance costs is as follows:

| | Group | |
|---|---|---|
| | 2011 | 2010 |
| | HK$'000 | HK$'000 |
| Interest on bank loans wholly repayable within five years | 4,122 | 6,339 |

## 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 | |
|---|---|---|
| | 2011 | 2010 |
| | HK$'000 | HK$'000 |
| Fees | 396 | 396 |
| Other emoluments: | | |
| Salaries, allowances and benefits in kind | 1,320 | 599 |
| Performance related bonuses | 1,625 | 259 |
| Equity-settled share option expenses | 264 | – |
| Pension scheme contributions | 21 | 25 |
| | 3,230 | 883 |
| | 3,626 | 1,279 |

During the year, certain directors were granted share options, in respect of their services to the Group, under the share option scheme of the Company, further details of which are set out in note 25 to the financial statements. The fair value of such options, which has been recognised in the income statement over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors' remuneration disclosures.

## 8. DIRECTORS' REMUNERATION *(continued)*

### (a) Independent non-executive directors

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

| | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|
| Mr Li Fat Chung | 138 | 138 |
| Ms Wong Lam Kit Yee | 126 | 126 |
| Mr Fung Man Yin, Sammy [2] | 66 | – |
| Dr Hu Hung Lick, Henry [1] | 66 | 132 |
| | 396 | 396 |

There were no other emoluments payable to the independent non-executive directors during the year (2010: Nil).

### (b) Executive directors

| | Fees HK$'000 | Salaries, allowances and benefits in kind HK$'000 | Performance related bonuses HK$'000 | Equity-settled share option expense HK$'000 | Pension scheme contributions HK$'000 | Total remuneration HK$'000 |
|---|---|---|---|---|---|---|
| 2011 | | | | | | |
| Mr Fang Zhong Hua [4] | – | – | – | – | – | – |
| Professor Xiao Jian Guo | – | 809 | 590 | 66 | – | 1,465 |
| Mr Liu Xiao Kun | – | 511 | 1,035 | 66 | 21 | 1,633 |
| Ms Yi Mei [4] | – | – | – | 66 | – | 66 |
| Professor Yang Bin [4] | – | – | – | 66 | – | 66 |
| Mr Wo Fei Yu [4] | – | – | – | – | – | – |
| Mr Zhang Zhao Dong [3] | – | – | – | – | – | – |
| Professor Wei Xin [3] | – | – | – | – | – | – |
| Mr Chen Geng [3] | – | – | – | – | – | – |
| Mr Xie Ke Hai [3] | – | – | – | – | – | – |
| | – | 1,320 | 1,625 | 264 | 21 | 3,230 |

## 8. DIRECTORS' REMUNERATION *(continued)*

### (b) Executive directors *(continued)*

| | Fees HK$'000 | Salaries, allowances and benefits in kind HK$'000 | Performance related bonuses HK$'000 | Equity-settled share option expense HK$'000 | Pension scheme contributions HK$'000 | Total remuneration HK$'000 |
|---|---|---|---|---|---|---|
| 2010 | | | | | | |
| Mr Zhang Zhao Dong | – | – | – | – | – | – |
| Professor Xiao Jian Guo | – | – | – | – | – | – |
| Mr Liu Xiao Kun | – | 599 | 259 | – | 25 | 883 |
| Professor Wei Xin | – | – | – | – | – | – |
| Mr Chen Geng | – | – | – | – | – | – |
| Mr Xie Ke Hai | – | – | – | – | – | – |
| | – | 599 | 259 | – | 25 | 883 |

[1] Retired on 30 June 2011
[2] Appointed on 30 June 2011
[3] Resigned on 30 December 2011
[4] Appointed on 30 December 2011

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 two (2010: one) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining three (2010: four) non-director, highest paid employees for the year are as follows:

| | Group | |
|---|---|---|
| | 2011 | 2010 |
| | HK$'000 | HK$'000 |
| Salaries, allowances and benefits in kind | 1,562 | 2,973 |
| Performance related bonuses | 3,744 | 934 |
| Equity-settled share option expense | 131 | – |
| Pension scheme contributions | 72 | 138 |
| | 5,509 | 4,045 |

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

| | Number of employees | |
|---|---|---|
| | 2011 | 2010 |
| Nil to HK$1,000,000 | – | 2 |
| HK$1,000,001 to HK$1,500,000 | – | 2 |
| HK$1,500,001 to HK$2,000,000 | 2 | – |
| HK$2,000,001 to HK$2,500,000 | 1 | – |
| | 3 | 4 |

During the year, share options were granted to two non-directors, highest paid employees in respect of their services to the Group, further details of which are included in the disclosures in note 25 to the financial statements. The fair value of such options, which has been recognised in the income statement over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above non-director, highest paid employees' remuneration disclosures.

## 10. INCOME TAX

| | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|
| Group: | | |
| Current – PRC | | |
| Charge for the year | **4,706** | 2,590 |
| (Overprovision)/underprovision in prior years | **(1,045)** | 26 |
| Total tax charge for the year | **3,661** | 2,616 |

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 (2010: Nil).

PRC corporate income tax represents the tax charged on the estimated assessable profits arising in Mainland China. In general, the PRC subsidiaries of the Group are subject to the PRC corporate income tax rate of 25% except for certain PRC subsidiaries which are entitled to preferential tax rates ranging from 10% to 15%.

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$1,340,000 (2010: HK$296,000) is included in "Share of profits and losses of associates" in the consolidated income statement.

