FOUNDER HOLDINGS LIMITED

方正控股有限公司

(Incorporated in Bermuda with limited liability)

Stock Code: 00418

ANNUAL REPORT 2012

Contents

Corporate Information

BOARD OF DIRECTORS

Executive directors
Mr Fang Zhong Hua *(Chairman)*
Professor Xiao Jian Guo *(Deputy Chairman)*
Professor Yang Bin *(President)*
Ms Yi Mei
Mr Li Sheng Li
Ms Liu Yu Xiao

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 Fang Zhong Hua
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

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
26 Burnaby Street
Hamilton HM 11
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	2012	2011	2010	2009	2008
Turnover *(HK$' million)*	2,131	1,647	2,241	1,912	1,286
Net profit *(HK$' million)*	45	50	63	23	23
Total assets *(HK$' million)*	1,506	1,342	1,288	1,376	1,053
Total liabilities *(HK$' million)*	732	677	699	887	648
Attributable to owners of the parent:					
Net assets *(HK$' million)*	774	664	588	488	405
Net asset value per share *(HK$)*	0.68	0.59	0.52	0.43	0.36
Working capital ratio	1.64	1.64	1.39	1.25	1.33
Earnings per share					
– basic *(HK cents)*	3.9	4.4	5.6	2.0	2.1
Total number of staff	1,362	1,411	1,373	1,456	1,397

(As at the end of the year)

Management Discussion and Analysis

PERFORMANCE

The Group reported a profit attributable to equity holders of the parent for the year ended 31 December 2012 of approximately HK$44.5 million (year ended 31 December 2011: HK$49.9 million). The Group's turnover for the current financial year increased by 29.4% to approximately HK$2,130.8 million (year ended 31 December 2011: HK$1,647.2 million) due to increase in sales of information products for non-media segment. Gross profit for the current year increased by 21.3% to HK$422.8 million compared with last financial year's HK$348.5 million. Gross profit ratio was maintained at around 20% to 21%.

Basic and diluted earnings per share attributable to equity holders of the parent for the year was HK3.9 cents (year ended 31 December 2011: HK4.4 cents).

OPERATING REVIEW AND PROSPECTS

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

The turnover of the Media Business for the current financial year decreased slightly by 1.7% to approximately HK$1,096.4 million (year ended 31 December 2011: HK$1,115.2 million) due to the decline in sales of publishing systems from traditional publishers which were facing severe market competition from new media. The segment results recorded a profit of approximately HK$38.4 million (year ended 31 December 2011: HK$43.4 million). The gross profit ratio for the Media Business has increased from last financial year's 30.6% to 37.2% in current financial year due to reversal of provision for obsolete inventories.

Digital Media Business

Beijing Founder Electronics Co., Ltd. ("Founder Electronics"), the principal subsidiary of the Group, has developed itself as a software developer and system integration service provider with core competitiveness in the sector of newspaper informatization. It provides the newspaper publishing with high quality software services, advanced hardware products and cutting-edge solutions. Major customers include People's Daily (人民日報), Xinhua News Agency (新華社), Guang Ming Daily (光明日報), Economic Daily (經濟日報) and China Military News (解放軍報) and other mainstream media.

In 2012, Founder Electronics made full use of its strength in technological research and development and launched series of new products, including the self-developed Founder Omni-media System for News Collection and Editing (方正暢享全媒體新聞編採系統), Website Features Management System (網站專題管理系統) and Cloud Service System for Mobile Reading (移動閱讀雲服務系統), which have been widely recognised and used in the industry. In addition, Founder Electronics continued to put more efforts in market expansion. It actively participated in the bidding for tenders organised by news agencies at various levels, news websites, universities and colleges, energy industry etc., and won major projects such as the Dongfeng Project of the General Administration of Press and Publication (新聞出版署東風工程), the People's Daily (人民日報), Guang Ming Daily (光明日報), Economic Daily (經濟日報), Nanfang Daily (南方日報), Xinhua Daily Press Group (新華報業), Wenhui Xinmin (文匯新民), Beijing Daily (北京日報), Chongqing Daily (重慶日報) and Inner Mongolia Daily (內蒙古日報).

Printing Business

The printing business of Founder Electronics focuses on providing the printing industry with products and solutions covering the entire process from digital production to digital management. With twenty years' experience in the industry and a solid base of more than ten thousand clients, Founder Electronics is the sole provider in the emerging digital inkjet printing market which possesses high-end digital inkjet printing technology with autonomous intellectual property. So far, Founder Electronics' printing business has possessed various core technologies in the markets of digital printing processing, digital printing and inkjet printing. With its strong client base and market presence, Founder Electronics has become the largest provider of pre-printing technologies in China.

In 2012, the performance of Founder Electronics' printing business was significantly improved. The market share in the digital publication printing, industrial printing, package printing and commercial printing markets was enhanced. Inkjet printing business also achieved excellent performance, with installed capacity ranking top in the national market. With an annual production capability of more than RMB100 million for the inkjet coding segment and measures to actively expand the inkjet coding segment into food and pharmaceutical industries, there is huge growth potential for the inkjet printing business.

Font Library Business

Founder Electronics is the pioneer professional operator engaging in the development of Chinese font library in China, and is also the largest Chinese font product provider. Currently, it owns nearly 200 Chinese character fonts and more than 70 ethnic character fonts, including 4 super font libraries consisting of over 70,000 Chinese characters. Nearly 90% of newspaper agencies, publishing and printing houses in China used Founder fonts in printing newspaper, books, magazines, teaching materials, documents and packages. Major television broadcasters such as CCTV, BTV and Hunan TV (湖南衛視) adopted Founder fonts in broadcasting news, sports and entertainment programs. Founder font library, which is widely used in websites, mobile devices, packages, advertising designs, games, animes and offices, has become the most frequently used Chinese character font product in the market.

In 2012, Founder font library participated in the 2012 China Design Exhibition (2012中國設計大展) held in Shenzhen as the only selected font library enterprise. The authorised commercial distribution service launched by Founder font library has been increasingly recognised and purchased by the corporate clients, such as Apple, Samsung Phone, Windows Phone, Huawei Phone, MiOne Phone, which adopted Founder fonts as their system fonts. FZ ZhongDengXian super font library (中等線超大字庫) developed by Founder was used in the second generation identity cards and the navy hull number font library (海軍艦艇舷號字體) designed by Founder was fully implemented in China naval force.

Management Discussion and Analysis

Aiming at B2C market, Founder Ziku (方正字酷) of Android version, IOS version and Windows version, were launched so that users can easily download their favorite fonts in their mobile phones, computer softwares or files.

Public Sentiment Business

Founder Electronics takes advantage of its technology on Chinese natural language intelligent analysis and processing to provide government authorities, industry operators and enterprises with low-cost internet public sentiment monitoring and intelligent information services.

In 2012, our public sentiment team was the pioneer which first introduced technologies on major-scale data and social media analysis to the development of internet public sentiment system, set up extensive internet public sentiment cloud service platforms and data centers and launched public sentiment application platforms for the relevant authorities or bodies of different levels. It successfully undertook the development of significant public sentiment projects from various clients of high-end ministerial-and provincial-level authorities. Founder Zhisi (方正智思) was elected to the list of National Torch Plan products of 2012 and won the "Qian Weichang Science and Technology Award for Chinese Information Processing" (錢偉長中文信息處理科學技術獎) awarded by Chinese Information Processing Society of China (中國中文信息學會).

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

The turnover of the Non-Media Business for the current financial year increased significantly by 94.4% to approximately HK$1,034.0 million (year ended 31 December 2011: HK$531.8 million) while its segment results has recorded a profit of approximately HK$11.3 million (year ended 31 December 2011: HK$4.5 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 increase in segment revenue was mainly due to the demand of information products in the banking sector in the PRC.

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.

Digital Media Business

The domestic and foreign press agencies are now facing the challenge of the transformation to digitalised publishing due to global change in needs and habit of readers under the rapid development of internet and mobile internet technology. This brings new growth potential for the omni-media solution business, mobile solution business and other internet related system businesses of Founder Electronics.