## 10. INCOME TAX *(continued)*

A reconciliation of the tax expense applicable to profit 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:

**Group – 2011**

| | Hong Kong | | Mainland China | | Overseas | | Total | |
|---|---|---|---|---|---|---|---|---|
| | HK$'000 | % | HK$'000 | % | HK$'000 | % | HK$'000 | % |
| Profit before tax | 6,278 | | 46,955 | | 362 | | 53,595 | |
| Tax at the statutory tax rate | 1,036 | 16.5 | 11,739 | 25.0 | 86 | 23.8 | 12,861 | 24.0 |
| Lower tax rate for specific provinces or enacted by local authority | – | – | (4,914) | (10.5) | – | – | (4,914) | (9.2) |
| Adjustment in respect of current tax of previous period | – | – | (1,045) | (2.2) | – | – | (1,045) | (1.9) |
| Profits and losses attributable to associates | 456 | 7.3 | – | – | (309) | (85.4) | 147 | 0.3 |
| Income not subject to tax | (2,817) | (44.9) | (8,977) | (19.1) | – | – | (11,794) | (22.0) |
| Expenses not deductible for tax | 144 | 2.3 | 5,662 | 12.1 | 223 | 61.6 | 6,029 | 11.2 |
| Tax losses not recognised | 1,181 | 18.8 | 1,196 | 2.5 | – | – | 2,377 | 4.4 |
| Tax charge at the Group's effective rate | – | – | 3,661 | 7.8 | – | – | 3,661 | 6.8 |

## 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 |

## 11. PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

The consolidated profit attributable to owners of the parent for the year ended 31 December 2011 includes a loss of approximately HK$19,289,000 (2010: a loss of HK$69,368,000) which has been dealt with in the financial statements of the Company (note 26(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 (2010: 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 2011 and 2010 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 2011** | | | | | |
| At 31 December 2010 and at 1 January 2011: | | | | | |
| 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 |
| At 1 January 2011, net of accumulated depreciation | 142,699 | 74 | 6,261 | 3,419 | 152,453 |
| Additions | – | 1,656 | 6,534 | 622 | 8,812 |
| Disposals | – | – | (277) | – | (277) |
| Surplus on revaluation | 27,114 | – | – | – | 27,114 |
| Depreciation provided during the year | (2,933) | (34) | (4,036) | (796) | (7,799) |
| Exchange realignment | 4,087 | – | 255 | 142 | 4,484 |
| At 31 December 2011, net of accumulated depreciation | 170,967 | 1,696 | 8,737 | 3,387 | 184,787 |
| At 31 December 2011: | | | | | |
| Cost or valuation | 170,967 | 11,792 | 44,250 | 10,619 | 237,628 |
| Accumulated depreciation | – | (10,096) | (35,513) | (7,232) | (52,841) |
| Net carrying amount | 170,967 | 1,696 | 8,737 | 3,387 | 184,787 |
| Analysis of cost or valuation: | | | | | |
| At cost | – | 11,792 | 44,250 | 10,619 | 66,661 |
| At 31 December 2011 valuation | 170,967 | – | – | – | 170,967 |
| | 170,967 | 11,792 | 44,250 | 10,619 | 237,628 |

# Notes to Financial Statements

31 December 2011

## 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 2010** | | | | | |
| 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 27) | – | (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 |

## 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$170,967,000 based on their existing use. A revaluation surplus of HK$27,114,000, resulting from the above valuations, has been credited to other comprehensive income.

Had these land and buildings been carried at historical cost less accumulated depreciation, their carrying amounts would have been approximately HK$40,970,000 (2010: HK$41,615,000).

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

| | Hong Kong | Mainland China | Total |
|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 |
| Long term leases | – | 114,942 | 114,942 |
| Medium term leases | 56,025 | – | 56,025 |
| | 56,025 | 114,942 | 170,967 |

At 31 December 2011, certain of the Group's land and buildings with a net carrying amount of approximately HK$53,100,000 (2010: HK$41,830,000) in Hong Kong were pledged to secure general banking facilities granted to the Group (note 22).

## 14. INVESTMENT PROPERTIES

| | Group | |
|---|---|---|
| | **2011** | 2010 |
| | **HK$'000** | HK$'000 |
| Carrying amount at 1 January | **39,200** | 30,560 |
| Net gain from a fair value adjustment (note 5) | **9,155** | 8,640 |
| Carrying amount at 31 December | **48,355** | 39,200 |

The Group's investment properties were revalued on 31 December 2011 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 29(a) to the financial statements.

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

# Notes to Financial Statements

31 December 2011

## 14. INVESTMENT PROPERTIES *(continued)*

At 31 December 2011, certain of the Group's investment properties with a carrying value of approximately HK$47,455,000 (2010: HK$38,300,000) were pledged to secure general banking facilities granted to the Group (note 22).

Further particulars of the Group's investment properties are included on pages 114 to 115 of the annual report.

## 15. INVESTMENTS IN SUBSIDIARIES

| | Company | |
|---|---|---|
| | **2011** | 2010 |
| | **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 2011, 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 | Indirect | Principal activities |
|---|---|---|---|---|---|
| Founder (Hong Kong) Limited ("Founder HK") | Hong Kong | Ordinary HK$110,879,989 | 100 | – | Systems integration and investment holding |
| Beijing Founder Electronics Co., Ltd. ("Founder Electronics")#* | Mainland China | Registered HK$230 million | – | 100 | Software development and systems integration |
| 北京方正印捷數碼技術有限公司 (Beijing Founder EasiPrint Digital Technology Co., Ltd.@) ("Founder EasiPrint")#* | 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 | |
|---|---|---|---|---|
| | 2011 HK$'000 | 2010 HK$'000 | 2011 HK$'000 | 2010 HK$'000 |
| Shares listed in Hong Kong, at cost | – | – | – | 233,529 |
| Share of net assets | 16,449 | 130,572 | – | – |
| Goodwill on acquisition | – | 4,245 | – | – |
| | 16,449 | 134,817 | – | 233,529 |
| Due from associates | 39 | 491 | – | – |
| Due to associates | (63) | – | – | – |
| | 16,425 | 135,308 | – | 233,529 |
| Provision for impairment | – | – | – | (108,203) |
| | 16,425 | 135,308 | – | 125,326 |
| Market value of listed shares | – | – | – | 125,326 |

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

The Group's trade receivable with the associates are disclosed in note 19 to the financial statements.