Printing Business

Founder Electronics' printing business will adopt the core values of 'IT for Print' and focus on provision of digital printing process, digital printing management and e-commercial printing solutions. The printing business is committed to the integration of the digital communication channels among business operation, management and process and the combination of IT technology and IT service concept, so as to provide solutions for traditional printing and finishing companies to adapt themselves to and capture any opportunities brought by the transformation of Internet economy. The printing business also focuses on provision of "all-in-one" solutions to assist printing companies in integrating traditional printing, digital printing, green digital workflow, internet printing and business models. In addition, Founder Electronics aims at becoming an active promoter of innovative technology, process and concept for the printing industry on the basis of its advanced operational model and industrial concept, in order to gain a leading position as an IT solution provider in China's printing industry.

Font Library Business

Founder font library segment will endeavor to promote font authorisation products to enterprises, media, hardware and software manufacturers and other sectors. User base of Founder font library will therefore be immensely expanded, allowing more internet users to use Founder fonts conveniently on their handsets and computers.

Public Sentiment Business

Various kinds of innovative media public sentiment monitoring and information service products, industry solutions for different sectors and contingent solutions for internet emergencies will be launched based on the research results on major-scale data technology of public sentiment and virtual society. Also, Founder Electronics will promote the public sentiment cloud services oriented product and business models so as to maintain its leading position in China's public sentiment industry.

Non-media Business

The Group will continuously refine its product structure to avoid product overlapping and minimise market risk. The management will also place stronger emphasis on operating cash flow, stringent control on working capital and cost management.

EMPLOYEES

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

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

As at 31 December 2012, the number of employees of the Group was approximately 1,362 (31 December 2011: 1,411).

Management Discussion and Analysis

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 2012, the Group had interest-bearing bank borrowings of approximately HK$229.8 million (31 December 2011: HK$76.0 million) which were floating interest bearing. The bank borrowings were denominated in Hong Kong Dollars ("HKD"), Renminbi ("RMB"), 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.

At 31 December 2012, the Group recorded total assets of HK$1,505.8 million which were financed by liabilities of HK$731.6 million, non-controlling interests of HK$0.1 million and equity of HK$774.1 million. The Group's net asset value per share as at 31 December 2012 amounted to HK$0.68 (31 December 2011: HK$0.59).

The Group had total cash and bank balances of HK$442.0 million as at 31 December 2012 (31 December 2011: HK$452.7 million). After deducting total bank borrowings of HK$229.8 million (31 December 2011: HK$76.0 million), the Group recorded net cash and bank balances of HK$212.2 million as at 31 December 2012 as compared to HK$376.7 million as at 31 December 2011. 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 2012, the Group's gearing ratio, measured on the basis of total borrowings as a percentage of total shareholders' equity, was 0.30 (31 December 2011: 0.11) while the Group's working capital ratio was 1.64 (31 December 2011: 1.64). At 31 December 2012, the Group did not have any material capital expenditure commitments.

Treasury policies

The Group adopts conservative treasury policies and controls tightly over its cash and risk management. The Group's cash and cash equivalents are held mainly in HKD, RMB and U.S. dollars. Surplus cash is generally placed in short term deposits denominated in HKD, RMB and U.S. dollars.

Exposure to fluctuations in exchange rates and related hedges

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

Contracts

At 31 December 2012, the major contracts in hand for the software development and systems integration business amounted to approximately HK$275.8 million (31 December 2011: HK$392.0 million), which are all expected to be completed within one year time.

Material acquisitions and disposals of subsidiaries and associates

The Group had no material acquisition or disposal of subsidiaries and associates in 2012.

Charges on assets

At 31 December 2012, the Group's land and buildings in Hong Kong of approximately HK$56.9 million and investment properties of approximately HK$53.9 million and bank deposits of approximately HK$12.0 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 2012.

Contingent liabilities

At 31 December 2012, the Group did not have any significant contingent liabilities.

Events after the reporting period

On 18 March 2013, Peking Founder and Founder Electronics entered into the Intellectual Properties Transfer Agreement with China Digital Video (Beijing) Limited*（新奥特（北京）視頻技術有限公司）("China Digital Video"), to transfer their title and interest in certain patents, patent application rights, trademarks and the software copyrights to China Digital Video at an aggregate consideration of RMB101,475,970 (equivalent to approximately HK$126,845,000), out of which RMB54,975,970 (equivalent to approximately HK$68,720,000), representing approximately 54.2%, is payable to Founder Electronics.

On the same date, Peking Founder, Founder Electronics, Peking University（北京大學）(major shareholder of Peking Founder) entered into the Patents Licence Agreement with China Digital Video to grant certain exclusive rights to use the patents and patent application rights for the entire validity period to China Digital Video at a consideration of RMB7,000,000 (equivalent to approximately HK$8,750,000), out of which RMB3,000,000 (equivalent to approximately HK$3,750,000), representing approximately 42.9%, is payable to Founder Electronics.

Details of the transactions are set out in the announcement of the Company dated 18 March 2013.

* *For identification purpose only*

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

The Company is firmly committed to the overall standards of corporate governance and has always recognised the importance of accountability and communication with shareholders. The Company adopted all the code provisions of the Code on Corporate Governance Practices (the "Old Code"), which has been amended and renamed as Corporate Governance Code (the "CG 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 has fully complied with all the code provisions as set out in the Old Code from 1 January 2012 to 31 March 2012. The Company has also fully complied with the code provisions as set out in the CG Code during the period from 1 April 2012 to 31 December 2012.

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 2012.

BOARD OF DIRECTORS

As at the date of this Corporate Governance Report, the board of directors of the Company (the "Board") comprises six executive directors and three independent non-executive directors. The executive directors are Mr Fang Zhong Hua (Chairman), Professor Xiao Jian Guo (Deputy Chairman), Mr Liu Xiao Kun (President), Professor Yang Bin, Ms Yi Mei and Mr Wo Fei Yu, the independent non-executive directors are Mr Li Fat Chung, Ms Wong Lam Kit Yee and Mr Fung Man Yin, Sammy. 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 17 to 18 of this Annual Report.

The Board oversees the Group's strategic development and determines the objectives, strategies and policies of the Group. The Board also monitors and controls the operating and financial performance in pursuit of the Group's strategic objectives. Day-to-day management of the Group's business is delegated to the management of the Company under the supervision of the executive directors. The functions and powers that are so delegated are reviewed periodically to ensure that they remain appropriate. Matters reserved for the Board are the overall strategy of the Group, major acquisitions and disposals, major capital investments, dividend policy, significant changes in accounting policies, material contracts, appointment and retirement of directors, remuneration policy and other major operational and financial matters. The Board members have access to appropriate business documents and information about the Group on a timely basis. All Board members have access to the Company Secretary who is responsible for ensuring that the Board procedures, and related rules and regulations, are followed. Minutes of Board/Committee meetings are kept by the Company Secretary and are open for inspection by Board members. All directors and Board committees have recourse to external legal counsel and other professionals for independent advice at the Group's expense upon their request. Appropriate directors' liability insurance cover has also been arranged to indemnify the Board members for liabilities arising out of corporate activities.

The Board held four regular Board meetings at approximately quarterly intervals during the year ended 31 December 2012. 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 and general meetings is as follows:

Name of director	**Board meetings attended/ Eligible to attend**	**General meetings attended/ Eligible to attend**
Executive Directors		
Mr Fang Zhong Hua *(Chairman)*	3/4	1/1
Professor Xiao Jian Guo	2/4	0/1
Mr Liu Xiao Kun	2/4	0/1
Professor Yang Bin	3/4	0/1
Ms Yi Mei	4/4	1/1
Mr Wo Fei Yu	2/4	0/1
Independent Non-executive Directors		
Mr Li Fat Chung	2/4	1/1
Ms Wong Lam Kit Yee	2/4	1/1
Mr Fung Man Yin, Sammy	2/4	1/1

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

Each newly appointed director is provided with necessary induction and information to ensure that he has a proper understanding of the Company's operations and businesses as well as his responsibilities under the relevant statutes, law, rules and regulations.