As at 31 December 2011, particulars of the principal associates are as follows:

| Name | Particulars of issued share capital held | Place of incorporation and operations | Percentage of ownership interest attributable to the Group 2011 | 2010 | Principal activities |
|---|---|---|---|---|---|
| PUC Founder (MSC) Berhad*# | Ordinary shares of RM0.1 each | Malaysia | 28.36 | 32.39 | Software development and systems integration |

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

\# Listed on ACE Market of Bursa Malaysia Securities Berhad

## 16. INVESTMENTS IN ASSOCIATES *(continued)*

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

The Company entered into a conditional sales and purchase agreement on 29 August 2011 with Founder Information (Hong Kong) Limited ("Founder Information"), a subsidiary of 北大方正集團有限公司 (Peking University Founder Group Company Limited*) ("Peking Founder"), for the disposal of 363,265,000 ordinary shares in EC-Founder (Holdings) Company Limited ("EC-Founder") held by the Company, representing 32.84% of the total issued share capital of EC-Founder, for a consideration of approximately HK$114,107,000, of which approximately HK$108.7 million is the consideration for disposal of the Company's shareholding interests in EC-Founder and HK$5.4 million is the consideration for the disposal of the loan to EC-Founder. The disposal was completed on 29 December 2011.

The Group's shareholdings in the associates are held through wholly-owned subsidiary of the Company.

All the 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:

| | **2011** | 2010 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Assets | **62,196** | 2,187,724 |
| Liabilities | **8,671** | 1,790,973 |
| Revenue | **61,586** | 4,707,921 |
| Profit after tax | **4,186** | 18,432 |

* *For identification purpose only*

## 17. INVENTORIES

| | Group | |
|---|---|---|
| | 2011 | 2010 |
| | HK$'000 | HK$'000 |
| Trading stocks | 61,775 | 34,410 |

## 18. GROSS AMOUNTS DUE FROM/TO CONTRACT CUSTOMERS

| | Group | |
|---|---|---|
| | 2011 | 2010 |
| | HK$'000 | HK$'000 |
| Gross amount due from contract customers | 146,726 | 28,061 |
| Gross amount due to contract customers | (18,679) | (7,611) |
| | 128,047 | 20,450 |
| Contract costs incurred plus recognised profits less recognised losses to date | 271,760 | 133,601 |
| Less: Progress billings | (143,713) | (113,151) |
| | 128,047 | 20,450 |

## 19. TRADE AND BILLS RECEIVABLES

| | Group | |
|---|---|---|
| | **2011** | 2010 |
| | **HK$'000** | HK$'000 |
| Trade and bills receivables | **251,448** | 310,601 |
| Impairment | **(18,827)** | (20,056) |
| | **232,621** | 290,545 |

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. The Group does not hold any collateral or other credit enhancements over its trade and bills receivable balances. 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 | |
|---|---|---|
| | **2011** | 2010 |
| | **HK$'000** | HK$'000 |
| Within 6 months | **195,169** | 265,461 |
| 7 to 12 months | **26,527** | 15,131 |
| 13 to 24 months | **10,925** | 9,953 |
| | **232,621** | 290,545 |

## 19. TRADE AND BILLS RECEIVABLES *(continued)*

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

| | Group | |
|---|---|---|
| | **2011** | 2010 |
| | **HK$'000** | HK$'000 |
| At 1 January | **20,056** | 44,977 |
| Impairment losses recognised (note 6) | **1,219** | 9,531 |
| Reversal of impairment (note 6) | **(1,300)** | – |
| Amount written off as uncollectible | **(1,835)** | – |
| Disposal of a subsidiary | **–** | (34,713) |
| Exchange realignment | **687** | 261 |
| At 31 December | **18,827** | 20,056 |

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of approximately HK$2,432,000 (2010: HK$2,432,000) and with a carrying amount before provision of approximately HK$2,432,000 (2010: HK$2,432,000). 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 aged analysis of the trade and bills receivables that are not collectively considered to be impaired is as follows:

| | Group | |
|---|---|---|
| | **2011** | 2010 |
| | **HK$'000** | HK$'000 |
| Neither past due nor impaired | **61,295** | 181,346 |
| Less than 6 months past due | **49,391** | 101,467 |
| 7 to 12 months past due | **12,197** | 83 |
| | **122,883** | 282,896 |

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

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

## 19. TRADE AND BILLS RECEIVABLES *(continued)*

Included in the Group's trade and bills receivables are amounts due from subsidiaries of Peking Founder of approximately HK$1,416,000 (2010: HK$5,408,000), and a subsidiary of EC-Founder of approximately HK$11,373,000 (2010: HK$84,621,000), which are repayable on similar credit terms to those offered by the related companies to their major customers.

Included in the Group's trade and bills receivables as at 31 December 2010 were trade receivables of approximately HK$993,000 due from an associate which were repayable on similar credit terms to those offered to the major customers of the Group.

## 20. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

| | | Group | | Company | |
|---|---|---|---|---|---|
| | | **2011** | 2010 | **2011** | 2010 |
| | Note | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Cash and bank balances | | **276,404** | 238,681 | **1,222** | 827 |
| Time deposits | | **176,328** | 67,537 | **–** | – |
| | | **452,732** | 306,218 | **1,222** | 827 |
| Less: Pledged time deposits | 22 | **(12,121)** | (13,231) | **–** | – |
| Cash and cash equivalents | | **440,611** | 292,987 | **1,222** | 827 |

At the end of the reporting period, the cash and cash equivalents of the Group denominated in Renminbi ("RMB") amounted to approximately HK$272,940,000 (2010: HK$198,943,000). 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.