Directors' training is an ongoing process. During the year, directors are provided with monthly updates on the Company's performance, position and prospects to enable the board as a whole and each director to discharge their duties. In addition, all directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. The Company updates directors on the latest development regarding the Listing Rules and other applicable regulatory requirements from time to time, to ensure compliance and enhance their awareness of good corporate governance practices.

Corporate Governance Report

All directors have participated in continuous professional development and have provided to the Company the records of the training they received during the financial year ended 31 December 2012. The individual training record of each director received for the year ended 31 December 2012 is summarised below:

Name of Director	Briefings and updates on the business, operations and corporate governance matters	Attending seminars, workshops or self-study of materials relevant to the business or directors' duties
Executive Directors		
Mr Fang Zhong Hua *(Chairman)*	✓	✓
Professor Xiao Jian Guo	✓	✓
Mr Liu Xiao Kun	✓	✓
Professor Yang Bin	✓	✓
Ms Yi Mei	✓	✓
Mr Wo Fei Yu	✓	✓
Independent Non-executive Directors		
Mr Li Fat Chung	✓	✓
Ms Wong Lam Kit Yee	✓	✓
Mr Fung Man Yin, Sammy	✓	✓

The Board is responsible for performing the functions set out in the code provision D.3.1 of the CG Code. The Board reviewed the Company's corporate governance policies and practices, training and continuous professional development of directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the Model Code, and the Company's compliance with the CG Code and disclosure in this Corporate Governance Report.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

NON-EXECUTIVE DIRECTORS

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

All the three independent non-executive directors 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, making recommendations to the Board on the remuneration packages of all executive directors and senior management, making recommendations to the Board on 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 2012, 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 2012 is set out in Note 8 to the Company's 2012 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 Li Fat Chung *(Chairman) (Independent non-executive director)*	1/1
Mr Fang Zhong Hua *(Executive director)*	1/1
Ms Wong Lam Kit Yee *(Independent non-executive director)*	1/1

NOMINATION OF DIRECTORS

The nomination committee of the Board was established on 30 March 2012 with specific written terms of reference which deal clearly with its authorities and duties. The role and function of the committee include determining the policy for the nomination of directors, setting out the nomination procedures and the process and criteria adopted to select and recommending candidates for directorship. The nomination committee is also responsible for reviewing the structure, size and composition of the board.

In 2012, the Nomination Committee met once to review the structure, size and composition of the Board, nomination procedure and the independence of the independent non-executive directors, and to recommend the Board on the appointment and reappointment of directors and succession planning for directors.

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

Name of member	Meetings attended/Eligible to attend
Mr Fang Zhong Hua *(Chairman) (Executive director)*	1/1
Ms Wong Lam Kit Yee *(Independent non-executive director)*	1/1
Mr Fung Man Yin, Sammy *(Independent non-executive director)*	1/1

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 2012, 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	3/3
Mr Fung Man Yin, Sammy	3/3

INTERNAL CONTROL

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

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
Limited assurance services on continuing connected transactions	35
Compliance and tax advisory services	245
	610
Total	2,560

Corporate Governance Report

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 27 to 28 of this Annual Report.

COMPANY SECRETARY

Ms Tang Yuk Bo, Yvonne has been the company secretary of the Company since 20 November 2000. Ms Tang will take relevant professional training to comply with Rule 3.29 of the Listing Rules for the financial year commencing on 1 January 2013.

COMMUNICATION WITH SHAREHOLDERS

The Company affirms its commitment to maintaining a high degree of corporate transparency, communicating regularly with its shareholders and ensuring, in appropriate circumstances, the investment community at large being provided with ready, equal and timely access to balanced and understandable information about the Company (including its financial performance, strategic goals and plans, material developments, governance and risk profile), in order to enable the shareholders to exercise their rights in an informed manner.

THE SHAREHOLDERS' RIGHTS TO CONVENE A SPECIAL GENERAL MEETING

Pursuant to Section 74 of the Companies Act 1981 of Bermuda and Bye-law 62 of the Bye-laws of the Company, special general meetings shall be convened on the requisition of one or more shareholders of the Company holding, at the date of deposit of the requisition, not less than one-tenth of the paid up capital of the Company having the right of voting at general meetings of the Company. Such requisition shall be made in writing to the Board or the Secretary for the purpose of requiring a special general meeting to be called by the Board for the transaction of any business specified in such requisition. Such meeting shall be held within three months after the deposit of such requisition. If within 21 days of such deposit, the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner.

CONSTITUTIONAL DOCUMENTS

The Company did not make any changes in its Memorandum of Association and New Bye-laws during the year.

ON BEHALF OF THE BOARD

Fang Zhong Hua
Chairman

Hong Kong
27 March 2013

Biographical Details of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr Fang Zhong Hua, aged 49, is the Chairman and an executive director of the Company. He is the member of executive committee and senior vice president of Peking University Founder Group Company Limited ("Peking Founder"), and chief executive officer of Founder Information Industry Holding Co., Ltd. (方正信息產業控股有限公司) ("Founder Information"), a subsidiary of Peking Founder. He is a director 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. Mr Fang graduated from Zhengzhou Institute of Aeronautical Industry Management and obtained a master's degree in Business Administration at 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 56, 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 director of an associated company 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 Peking University.

Professor Yang Bin, aged 43, is the President and an executive director of the Company, and the president of Founder Electronics and its subsidiaries. He obtained a master's degree of Computer Science at Peking University in 1994. Professor 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).

Ms Yi Mei, aged 48, 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 vice president of Peking Founder and Founder Information. She is a director of a number of associated companies of Peking Founder. She is the chairman of Founder Technology (stock code: 600601), a company listed in the Shanghai Stock Exchange. 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

Mr Li Sheng Li, aged 40, is the vice president of Peking Founder, vice president and chief financial officer of Founder Information. He also holds directorships in a number of associated companies of Peking Founder. He received his bachelor's degree in Economics at Peking University in 1997, obtained graduation certificate in finance from Chinese Academy of Social Sciences in 2008, and obtained an EMBA degree from Peking University Guanghua School of Management in 2012. Mr Li has extensive experience in finance and management.

Ms Liu Yu Xiao, aged 36, is the vice president of Founder Information. She also holds directorships in a number of associated companies of Peking Founder. She received her bachelor's degree in industrial and foreign trading at Xi'an University of Technology in 1998 and obtained Master's degree in Economics at Northwest University in 2001. Ms Liu also obtained qualification certificate of security industry from The Security Association of China and graduation certificate of Master's degree in Real estate economy from East China Normal University. Ms Liu has extensive experience in the strategic investment.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr Li Fat Chung, aged 52, is an independent non-executive director of the Company and EC-Founder (Holdings) Company Limited. Mr Li is a director of Chan, Li, Law CPA Limited 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 49, 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 53, 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 18 years.

Report of the Directors

The directors present their report and the audited financial statements for the year ended 31 December 2012.

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 2012 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 29 to 115.

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

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the audited financial statements, is set out on page 118 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 116 to 117 of the annual report.

SHARE CAPITAL AND SHARE OPTIONS

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

PRE-EMPTIVE RIGHTS

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 28(b) to the financial statements and in the consolidated statement of changes in equity, respectively.

Report of the Directors

DISTRIBUTABLE RESERVES

At 31 December 2012, the Company's reserves available for distribution amounted to approximately HK$201,323,000. 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 46% of the total sales for the year and sales to the largest customer included therein amounted to 23%. Purchases from the Group's five largest suppliers accounted for 62% of the total purchases for the year and purchases from the largest supplier included therein amounted to 20%.

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
Professor Xiao Jian Guo
Mr Liu Xiao Kun
Professor Yang Bin
Ms Yi Mei
Mr Wo Fei Yu

Independent non-executive directors:

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

In accordance with the bye-laws of the Company, Professor Xiao Jian Guo, Ms Wong Lam Kit Yee and Mr Fung Man Yin, Sammy 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 Fang 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 17 to 18 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 of the Company 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 2012, 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
Professor Yang Bin	7,388,000
Ms Yi Mei	7,388,000
	36,940,000

Save as disclosed above, as at 31 December 2012, 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 for Securities Transactions by Directors of the Listed Issuers.

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 27 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 outstanding as at 1 January 2012 and 31 December 2012	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	17.11.2011	17.11.2012 to 16.11.2014	0.296
Professor Xiao Jian Guo	7,388,000	17.11.2011	17.11.2012 to 16.11.2014	0.296
Mr Liu Xiao Kun	7,388,000	17.11.2011	17.11.2012 to 16.11.2014	0.296
Professor Yang Bin	7,388,000	17.11.2011	17.11.2012 to 16.11.2014	0.296
Ms Yi Mei	7,388,000	17.11.2011	17.11.2012 to 16.11.2014	0.296
Subtotal	36,940,000			
Other employees of the Group				
In aggregate	29,551,900	17.11.2011	17.11.2012 to 16.11.2014	0.296
Other employees of the substantial shareholder of the Company				
In aggregate	7,388,000	17.11.2011	17.11.2012 to 16.11.2014	0.296
Total	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.

Save as disclosed above, at no time during the year were rights to acquire benefits by means of the acquisition of shares of 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 2012, 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 2012, no person, other than the directors of the Company, whose interests are set out in the section "Directors' interests and short positions in shares and underlying shares" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

CONTINUING CONNECTED TRANSACTIONS

During the year, the Company and the Group had the following 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").

Continuing connected transactions

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

The directors of the Company report that for the continuing connected transaction set out in 31(I)(h) to the financial statements, the deposit amount under the Deposit Services in PKU Founder Group Finance Co., Ltd. ("Founder Finance") in the Financial Services Agreement had slightly exceeded the 2012 annual cap in December 2012. The reasons for exceeding the 2012 annual cap are set out below.

Reference is made to the announcement of the Company dated 3 December 2010, the circular of the Company dated 24 December 2010 and the special general meeting of the Company held on 12 January 2011 in relation to the Financial Services Agreement signed by the Company, Peking Founder and Founder Finance. As at 26 December 2012, the Group's deposit under the Deposit Services in the Financial Services Agreement was approximately RMB120.7 million, which had slightly exceeded the 2012 Annual Cap of RMB110 million by approximately RMB10.7 million or approximately 9.7%. On 31 December 2012, Beijing Founder Electronic Co., Ltd. ("Founder Electronics"), a subsidiary of the Group, withdrew a deposit of RMB76 million from Founder Finance, leaving the balance of approximately RMB44.7 million as at 31 December 2012. Other than this incident, the deposit amount for the Deposit Services had been well below the 2012 Annual Cap throughout the year 2012.

The directors (including independent non-executive directors) accept the fact that the deposit amount under the Deposit Services in the Financial Services Agreement had slightly exceeded the 2012 Annual Cap in five days from 26 December 2012 to 30 December 2012. This constitutes a breach of Rule 14A.36 of the Listing Rules. The reason for exceeding the 2012 Annual Cap was mainly due to the change of the financial manager of Founder Electronics in December 2012. Nevertheless, as (i) the interest rate for the Group's deposit with Founder Finance was same as the interest rate for the Group's deposit with other banks in the PRC and (ii) the interest for the exceeding portion of the deposit during such short period was not significant, the Group did not suffer any financial loss as a result of this incidence. In view of this, the directors (including independent non-executive Directors) consider that disclosure of this incident by way of announcement dated 19 March 2013 and reporting in this annual report were appropriate.

In order to avoid re-occurrence of this incident, the board of directors has strengthened its internal control in monitoring all continuing connected transactions by, among others, provision of specific training to any new staff who needs to take up the responsibilities of monitoring continuing connected transactions.

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. For reasons disclosed above, the Company's auditors were not able to confirm that the continuing connected transactions have not exceeded the 2012 Annual Cap for the financial year ended 31 December 2012.

Except for the continuing connected transactions set out in note 31(I)(h) to the financial statements which exceeded the 2012 Annual Cap, the Company's auditors would be able to confirm all matters as required pursuant to Rule 14A.38 of the Listing Rules. A copy of the auditors' letter has been provided by the Company to the Hong Kong 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.

EVENTS AFTER THE REPORTING PERIOD

Details of the significant events of the Group after the reporting period are set out in note 35 to the financial statements.

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 2013

Independent Auditors' Report

ERNST & YOUNG
安 永

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

We have audited the consolidated financial statements of Founder Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 29 to 115, which comprise the consolidated and company statements of financial position as at 31 December 2012, 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 Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

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

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

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

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

Independent Auditors' Report (continued)

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2012, 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 Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
22/F, CITIC Tower
1 Tim Mei Avenue
Central
Hong Kong

27 March 2013

Consolidated Income Statement

Year ended 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
REVENUE	5	**2,130,753**	1,647,234
Cost of sales		**(1,707,999)**	(1,298,706)
Gross profit		**422,754**	348,528
Other income and gains	5	**80,678**	76,007
Selling and distribution costs		**(261,839)**	(211,282)
Administrative expenses		**(68,233)**	(57,788)
Other expenses, net		**(117,602)**	(96,155)
Finance costs	7	**(9,396)**	(4,122)
Share of profits and losses of associates		**1,371**	(1,593)
PROFIT BEFORE TAX	6	**47,733**	53,595
Income tax expense	10	**(3,322)**	(3,661)
PROFIT FOR THE YEAR		**44,411**	49,934
Attributable to:			
Owners of the parent	11	**44,523**	49,913
Non-controlling interests		**(112)**	21
		44,411	49,934
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	12		
Basic		**HK3.9 cents**	HK4.4 cents
Diluted		**HK3.9 cents**	HK4.4 cents

Consolidated Statement of Comprehensive Income

Year ended 31 December 2012

	2012 HK$'000	2011 HK$'000
PROFIT FOR THE YEAR	44,411	49,934
OTHER COMPREHENSIVE INCOME		
Revaluation surplus of land and buildings	67,982	27,114
Income tax effect	(13,211)	(1,306)
	54,771	25,808
Share of other comprehensive income/(loss) of associates	138	(1,198)
Exchange differences on translation of foreign operations	6,092	13,341
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	61,001	37,951
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	105,412	87,885
Attributable to:		
Owners of the parent	105,511	87,828
Non-controlling interests	(99)	57
	105,412	87,885

Consolidated Statement of Financial Position

31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**257,257**	184,787
Investment properties	14	**55,430**	48,355
Capitalised software costs	17	**2,917**	–
Investments in associates	16	**17,995**	16,425
Finance lease receivables	21	**8,168**	–
Total non-current assets		**341,767**	249,567
CURRENT ASSETS			
Inventories	18	**40,976**	61,775
Gross amount due from contract customers	19	**17,061**	146,726
Trade and bills receivables	20	**447,343**	232,621
Prepayments, deposits and other receivables		**215,103**	198,261
Finance lease receivables	21	**1,625**	–
Pledged deposits	22	**12,006**	12,121
Cash and cash equivalents	22	**429,955**	440,611
Total current assets		**1,164,069**	1,092,115
CURRENT LIABILITIES			
Trade and bills payables	23	**185,900**	292,566
Gross amount due to contract customers	19	**9,639**	18,679
Other payables and accruals		**280,095**	279,748
Interest-bearing bank borrowings	24	**229,807**	76,031
Tax payable		**2,695**	–
Total current liabilities		**708,136**	667,024
NET CURRENT ASSETS		**455,933**	425,091
TOTAL ASSETS LESS CURRENT LIABILITIES		**797,700**	674,658

Consolidated Statement of Financial Position (continued)

31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
NON-CURRENT LIABILITIES			
Deferred tax liabilities	25	**23,477**	10,110
Net assets		**774,223**	664,548
EQUITY			
Equity attributable to owners of the parent			
Issued capital	26	**113,030**	113,030
Reserves	28(a)	**661,061**	550,609
		774,091	663,639
Non-controlling interests		**132**	909
Total equity		**774,223**	664,548

Fang Zhong Hua
Director

Yang Bin
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2012

	Notes	Attributable to owners of the parent											
		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
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	16	–	–	–	–	–	–	(13,260)	(3,457)	3,457	(13,260)	–	(13,260)
Equity-settled share option arrangements	27	–	–	–	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

Consolidated Statement of Changes in Equity (continued)