Included in the Group's cash and cash equivalents are time deposits and cash and bank balances of approximately HK$12,260,000 (31 December 2010: Nil) and HK$1,042,000 (31 December 2010: Nil), respectively, placed with PKU Founder Group Finance Co., Ltd. ("Founder Finance"), a financial institution approved by the People's Bank of China (the "PBOC"). Founder Finance is a subsidiary of Peking Founder. The interest rates for these deposits were the prevailing saving rates offered by the PBOC.

## 21. 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 2011 HK$'000 | Group 2010 HK$'000 |
|---|---|---|
| Within 6 months | **276,103** | 206,281 |
| 7 to 12 months | **5,782** | 7,292 |
| 13 to 24 months | **7,509** | 1,467 |
| Over 24 months | **3,172** | 2,536 |
| | **292,566** | 217,576 |

Included in the Group's trade and bills payables are amounts due to subsidiaries of Peking Founder of approximately HK$3,023,000 (2010: HK$1,514,000), and a subsidiary of EC-Founder of approximately HK$1,125,000 (2010: Nil), which are repayable on similar credit terms to those offered by the related companies to their major customers.

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

## 22. INTEREST-BEARING BANK BORROWINGS

| Group | 2011 Effective contractual interest rate (%) | 2011 Maturity | 2011 HK$'000 | 2010 Effective contractual interest rate (%) | 2010 Maturity | 2010 HK$'000 |
|---|---|---|---|---|---|---|
| **Current** | | | | | | |
| Bank loans – unsecured | **1.74-6.10 (Floating)** | **2012** | **39,454** | 1.74-5.60 (Floating) | 2011 | 50,136 |
| Trust receipt loans – secured | **1.93-2.61 (Floating)** | **2012** | **36,577** | 1.18-3.80 (Floating) | 2011 | 107,146 |
| | | | **76,031** | | | 157,282 |

## 22. INTEREST-BEARING BANK BORROWINGS *(continued)*

| | Group | |
|---|---|---|
| | **2011** | 2010 |
| | **HK$'000** | HK$'000 |
| Analysed into: | | |
| Bank loans repayable: | | |
| Within one year or on demand | **76,031** | 157,282 |

Notes:

(a) The unsecured bank loans of approximately HK$35,554,000 (2010: HK$45,036,000) were guaranteed by Peking Founder. The unsecured bank loan of approximately HK$3,900,000 (2010: HK$5,100,000) was guaranteed by the Company and the Government of the Hong Kong Special Administrative Region under the SME Loan Guarantee Scheme.

(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$47,455,000 (2010: HK$38,300,000);

(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$53,100,000 (2010: HK$41,830,000);

(iii) the pledge of certain of the Group's time deposits amounting to approximately HK$12,121,000 (2010: HK$13,231,000);

(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 as at 31 December 2010; 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 HK$3,900,000 (2010: HK$5,100,000), HK$36,577,000 (2010: HK$102,341,000), nil (2010: HK$12,177,000) and HK$35,554,000 (2010: HK$37,664,000) 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.

## 23. DEFERRED TAX

### Deferred tax liabilities

| | Group Revaluation of properties HK$'000 |
|---|---|
| At 1 January 2010 | 5,907 |
| Deferred tax debited to equity during the year | 2,348 |
| Exchange realignment | 197 |
| Gross deferred tax liabilities at 31 December 2010 and 1 January 2011 | **8,452** |
| Deferred tax debited to equity during the year | **1,306** |
| Exchange realignment | **352** |
| Gross deferred tax liabilities at 31 December 2011 | **10,110** |

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

| | Group | |
|---|---|---|
| | **2011 HK$'000** | 2010 HK$'000 |
| Depreciation allowances in excess of related depreciation | **(23,795)** | (15,639) |
| Tax losses | **293,064** | 296,953 |
| Impairment of trade receivables | **562** | 189 |
| | **269,831** | 281,503 |

## 23. DEFERRED TAX *(continued)*

The Group has tax losses arising in Hong Kong of approximately HK$293,064,000 (2010: HK$296,953,000) 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 the 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 2011, 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$137,363,000 at 31 December 2011 (2010: HK$93,039,000).

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

## 24. SHARE CAPITAL

| | Group and Company | |
|---|---|---|
| | **2011** | 2010 |
| | **HK$'000** | HK$'000 |
| Authorised: | | |
| 2,100,000,000 (2010: 2,100,000,000) ordinary shares of HK$0.10 each | **210,000** | 210,000 |
| Issued and fully paid: | | |
| 1,130,299,893 (2010: 1,130,299,893) ordinary shares of HK$0.10 each | **113,030** | 113,030 |

## 25. SHARE OPTION SCHEME

On 24 May 2002, the Company adopted a share option scheme (the "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 daily quotation sheet of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on the date of offer of the share options; (ii) the average closing price of the shares of the Company as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of offer; and (iii) the nominal value of the shares of the Company.

## 25. 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:

| | 2011 | | 2010 | |
|---|---|---|---|---|
| | 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 | 1.062 | 38,000 | 1.062 | 38,000 |
| Cancelled during the year | 1.104 | (32,000) | – | – |
| Lapsed during the year | 0.840 | (6,000) | – | – |
| Granted during the year | 0.296 | 73,880 | – | – |
| At 31 December | 0.296 | 73,880 | 1.062 | 38,000 |

During the year, the board of directors of the Company resolved to cancel the outstanding options previously granted to certain directors and employees of the Group to subscribe for a total of 32,000,000 shares of the Company at an exercise price of HK$1.104 with validity period of 10 years ending 4 February 2014. The Company paid each grantee HK$1 as a consideration for the cancellation. Further details of the cancellation were set out in the announcement of the Company dated 17 November 2011.