Year ended 31 December 2012

		Attributable to owners of the parent											
	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
At 1 January 2012		113,030	32,470	867,910	657	3,685	118,110	41,106	39,530	(552,859)	663,639	909	664,548
Profit for the year		–	–	–	–	–	–	–	–	44,523	44,523	(112)	44,411
Other comprehensive income for the year:													
Revaluation surplus of land and buildings, net of tax		–	–	–	–	–	54,771	–	–	–	54,771	–	54,771
Share of other comprehensive income of associates		–	–	–	–	–	–	138	–	–	138	–	138
Exchange differences on translation of foreign operations		–	–	–	–	–	–	6,079	–	–	6,079	13	6,092
Total comprehensive income for the year		–	–	–	–	–	54,771	6,217	–	44,523	105,511	(99)	105,412
Dividends paid to non-controlling shareholders		–	–	–	–	–	–	–	–	–	–	(678)	(678)
Transfer to general reserve		–	–	–	–	–	–	–	5,954	(5,954)	–	–	–
Equity-settled share option arrangements	27	–	–	–	4,941	–	–	–	–	–	4,941	–	4,941
At 31 December 2012		113,030	32,470*	867,910*	5,598*	3,685*	172,881*	47,323*	45,484*	(514,290)*	774,091	132	774,223

* These reserve accounts comprise the consolidated reserves of HK$661,061,000 (2011: HK$550,609,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**47,733**	53,595
Adjustments for:			
Finance costs	7	**9,396**	4,122
Share of profits and losses of associates		**(1,371)**	1,593
Interest income	5	**(11,706)**	(6,370)
Gain on disposal of an associate	5	**–**	(6,410)
Loss on disposal of items of property, plant and equipment	6	**82**	277
Depreciation	6	**11,220**	7,799
Amortisation of capitalised software costs	6	**113**	–
Impairment of trade receivables	6	**6,257**	1,219
Reversal of impairment of trade receivables	6	**–**	(1,300)
Impairment of other receivables	6	**2,904**	2,130
Changes in fair value of investment properties	5	**(7,075)**	(9,155)
Equity-settled share option expense	6	**4,941**	657
		62,494	48,157
Decrease/(increase) in inventories		**20,799**	(27,365)
Decrease/(increase) in gross amount due from contract customers		**129,665**	(118,665)
Decrease/(increase) in trade and bills receivables		**(221,223)**	58,005
Decrease in prepayments, deposits and other receivables		**7,151**	48,190
Increase in finance lease receivables		**(9,793)**	–
Increase/(decrease) in trade and bills payables		**(106,666)**	74,990
Increase/(decrease) in gross amount due to contract customers		**(9,040)**	11,068
Increase/(decrease) in other payables and accruals		**347**	(25,580)
Exchange differences		**752**	3,150
Cash generated from/(used in) operations		**(125,514)**	71,950
Interest received		**3,483**	2,028
Interest paid	7	**(9,396)**	(4,122)
Hong Kong profits tax paid		**(32)**	–
Mainland of the People's Republic of China ("Mainland China" or the "PRC") corporate income tax paid		**(4,322)**	(6,239)
PRC corporate income tax refund		**3,727**	–
Net cash flows from/(used in) operating activities		**(132,054)**	63,617

Consolidated Statement of Cash Flows (continued)

Year ended 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
Net cash flows from/(used in) operating activities		**(132,054)**	63,617
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**7,746**	2,729
Purchases of items of property, plant and equipment	13	**(13,786)**	(8,812)
Addition of capitalised software costs	17	**(2,997)**	–
Proceeds from disposal of items of property, plant and equipment	13	**33**	–
Decrease in amounts due from associates		**2**	452
Increase/(decrease) in amounts due to associates		**(63)**	63
Increase in non-pledged time deposits with original maturity of more than three months when acquired		**(9,123)**	(149)
Disposal of an associate	16	**–**	108,707
Advances of entrusted loans to related companies		**(249,000)**	(98,080)
Repayment of entrusted loans from related companies		**222,580**	153,010
Decrease in pledged deposits		**115**	1,110
Net cash flows from/(used in) investing activities		**(44,493)**	159,030
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans		**167,565**	111,566
Repayment of bank loans		**(148,110)**	(123,816)
Increase/(decrease) in trust receipt loans		**133,770**	(70,569)
Dividends paid to non-controlling shareholders		**(678)**	–
Net cash flows (used in)/from financing activities		**152,547**	(82,819)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**(24,000)**	139,828
Cash and cash equivalents at beginning of year		**438,343**	290,868
Effect of foreign exchange rate changes, net		**4,221**	7,647
CASH AND CASH EQUIVALENTS AT END OF YEAR		**418,564**	438,343
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	22	**290,355**	276,404
Non-pledged time deposits	22	**139,600**	164,207
Cash and cash equivalents as stated in the consolidated statement of financial position		**429,955**	440,611
Non-pledged time deposits with original maturity of more than three months when acquired		**(11,391)**	(2,268)
Cash and cash equivalents as stated in the consolidated statement of cash flows		**418,564**	438,343

Statement of Financial Position

31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
NON-CURRENT ASSETS			
Investments in subsidiaries	15	**559,088**	559,088
CURRENT ASSETS			
Prepayments		**298**	321
Cash and cash equivalents	22	**730**	1,222
Total current assets		**1,028**	1,543
CURRENT LIABILITIES			
Accruals		**–**	700
NET CURRENT ASSETS		**1,028**	843
TOTAL ASSETS LESS CURRENT LIABILITIES		**560,116**	559,931
NON-CURRENT LIABILITY			
Due to a subsidiary	15	**207,695**	206,700
Net assets		**352,421**	353,231
EQUITY			
Issued capital	26	**113,030**	113,030
Reserves	28(b)	**239,391**	240,201
Total equity		**352,421**	353,231

Fang Zhong Hua
Director

Yang Bin
Director

Notes to Financial Statements

31 December 2012

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 ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties, certain buildings classified as property, plant and equipment, 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 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 2012. 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 it 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 revised HKFRSs for the first time for the current year's 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*
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets*
HKAS 12 Amendments	Amendments to HKAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets*

Other than as further explained below regarding the impact of amendments to HKAS 12, the adoption of the revised HKFRSs has had no significant financial effect on these financial statements.

The HKAS 12 Amendments clarify the determination of deferred tax for investment property measured at fair value and 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.

For the Group's investment properties located in Hong Kong, it is expected that their carrying amounts will be recovered through sale. Therefore no provision of deferred tax liabilities is required on any fair value changes of these investment properties as there is no tax consequence for the disposal of these investment properties in Hong Kong.

The adoption of the amendments did not have any impact on the financial position or performance of the Group.

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 – Government Loans*[2]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities*[2]
HKFRS 9	*Financial Instruments*[4]
HKFRS 10	*Consolidated Financial Statements*[2]
HKFRS 11	*Joint Arrangements*[2]
HKFRS 12	*Disclosure of Interests in Other Entities*[2]
HKFRS 10, HKFRS 11 and HKFRS 12 Amendments	Amendments to HKFRS 10, HKFRS 11 and HKFRS 12 – *Transition Guidance*[2]
HKFRS 10, HKFRS 12 and HKAS 27 (2011) Amendments	Amendments to HKFRS 10, HKFRS 12 and HKAS 27(2011) – *Investment Entities*[3]
HKFRS 13	*Fair Value Measurement*[2]
HKAS 1 Amendments	Amendments to HKAS 1 *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income*[1]
HKAS 19 (2011)	*Employee Benefits*[2]
HKAS 27 (2011)	*Separate Financial Statements*[2]
HKAS 28 (2011)	*Investments in Associates and Joint Ventures*[2]
HKAS 32 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*[3]
HK(IFRIC)-Int 20	*Stripping Costs in the Production Phase of a Surface Mine*[2]
Annual Improvements 2009-2011 Cycle	Amendments to a number of HKFRSs issued in June 2012[2]

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

Further information about those HKFRSs that are expected to be applicable to the Group is as follows:

The HKFRS 7 Amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with HKAS 32 *Financial Instruments: Presentation*. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with HKAS 32. The Group expects to adopt the amendments from 1 January 2013.