On 17 November 2011, a total of 73,879,900 share options were granted to certain directors and employees of the Group in respect of their services to the Group (the "2011 Options"). The 2011 Options have an exercise price of HK$0.296 per share. The closing price of the Company's share at the date of grant was HK$0.295 per share. None of the 2011 Options was exercised or forfeited during the year.

## 25. SHARE OPTION SCHEME *(continued)*

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

**2011**

| **Number of options** '000 | **Exercise price** *(Note 1)* HK$ per share | **Exercise period** *(Note 2)* |
|---|---|---|
| 73,880 | 0.296 | 17.11.2012 to 16.11.2014 |

2010

| Number of options '000 | Exercise price *(Note 1)* 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 | | |

*Notes:*

1. 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.

2. The 2011 Options are exercisable in the following two tranches:

   (i) First 40% of the 2011 Options are exercisable from 17 November 2012 to 16 November 2013; and

   (ii) The remaining 60% of the 2011 Options are exercisable from 17 November 2013 to 16 November 2014.

The fair value of the share options granted during the year was HK$8,009,000 (HK$0.11 each) of which the Group recognised a share option expense of HK$657,000 during the year ended 31 December 2011.

## 25. SHARE OPTION SCHEME *(continued)*

The fair value of equity-settled share options granted during the year was estimated as at the date of grant, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

| | 2011 |
|---|---|
| Dividend yield (%) | **0.0** |
| Historical volatility (%) | **62.2** |
| Expected volatility (%) | **62.2** |
| Risk-free interest rate (%) | **0.32** |
| Exercise multiple | **2.25** |
| Weighted average share price (HK$ per share) | **0.295** |

The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.

At the end of the reporting period, the Company had 73,879,900 share options outstanding under the Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 7,387,990 additional ordinary shares of the Company and additional share capital of approximately HK$7,388,000 and share premium of approximately HK$14,480,000 (before issue expenses).

At the date of approval of these financial statements, the Company had 73,879,900 share options outstanding under the Scheme, which represented approximately 6.5% of the Company's shares in issue as at that date.

## 26. 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 pages 30 and 31 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.

## 26. RESERVES *(continued)*

### (a) Group *(continued)*

In accordance with the relevant PRC regulations, each of the Group's PRC subsidiaries and associates is required to transfer not less than 10% of its profit after tax, as determined in accordance with PRC accounting standards and regulations, to the general reserve until such reserve reaches 50% of its registered capital. The quantum of the annual transfer is subject to the approval of the board of directors of the PRC subsidiaries and associates in accordance with their articles of association. During the year ended 31 December 2010, a PRC associate transferred HK$474,000, which represented the Group's share of 10% of the PRC associate's profit after tax as determined in accordance with the PRC accounting standards, to the general reserve.

### (b) Company

| | Share premium account HK$'000 | Contributed surplus HK$'000 | Employee share-based compensation reserve HK$'000 | Accumulated losses HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| At 1 January 2010 | 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 |
| Total comprehensive loss for the year | – | – | – | (19,289) | (19,289) |
| Equity-settled share option arrangements | – | – | 657 | – | 657 |
| At 31 December 2011 | 32,470 | 448,209 | 657 | (241,135) | 240,201 |

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.

The employee share-based compensation reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payment transactions in note 2.4 to the financial statements. The amount will either be transferred to the share premium account when the related options are exercised, or be transferred to accumulated losses should the related options expire or be forfeited.

## 27. DISPOSAL OF A SUBSIDIARY

During the year ended 31 December 2010, the Group disposed of its entire equity interest 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"), a wholly-owned subsidiary of the Company, to Founder International for a cash consideration of HK$47,500,000.

| | Notes | 2010<br>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 |

* *For identification purpose only*

## 27. DISPOSAL OF A SUBSIDIARY *(continued)*

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 |

## 28. CONTINGENT LIABILITIES

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

| | Company | |
|---|---|---|
| | **2011 HK$'000** | 2010 HK$'000 |
| Guarantees given to banks in connection with facilities granted to subsidiaries | **165,000** | 165,000 |

As at 31 December 2011, 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$84,105,000 (2010: HK$139,977,000).

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

## 29. 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 2011, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

| | Group | |
|---|---|---|
| | **2011** | 2010 |
| | **HK$'000** | HK$'000 |
| Within one year | **1,045** | 1,102 |
| In the second to fifth years, inclusive | **425** | 579 |
| | **1,470** | 1,681 |

### (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 2011, the Group had total future minimum lease payments under the non-cancellable operating leases falling due as follows:

| | Group | |
|---|---|---|
| | **2011** | 2010 |
| | **HK$'000** | HK$'000 |
| Within one year | **14,419** | 14,062 |
| In the second to fifth years, inclusive | **26,897** | 1,056 |
| | **41,316** | 15,118 |

## 30. RELATED PARTY TRANSACTIONS

### (I) Transactions with related parties

(a) 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:

| | Notes | Group 2011 HK$'000 | Group 2010 HK$'000 |
|---|---|---|---|
| Purchase of goods from a company, in which a 11.65 % (2010: 11.65%) equity interest was held by Peking Founder | (i) | **744** | 1,430 |
| Management fee income received from EC-Founder, a then associate which was disposed of during the year, and its subsidiary | (i) | **1,046** | 1,016 |
| Management fee income received from a company, in which a 11.65% (2010: 11.65%) equity interest was held by Peking Founder | (i) | **550** | 600 |
| Interest income from a subsidiary of EC-Founder, a then associate which was disposed of during the year | (i) | **–** | 700 |
| Banking facilities guarantees given by Peking Founder and its subsidiary | (ii) | **245,200** | 188,320 |

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$49,606,000 at 31 December 2011 (2010: HK$59,980,000)

## 30. RELATED PARTY TRANSACTIONS *(continued)*

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

(b) On 15 August 2008, Founder Electronics entered into a lease 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$12,276,000).

On 1 November 2011, Founder Electronics and Founder EasiPrint entered into lease agreements and management agreements with a subsidiary of Peking Founder to lease certain premises in Beijing, the PRC, for a term of three years from 1 January 2012 to 31 December 2014. Further details of the transaction were set out in the announcement of the Company dated 1 November 2011.

During the year, rental and management fees of approximately HK$12,276,000 (2010: HK$11,718,000) were paid by Founder Electronics to a subsidiary of Peking Founder. The directors consider that the rental and management fees were paid in accordance with the terms of the lease agreement.

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

During the year ended 31 December 2010, sale of products and provision of product related services in an aggregate amount of approximately HK$10,048,000 were made by the Group to Founder International and its subsidiaries. The directors consider that the sale of products and provision of services were made in accordance with the terms of the master agreement.

(d) 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 ended 31 December 2011.

On 29 August 2011, the Company entered into a new master agreement with EC-Founder to govern the purchase of information products from EC-Founder Group for a term of three years from 1 January 2011 to 31 December 2013. Further details of the transaction were set out in the announcement of the Company dated 29 August 2011.

During the year, information products in the amount of approximately HK$7,431,000 (2010: HK$175,763,000) were purchased from EC-Founder Group. The directors consider that the purchase of information products were made in accordance with the master agreement.

## 30. RELATED PARTY TRANSACTIONS *(continued)*

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

(e) On 15 December 2008, the Company entered into a HP 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.

On 29 August 2011, the Company entered into a New HP Master Agreement with EC-Founder to govern the sales of HP products to EC-Founder Group for a term of three years from 1 January 2011 to 31 December 2013. Further details of the transaction were set out in the announcement of the Company dated 29 August 2011 and circular of the Company dated 20 September 2011.

During the year, sales of information products of approximately HK$229,095,000 (2010: HK$409,511,000) were made to EC-Founder Group and commission fee of approximately HK$775,000 (2010: HK$1,229,000) was received from EC-Founder Group. The directors consider that the sales of information products and commission fee were made in accordance with the New HP Master Agreement.

(f) 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 and its subsidiaries (collectively "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 caps for the two years ended 31 December 2011.

On 1 November 2011, 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 2012 to 31 December 2014. Further details of the transaction were set out in the announcement of the Company dated 1 November 2011.

During the year, products and services of approximately HK$3,692,000 (2010: HK$8,215,000) were purchased from Peking Founder Group. The directors consider that the purchase of products and services were made in accordance with the master agreement.

(g) On 24 June 2010, Sparkling Idea Limited, a wholly-owned subsidiary of the Company, entered into the disposal agreement with Founder International, a subsidiary of Peking Founder, to dispose of the entire equity interest in Founder Order. Further details of the transaction were set out in note 27 to the financial statements.

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

## 30. RELATED PARTY TRANSACTIONS *(continued)*

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

(g) *(continued)*

During the year, sales of information products of approximately HK$202,742,000 (2010: HK$56,784,000) were made to Peking Founder Group and commission fee of approximately HK$608,000 (2010: HK$170,000) was received from Peking Founder Group. The directors consider that the sales of information products and commission fee were made in accordance with the master agreement.

(h) 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 Group for the three years ended 31 December 2011. The loan would be unsecured and interest-bearing at the prevailing benchmark Renminbi lending rate for loan period of six months offered by the PBOC plus 15% of such rate.

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 Peking Founder Group. The entrusted loans were unsecured and bore 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), by 7 January 2011 as to the amount of RMB50,000,000 (equivalent to approximately HK$58,850,000), and by 30 March 2011 as to the amount of RMB80,000,000 (equivalent to approximately HK$94,160,000). These entrusted loans of RMB130,000,000 (equivalent to approximately HK$153,010,000) and related interest receivable of HK$1,563,000 were included in prepayments, deposits and other receivables as at 31 December 2010.

For the year ended 31 December 2011, an entrusted loan in the amount of RMB80,000,000 (equivalent to approximately HK$98,080,000) was provided to Peking Founder Group. The entrusted loan is unsecured and bears interest at rate 6.10% per annum. The entrusted loan of RMB80,000,000 (equivalent to approximately HK$98,080,000) and related interest receivable of HK$3,176,000 remained undue and were included in prepayments, deposits and other receivables as at 31 December 2011. Subsequent to the end of the reporting period, the entrusted loan and interest receivables were fully settled by Peking Founder Group.

During the year, interest income earned by the Group from Peking Founder Group amounted to HK$4,342,000 (2010: HK$6,444,000). The directors consider that the provision of entrusted loans to and the receipt of interest income from Peking Founder Group was made in accordance with the Entrusted Loan Master Agreement.

## 30. RELATED PARTY TRANSACTIONS *(continued)*

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

(h) *(continued)*

On 1 November 2011, the Company renewed the Entrusted Loan Master Agreement with Peking Founder, pursuant to which the Group would provide short term loans through a financial institution to Peking Founder Group for the three years ending 31 December 2014. Such loans will be unsecured and interest-bearing at the prevailing benchmark Renminbi lending rate for loan period of six months offered by the PBOC plus 15%. Further details of the transaction were set out in the announcement of the Company dated 1 November 2011 and circular of the Company dated 17 November 2011.