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

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. The Group will quantify the effect in conjunction with other phases, when the final standard including all phases is issued.

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 addresses the issues raised in HK(SIC)-Int 12. Based on the preliminary analyses performed, HKFRS 10 is not expected to have any impact on the currently held investments of the Group.

HKFRS 11 replaces HKAS 31 *Interests in Joint Ventures* and HK(SIC)-Int 13 *Jointly Controlled Entities – Non-Monetary Contributions by Venturers*. It describes the accounting for joint arrangements with joint control. It addresses only two forms of joint arrangements, i.e., joint operations and joint ventures, and removes the option to account for joint ventures using proportionate consolidation.

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 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.

In July 2012, the HKICPA issued amendments to HKFRS 10, HKFRS 11 and HKFRS 12 which clarify the transition guidance in HKFRS 10 and provide further relief from full retrospective application of these standards, limiting the requirement to provide adjusted comparative information to only the preceding comparative period. The amendments clarify that retrospective adjustments are only required if the consolidation conclusion as to which entities are controlled by the Group is different between HKFRS 10 and HKAS 27 or HK(SIC)-Int 12 at the beginning of the annual period in which HKFRS 10 is applied for the first time. Furthermore, for disclosures related to unconsolidated structured entities, the amendments will remove the requirement to present comparative information for periods before HKFRS 12 is first applied.

The amendments to HKFRS 10 issued in December 2012 include a definition of an investment entity and provide an exception to the consolidation requirement for entities that meet the definition of an investment entity. Investment entities are required to account for subsidiaries at fair value through profit or loss in accordance with HKFRS 9 rather than consolidate them. Consequential amendments were made to HKFRS 12 and HKAS 27 (2011). The amendments to HKFRS 12 also set out the disclosure requirements for investment entities. The Group expects that these amendments will not have any impact on the Group as the Company is not an investment entity as defined in HKFRS 10.

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 11, HKFRS 12, HKAS 27 (2011), HKAS 28 (2011), and the subsequent amendments to these standards issued in July and December 2012 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.

The HKAS 1 Amendments change the grouping of items presented in OCI. Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, net gain on hedge of a net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) would be presented separately from items which will never be reclassified (for example, actuarial gains and losses on defined benefit plans and revaluation of land and buildings). The amendments will affect presentation only and have no impact on the financial position or performance. The Group expects to adopt the amendments from 1 January 2013.

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

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.

The HKAS 32 Amendments clarify the meaning of "currently has a legally enforceable right to setoff" for offsetting financial assets and financial liabilities. The amendments also clarify the application of the offsetting criteria in HKAS 32 to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2014.

The *Annual Improvements to HKFRSs 2009-2011 Cycle* issued in June 2012 sets out amendments to a number of HKFRSs. The Group expects to adopt the amendments from 1 January 2013. 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 are expected to have a significant financial impact on the Group. Those amendments that are expected to have a significant impact on the Group's policies are as follows:

(a) HKAS 1 *Presentation of Financial Statements:* Clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative period is the previous period. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the previous period. The additional comparative information does not need to contain a complete set of financial statements.

In addition, the amendment clarifies that the opening statement of financial position as at the beginning of the preceding period must be presented when an entity changes its accounting policies; makes retrospective restatements or makes reclassifications, and that change has a material effect on the statement of financial position. However, the related notes to the opening statement of financial position as at the beginning of the preceding period are not required to be presented.

(b) HKAS 32 *Financial Instruments: Presentation:* Clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with HKAS 12 *Income Taxes*. The amendment removes existing income tax requirements from HKAS 32 and requires entities to apply the requirements in HKAS 12 to any income tax arising from distributions to equity holders.

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 that are not classified as held for sale in accordance with HKFRS 5 are stated at cost less any impairment losses.

Joint ventures

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits or losses from the joint venture's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture is treated as:

(a) a subsidiary, if the Group has unilateral control, directly or indirectly, over the joint venture;

(b) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;

(c) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture; or

(d) an equity investment accounted for in accordance with HKAS 39, if the Group holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Associates

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's 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. Adjustments are made to bring into line any dissimilar accounting policies that may exist. 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 the 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.

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 to measure 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 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-related costs are expensed as incurred.

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

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain and loss is recognised in profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Business combinations and goodwill *(continued)*

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of HKAS 39 is measured at fair value with changes in fair value either recognised in profit or loss or as a change to other comprehensive income. If the contingent consideration is not within the scope of HKAS 39, it is measured in accordance with the appropriate HKFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the 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 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.

Where goodwill has been allocated to a cash-generating unit (or 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 the disposal. Goodwill disposed in these circumstances is measured based on the relative value of the disposed operation and the portion of the cash-generating unit retained.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of non-financial assets

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

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

An assessment is made at the end of each reporting period as to whether there is an 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 including 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 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.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

Research and development costs

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

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

Deferred development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products not exceeding three years, commencing from the date when the products are put into commercial production.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the leasee, other than legal title, are accounted for as finance leases. Where the Group is the lessor, amounts due from lessees under finance leases are recognised as receivables at the amount of the Group's net investment in the leases, and finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the 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 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, 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.

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 other income and gains in income statement. The loss arising from impairment is recognised in the income statement in finance costs for loans and in other expenses for receivables.

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is 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 yet 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 loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets *(continued)*

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, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, 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.

Financial liabilities

Initial recognition and measurement

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

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of 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 bank 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial guarantee contracts

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to issuance of the guarantee. Subsequent to initial recognition, the 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.

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, 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 option pricing models.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Systems integration contracts

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

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

Provision is made for foreseeable losses as soon as they are anticipated by management. Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers. Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax *(continued)*

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, associates and joint ventures, 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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Government grants

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

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;

(e) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset; and

(f) dividend income, when the shareholders' right to receive payment has been established.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Share-based payments

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 payments, 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 27 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.

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 payments, 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Other employee benefits

Pension schemes

The Group operates defined contribution retirement benefit schemes for those employees who are eligible to participate in the Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme "). Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the 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 MPF Scheme, the Group's employer mandatory contributions vest fully with the employees when contributed into the scheme except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the scheme

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

Borrowing costs

Borrowing costs 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the statement of financial position, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

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 prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in 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 translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the 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 the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates prevailing 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 judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. 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 20 to the financial statements.

Provision for obsolete inventories

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

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.

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

Estimation uncertainty *(continued)*

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 unused tax losses and other deductible temporary differences to the extent that it is probable that taxable profits will be available against which the losses and 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 2012 was approximately HK$290,660,000 (2011: HK$278,444,000). Further details are included in note 25 to the financial statements.

Development costs

Development costs are capitalised in accordance with the accounting policy for research and development costs in note 2.4 to the financial statements. Determining the amounts to be capitalised requires management to make assumptions regarding the expected future cash generation of the assets, discount rates to be applied and the expected period of benefits. At 31 December 2012, the best estimate of the carrying amount of capitalised development costs was HK$2,917,000 (2011: Nil).

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, net foreign exchange differences, 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.