(i) On 3 December 2010, the Company, Founder Finance and Peking Founder entered into a financial service agreement, pursuant to which Founder Finance would provide the Group with (i) deposit service; (ii) loan service; and (iii) miscellaneous financial service subject to the terms and conditions provided therein for the three years ending 31 December 2013. Peking Founder has provided guarantee to the Company in the financial service agreement.

As at 31 December 2011, the Group made deposits of approximately HK$13,302,000 (2010: Nil) in Founder Finance. During the year ended 31 December 2011, the Group earned interest income of approximately HK$791,000 (2010: Nil). The interest rates on the deposits offered by Founder Finance were the prevailing interest rates offered by the PBOC. The directors consider that the deposit service was provided in accordance with the financial service agreement.

(j) On 29 August 2011, the Company entered into a disposal agreement with Founder Information to dispose of its entire equity interest in EC-Founder. Further details of the transaction were set out in note 16 to the financial statements.

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

## 30. RELATED PARTY TRANSACTIONS *(continued)*

### (II) Outstanding balances with related parties

(a) As at 31 December 2011, other than the entrusted loan receivables from Peking Founder Group as disclosed in note 30(I)(h) to the financial statements, balances due from Peking Founder Group included in prepayments, deposits and other receivables were approximately HK$23,680,000 (2010: HK$8,947,000) and balances due to Peking Founder Group included in other payables and accruals were approximately HK$1,333,000 (2010: HK$1,716,000). These balances are unsecured, interest-free and have no fixed terms of repayment.

(b) The balance due from a company, in which a 11.65% (2010: 11.65%) equity interest was held by Peking Founder, included in prepayments, deposits and other receivables as at 31 December 2010 was approximately HK$111,000. The balance was unsecured, interest-free and had no fixed terms of repayment.

(c) The balances due from EC-Founder Group included in prepayments, deposits and other receivables as at 31 December 2011 are approximately HK$866,000 (2010: HK$263,000). The balances are unsecured, interest-free and have no fixed terms of repayment.

(d) The balances due to EC-Founder Group included in other payables and accruals as at 31 December 2010 were approximately HK$9,000. The balances were unsecured, interest-free and had no fixed terms of repayment.

(e) Details of the Group's amounts due from/to 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 19 and 21 to the financial statements.

## 30. RELATED PARTY TRANSACTIONS *(continued)*

### (III) Compensation of key management personnel of the Group

| | 2011<br>HK$'000 | 2010<br>HK$'000 |
|---|---|---|
| Short term employee benefits | 3,341 | 1,254 |
| Equity-settled share option expenses | 264 | – |
| Post-employment benefits | 21 | 25 |
| Total compensation paid to key management personnel | 3,626 | 1,279 |

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

## 31. 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 – 2011**

**Financial assets – Loans and receivables**

| | HK$'000 |
|---|---|
| Due from associates | 39 |
| Trade and bills receivables | 232,621 |
| Financial assets included in prepayments, deposits and other receivables | 122,476 |
| Pledged deposits | 12,121 |
| Cash and cash equivalents | 440,611 |
| | 807,868 |

## 31. FINANCIAL INSTRUMENTS BY CATEGORY *(continued)*

### Group – 2011 *(continued)*

**Financial liabilities – Financial liabilities at amortised cost**

| | HK$'000 |
|---|---|
| Due to associates | 63 |
| Trade and bills payables | 292,566 |
| Financial liabilities included in other payables and accruals | 80,819 |
| Interest-bearing bank borrowings | 76,031 |
| | 449,479 |

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 |

## 31. FINANCIAL INSTRUMENTS BY CATEGORY *(continued)*

| | Company | |
|---|---|---|
| | 2011 | 2010 |
| | HK$'000 | HK$'000 |
| **Financial assets – Loans and receivables** | | |
| Cash and cash equivalents | 1,222 | 827 |
| **Financial liability – Financial liability at amortised cost** | | |
| Due to a subsidiary | 206,700 | 313,095 |

## 32. FAIR VALUE AND FAIR VALUE HIERARCHY

The carrying amounts and fair values of the Group's and the Company's financial instruments are as follows:

**Group**

| | Carrying amounts | | Fair values | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **Financial assets** | | | | |
| Cash and cash equivalents | 440,611 | 292,987 | 440,611 | 292,987 |
| Pledged deposits | 12,121 | 13,231 | 12,121 | 13,231 |
| Due from associates | 39 | 491 | 39 | 491 |
| Trade and bills receivables | 232,621 | 290,545 | 232,621 | 290,545 |
| Financial assets included in prepayments, deposits and other receivables | 122,476 | 175,186 | 122,476 | 175,186 |
| | 807,868 | 772,440 | 807,868 | 772,440 |
| **Financial liabilities** | | | | |
| Trade and bills payables | 292,566 | 217,576 | 292,566 | 217,576 |
| Financial liabilities included in other payables and accruals | 80,819 | 59,663 | 80,819 | 59,663 |
| Interest-bearing bank borrowings | 76,031 | 157,282 | 76,031 | 157,282 |
| Due to associates | 63 | – | 63 | – |
| | 449,479 | 434,521 | 449,479 | 434,521 |

## 32. FAIR VALUE AND FAIR VALUE HIERARCHY *(continued)*

### Company

| | Carrying amounts | | Fair values | |
|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| **Financial assets** | | | | |
| Cash and cash equivalents | **1,222** | 827 | **1,222** | 827 |
| | **1,222** | 827 | **1,222** | 827 |

| | Carrying amounts | | Fair values | |
|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| **Financial liability** | | | | |
| Due to a subsidiary | **206,700** | 313,095 | **206,700** | 313,095 |
| | **206,700** | 313,095 | **206,700** | 313,095 |

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair values of cash and cash equivalents, pledged deposits, trade and bills receivables, trade and bills payables, financial assets included in prepayments, deposits and other receivables, financial liabilities included in other payables and accruals, amounts due from/to associates and an amount due to a subsidiary approximate to their carrying amounts largely due to the short term maturities of these instruments.

## 32. FAIR VALUE AND FAIR VALUE HIERARCHY *(continued)*

### Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair values of financial instruments:

Level 1: fair values measured based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: fair values measured based on valuation techniques for which any inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs)

The Group and the Company did not have any financial assets and liabilities at fair value as at 31 December 2011 and 2010.

## 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, interest rate risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

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

### 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 28 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 19 to the financial statements.

The Group places its cash deposits with major international banks in Hong Kong, state-owned banks in Mainland China and Founder Finance, a financial institution approved by the PBOC. This investment policy limits the Group's exposure to concentrations of credit risk.

### Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's interest-bearing bank borrowings with floating interest rates.

At 31 December 2011, approximately HK$76,031,000 (2010: HK$157,282,000) of the Group's interest-bearing borrowings bore interest at floating rates. The Group believes that the exposure to the risk of changes in market interest rate is minimal.

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

### Interest rate risk *(continued)*

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings).

| | Group | |
|---|---|---|
| | Increase/ (decrease) in basis points | Increase/ (decrease) in profit before tax HK$'000 |
| 2011 | | |
| Hong Kong dollar | **100** | **(39)** |
| United States dollar | **100** | **(366)** |
| RMB | **100** | **(356)** |
| | | |
| Hong Kong dollar | **(100)** | **39** |
| United States dollar | **(100)** | **366** |
| RMB | **(100)** | **356** |
| | | |
| 2010 | | |
| Hong Kong dollar | 100 | (51) |
| United States dollar | 100 | (1,023) |
| RMB | 100 | (377) |
| EURO | 100 | (122) |
| | | |
| Hong Kong dollar | (100) | 51 |
| United States dollar | (100) | 1,023 |
| RMB | (100) | 377 |
| EURO | (100) | 122 |

## 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**

| | 2011 Within 1 year HK$'000 |
|---|---|
| Due to associates | 63 |
| Trade and bills payables | 292,566 |
| Financial liabilities included in other payables and accruals | 80,819 |
| Interest-bearing bank borrowings | 81,738 |
| | 455,186 |

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

## 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 | | 2011 | |
|---|---|---|---|
| | Within 1 year HK$'000 | Over 1 year HK$'000 | Total HK$'000 |
| Due to a subsidiary | – | 206,700 | 206,700 |
| Guarantees given to banks in connection with facilities granted to subsidiaries | 84,105 | – | 84,105 |
| | 84,105 | 206,700 | 290,805 |

| | | 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 |

### 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 2011 and 31 December 2010.

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

### Capital management *(continued)*

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

| | Group | |
|---|---|---|
| | **2011** | 2010 |
| | **HK$'000** | HK$'000 |
| Interest-bearing bank borrowings | **76,031** | 157,282 |
| Total equity attributable to owners of the parent | **663,639** | 588,414 |
| Debt to equity ratio | **11%** | 27% |

## 34. COMPARATIVE AMOUNTS

During the year, the directors of the Company have reviewed the presentation of the consolidated statement of cash flows and considered it is more appropriate to reclassify the cash flows in respect of provision of entrusted loans to Peking Founder Group from cash flows from operating activities to cash flows from investing activities. Accordingly, a prior year adjustment has been made to reclassify the advance of entrusted loans to Peking Founder Group of approximately HK$310,646,000, repayment of entrusted loans from Peking Founder Group of approximately HK$240,710,000 and receipt of related interest of approximately HK$6,434,000 for the year ended 31 December 2010 from cash flows from operating activities to cash flows from investing activities, to conform with the current year's presentation.

## 35. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 27 March 2012.

# Particulars of Investment Properties

31 December 2011

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

# Particulars of Investment Properties

31 December 2011

| 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<br>Dragon Inn Court<br>9 Tsing Ha Lane<br>Tuen Mun<br>New Territories<br>Hong Kong | Residential premises and car parking space for rental | Medium term lease | 100 |
| Flat D, 12th Floor, Block 2<br>Belvedere Garden<br>Phase 2<br>620 Castle Peak Road<br>Tsuen Wan<br>New Territories<br>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 | | | | |
|---|---|---|---|---|---|
| | **2011** | 2010 | 2009 | 2008 | 2007 |
| | **HK$'000** | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| REVENUE | **1,647,234** | 2,240,732 | 1,912,093 | 1,285,617 | 784,211 |
| PROFIT/(LOSS) FOR THE YEAR | **49,934** | 62,944 | 23,366 | 23,354 | (50,517) |
| Attributable to: | | | | | |
| Owners of the parent | **49,913** | 62,823 | 23,155 | 23,535 | (50,928) |
| Non-controlling interests | **21** | 121 | 211 | (181) | 411 |
| | **49,934** | 62,944 | 23,366 | 23,354 | (50,517) |

## ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

| | As at 31 December | | | | |
|---|---|---|---|---|---|
| | **2011** | 2010 | 2009 | 2008 | 2007 |
| | **HK$'000** | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| TOTAL ASSETS | **1,341,682** | 1,288,093 | 1,376,031 | 1,052,621 | 860,589 |
| TOTAL LIABILITIES | **(677,134)** | (698,827) | (887,215) | (647,470) | (482,769) |
| NON-CONTROLLING INTERESTS | **(909)** | (852) | (707) | (491) | (6,021) |
| | **663,639** | 588,414 | 488,109 | 404,660 | 371,799 |