Notes to Financial Statements

31 December 2012

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	
	2012 HK$'000	2011 HK$'000	2012 HK$'000	2011 HK$'000	2012 HK$'000	2011 HK$'000	2012 HK$'000	2011 HK$'000	2012 HK$'000	2011 HK$'000
Segment revenue:										
Sales to external customers	1,096,425	1,115,151	1,033,973	531,753	–	–	355	330	2,130,753	1,647,234
Revenue									2,130,753	1,647,234
Segment results	38,361	43,415	11,251	4,522	(8,642)	(2,600)	1,730	2,004	42,700	47,341
Reconciliation:										
Interest income									11,706	6,370
Gain on disposal of an associate									–	6,410
Foreign exchange differences, net									1,352	(811)
Finance costs									(9,396)	(4,122)
Share of profits and losses of associates									1,371	(1,593)
Profit before tax									47,733	53,595

4. OPERATING SEGMENT INFORMATION *(continued)*

	Software development and systems integration for media business		Software development and systems integration for non-media business		Others		Total	
	2012 HK$'000	2011 HK$'000	2012 HK$'000	2011 HK$'000	2012 HK$'000	2011 HK$'000	2012 HK$'000	2011 HK$'000
Segment assets	660,631	554,005	317,254	272,324	121,805	104,491	1,099,690	930,820
Reconciliation:								
Elimination of intersegment receivables							(54,109)	(58,615)
Investments in associates							17,995	16,425
Corporate and other unallocated assets							442,260	453,052
Total assets							1,505,836	1,341,682
Segment liabilities	442,634	460,400	100,044	188,085	10,534	10,568	553,212	659,053
Reconciliation:								
Elimination of intersegment payables							(54,109)	(58,615)
Corporate and other unallocated liabilities							232,510	76,696
Total liabilities							731,613	677,134
Other segment information:								
Depreciation and amortisation	10,153	7,430	1,168	353	12	16	11,333	7,799
Capital expenditure*	13,786	8,806	–	6	–	–	13,786	8,812

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

4. OPERATING SEGMENT INFORMATION *(continued)*

Geographical information

(a) Revenue from external customers

	2012	2011
	HK$'000	HK$'000
Hong Kong	**1,114,286**	694,364
Mainland China	**1,016,387**	952,715
Others	**80**	155
	2,130,753	1,647,234

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

(b) Non-current assets

	2012	2011
	HK$'000	HK$'000
Hong Kong	**121,788**	104,468
Mainland China	**201,984**	128,674
Others	**17,995**	16,425
	341,767	249,567

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

Information about a major customer

Revenue of approximately HK$499,594,000 (2011: HK$229,095,000) was derived from sales by the software development and systems integration for non-media business 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	2012 HK$'000	2011 HK$'000
Revenue			
Software development and systems integration		2,130,398	1,646,904
Others		355	330
		2,130,753	1,647,234
Other income			
Bank interest income		3,483	2,028
Other interest income		8,223	4,342
Interest income on finance lease receivables		205	–
Gross rental income		1,383	1,117
Government grants (Note)		53,381	49,325
Others		5,493	3,528
		72,168	60,340
Gains			
Fair value gains on investment properties	14	7,075	9,155
Foreign exchange differences, net		1,352	–
Gain on disposal of an associate	16	–	6,410
Others		83	102
		8,510	15,667
		80,678	76,007

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	2012 HK$'000	2011 HK$'000
Auditors' remuneration		1,950	1,950
Cost of inventories sold		1,601,568	1,146,124
Cost of services provided		68,227	69,011
Depreciation	13	11,220	7,799
Amortisation of capitalised software costs*	17	113	–
Loss on disposal of items of property, plant and equipment*		82	277
Operating lease rentals in respect of land and buildings		18,048	11,071
Impairment of trade receivables*	20	6,257	1,219
Reversal of impairment of trade receivables*	20	–	(1,300)
Impairment of others receivables*		2,904	2,130
Provision/(reversal of provision) for obsolete inventories**		(2,818)	19,243
Research and development costs:			
Current year expenditure*		108,214	93,984
Employee benefit expense (including directors' remuneration-note 8):			
Wages and salaries		177,727	147,253
Pension scheme contributions***		25,490	18,874
Equity-settled share option expense		4,941	657
		208,158	166,784
Foreign exchange differences, net		(1,352)	811
Direct operating expenses (including repair and maintenance) arising on rental-earning investment properties		610	855

* 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 2012, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (2011: Nil).

7. FINANCE COSTS

An analysis of finance costs is as follows:

	Group	
	2012	2011
	HK$'000	HK$'000
Interest on bank loans wholly repayable within five years	**9,396**	4,122

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	
	2012	2011
	HK$'000	HK$'000
Fees	**396**	396
Other emoluments:		
Salaries, bonuses and benefits in kind	**2,066**	1,320
Performance related bonuses	**2,798**	1,625
Equity-settled share option expenses	**2,470**	264
Pension scheme contributions	**3**	21
	7,337	3,230
	7,733	3,626

During the year ended 31 December 2011, 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 27 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:

	2012 HK$'000	2011 HK$'000
Mr Li Fat Chung	138	138
Ms Wong Lam Kit Yee	126	126
Mr Fung Man Yin, Sammy [2]	132	66
Dr Hu Hung Lick, Henry [1]	–	66
	396	396

There were no other emoluments payable to the independent non-executive directors during the year (2011: 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
2012						
Mr Fang Zhong Hua [4]	–	–	–	494	–	494
Professor Xiao Jian Guo	–	1,248	689	494	–	2,431
Mr Liu Xiao Kun	–	570	835	494	–	1,899
Professor Yang Bin [4]	–	115	637	494	–	1,246
Ms Yi Mei [4]	–	133	637	494	3	1,267
Mr Wo Fei Yu [4]	–	–	–	–	–	–
	–	2,066	2,798	2,470	3	7,337

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
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
Professor Yang Bin [4]	–	–	–	66	–	66
Ms Yi Mei [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

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 one (2011: two) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining four (2011: three) non-director, highest paid employees for the year are as follows:

	Group	
	2012	2011
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	**1,632**	1,562
Performance related bonuses	**5,274**	3,744
Equity-settled share option expense	**–**	131
Pension scheme contributions	**104**	72
	7,010	5,509

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

	Number of employees	
	2012	2011
Nil to HK$1,000,000	**–**	–
HK$1,000,001 to HK$1,500,000	**–**	–
HK$1,500,001 to HK$2,000,000	**4**	2
HK$2,000,001 to HK$2,500,000	**–**	1
	4	3

During year ended 31 December 2011, 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 27 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

	2012 HK$'000	2011 HK$'000
Group:		
Current – Hong Kong		
Charge for the year	**237**	–
Current – Mainland China		
Charge for the year	**6,812**	4,706
Overprovision in prior year	**(3,727)**	(1,045)
Total tax charge for the year	**3,322**	3,661

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong during the year. For the year ended 31 December 2011, no Hong Kong profits tax had been provided as there were no assessable profits arising in Hong Kong, or the Group has available tax losses brought forward from prior years to offset the assessable profits generated during 2011.

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 rate at 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$492,000 (2011: HK$1,340,000) 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-2012

	Hong Kong		Mainland China		Overseas		Total	
	HK$'000	%	HK$'000	%	HK$'000	%	HK$'000	%
Profit before tax	4,343		42,218		1,172		47,733	
Tax at the statutory tax rate	717	16.5	10,554	25.0	278	23.7	11,549	24.2
Lower tax rate for specific provinces or enacted by local authority	–	–	(5,044)	(12.0)	–	–	(5,044)	(10.6)
Adjustment in respect of current tax of previous period	–	–	(3,727)	(8.8)	–	–	(3,727)	(7.8)
Profits and losses attributable to associates	–	–	–	–	(315)	(26.9)	(315)	(0.7)
Income not subject to tax	(729)	(16.8)	(6,679)	(15.8)	–	–	(7,408)	(15.5)
Expenses not deductible for tax	62	1.5	5,904	14.0	37	3.2	6,003	12.6
Tax losses not recognised	187	4.3	2,077	4.9	–	–	2,264	4.8
Tax charge at the Group's effective rate	237	5.5	3,085	7.3	–	–	3,322	7.0

10. INCOME TAX *(continued)*

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

11. PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

The consolidated profit attributable to owners of the parent for the year ended 31 December 2012 includes a loss of approximately HK$5,751,000 (2011: a loss of HK$19,289,000) which has been dealt with in the financial statements of the Company (note 28(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 (2011: 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 2012 and 2011 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 2012					
At 31 December 2011 and at 1 January 2012:					
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
At 1 January 2012, net of accumulated depreciation	170,967	1,696	8,737	3,387	184,787
Additions	788	–	12,993	5	13,786
Disposals	–	–	(115)	–	(115)
Surplus on revaluation	67,982	–	–	–	67,982
Depreciation provided during the year	(4,180)	(586)	(5,625)	(829)	(11,220)
Exchange realignment	1,753	20	221	43	2,037
At 31 December 2012, net of accumulated depreciation	237,310	1,130	16,211	2,606	257,257
At 31 December 2012:					
Cost or valuation	237,310	11,877	53,854	10,768	313,809
Accumulated depreciation	–	(10,747)	(37,643)	(8,162)	(56,552)
Net carrying amount	237,310	1,130	16,211	2,606	257,257
Analysis of cost or valuation:					
At cost	–	11,877	53,854	10,768	76,499
At 31 December 2012 valuation	237,310	–	–	–	237,310
	237,310	11,877	53,854	10,768	313,809

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 2011					
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

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$237,310,000 based on their existing use. A revaluation surplus of HK$67,982,000, 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$41,394,000 (2011: HK$40,970,000).

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

	Hong Kong HK$'000	Mainland China HK$'000	Total HK$'000
Long term leases	–	170,980	170,980
Medium term leases	66,330	–	66,330
	66,330	170,980	237,310

At 31 December 2012, certain of the Group's land and buildings with a net carrying amount of approximately HK$56,883,000 (2011: HK$53,100,000) in Hong Kong were pledged to secure general banking facilities granted to the Group (note 24).

14. INVESTMENT PROPERTIES

	Group	
	2012 HK$'000	2011 HK$'000
Carrying amount at 1 January	**48,355**	39,200
Net gain from a fair value adjustment (note 5)	**7,075**	9,155
Carrying amount at 31 December	**55,430**	48,355

The Group's investment properties were revalued on 31 December 2012 by LCH (Asia-Pacific) Surveyors Limited, independent professionally qualified valuers, on an open market value, based on their existing use. The investment properties are leased to third parties under operating leases, further summary details of which are included in note 30(a) to the financial statements.

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

14. INVESTMENT PROPERTIES *(continued)*

At 31 December 2012, certain of the Group's investment properties with a carrying value of approximately HK$53,880,000 (2011: HK$47,455,000) were pledged to secure general banking facilities granted to the Group (note 24).

Further particulars of the Group's investment properties are included on pages 116 to 117 of the annual report.

15. INVESTMENTS IN SUBSIDIARIES

	Company	
	2012	2011
	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 2012, 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
北京方正數位印刷技術有限公司 (Beijing Founder Digital Printing Technology Co., Ltd.@)#*	Mainland China	Registered RMB5 million	–	100	Software development and systems Integration
Founder Electronics (HK) Limited	Hong Kong	Ordinary HK$2	–	100	Systems integration
Sparkling Idea Limited*	British Virgin Islands/ Hong Kong	Ordinary US$1	–	100	Investment holding
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	
	2012	2011
	HK$'000	HK$'000
Shares listed in Hong Kong, at cost	**–**	–
Share of net assets	**17,958**	16,449
	17,958	16,449
Due from associates	**37**	39
Due to associates	**–**	(63)
	17,995	16,425

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

As at 31 December 2012, particular of the principal associate is as follows:

Name	Particulars of issued share capital held	Place of incorporation and operations	Percentage of ownership interest attributable to the Group 2012	2011	Principal activities
PUC Founder (MSC) Berhad*#	Ordinary shares of RM0.1 each	Malaysia	**28.36**	28.36	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$114.1 million, 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:

	2012 HK$'000	2011 HK$'000
Assets	**64,858**	62,196
Liabilities	**7,724**	8,671
Revenue	**67,633**	61,586
Profit after tax	**4,745**	4,186

* *For identification purpose only*

17. CAPITALISED SOFTWARE COSTS

	Group 2012 HK$'000
31 December 2012	
Addition – internal development	2,997
Amortisation provided during the year	(113)
Exchange realignment	33
At 31 December 2012	2,917
At 31 December 2012:	
Cost	3,032
Accumulated amortization	(115)
Net carrying amount	2,917

During the year ended 31 December 2012, capitalised software costs were related to development expenditure on printing software.

18. INVENTORIES

	Group	
	2012 HK$'000	2011 HK$'000
Trading stocks	40,976	61,775

19. GROSS AMOUNTS DUE FROM/TO CONTRACT CUSTOMERS

	Group	
	2012	2011
	HK$'000	HK$'000
Gross amount due from contract customers	17,061	146,726
Gross amount due to contract customers	(9,639)	(18,679)
	7,422	128,047
Contract costs incurred plus recognised profits less recognised losses to date	163,196	271,760
Less: Progress billings	(155,774)	(143,713)
	7,422	128,047

20. TRADE AND BILLS RECEIVABLES

	Group	
	2012	2011
	HK$'000	HK$'000
Trade and bills receivables	472,671	251,448
Impairment	(25,328)	(18,827)
	447,343	232,621

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.

20. TRADE AND BILLS RECEIVABLES *(continued)*

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	
	2012	2011
	HK$'000	HK$'000
Within 6 months	**403,131**	195,169
7 to 12 months	**19,905**	26,527
13 to 24 months	**24,307**	10,925
	447,343	232,621

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

	Group	
	2012	2011
	HK$'000	HK$'000
At 1 January	**18,827**	20,056
Impairment losses recognised (note 6)	**6,257**	1,219
Reversal of impairment (note 6)	**–**	(1,300)
Amount written off as uncollectible	**–**	(1,835)
Exchange realignment	**244**	687
At 31 December	**25,328**	18,827

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of approximately HK$2,432,000 (2011: HK$2,432,000) and with a carrying amount before provision of approximately HK$2,432,000 (2011: 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.

20. TRADE AND BILLS RECEIVABLES *(continued)*

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

	Group 2012 HK$'000	2011 HK$'000
Neither past due nor impaired	**41,300**	61,295
Less than 6 months past due	**307,696**	49,391
7 to 12 months past due	**752**	12,197
13 to 24 months past due	**11,577**	–
	361,325	122,883

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.

Included in the Group's trade and bills receivables are amounts due from subsidiaries of Peking Founder of approximately HK$1,980,000 (2011: HK$1,416,000), and a subsidiary of EC-Founder of approximately HK$14,725,000 (2011: HK$11,373,000), which are repayable on similar credit terms to those offered by the related companies to their major customers.

21. FINANCE LEASE RECEIVABLES

	2012 HK$'000	2011 HK$'000
Current finance lease receivables	1,625	–
Non-current finance lease receivables	8,168	–
	9,793	–

The Group entered into a finance lease arrangement for certain of its advanced printing equipments. The lease is denominated in Renminbi ("RMB"). The term of the finance lease entered into is 6 years.

As at 31 December 2012, the total minimum lease payment receivables under finance lease and their present values were as follows:

	Minimum lease payments		Present value of minimum lease payments	
	2012 HK$'000	2011 HK$'000	2012 HK$'000	2011 HK$'000
Amounts receivable:				
Not later than one year	1,992	–	1,625	–
Later than one year and not later than five years	7,968	–	7,187	–
Above five years	996	–	981	–
	10,956	–	9,793	–
Less: unearned finance income	(1,163)	–		
Total net finance lease receivables	9,793	–		

There was no unguaranteed residual values of assets leased under finance leases at the end of the reporting period.

The average effective interest rate contracted is approximately 4.0% per annum.

22. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

		Group		Company	
		2012	2011	**2012**	2011
	Note	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Cash and bank balances		**290,355**	276,404	**730**	1,222
Time deposits		**151,606**	176,328	**–**	–
		441,961	452,732	**730**	1,222
Less: Pledged time deposits	24	**(12,006)**	(12,121)	**–**	–
Cash and cash equivalents		**429,955**	440,611	**730**	1,222

At the end of the reporting period, the cash and cash equivalents of the Group denominated in RMB amounted to approximately HK$256,771,000 (2011: HK$272,940,000). 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$54,966,000 (31 December 2011: HK$12,260,000) and HK$686,000 (31 December 2011: HK$1,042,000), respectively, placed in 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.

23. 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	
	2012	2011
	HK$'000	HK$'000
Within 6 months	164,242	276,103
7 to 12 months	7,936	5,782
13 to 24 months	5,690	7,509
Over 24 months	8,032	3,172
	185,900	292,566

Included in the Group's trade and bills payables are amounts due to subsidiaries of Peking Founder of approximately HK$5,101,000 (2011: HK$3,023,000), and a subsidiary of EC-Founder of approximately HK$873,000 (2011: HK$1,125,000), 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.

24. INTEREST-BEARING BANK BORROWINGS

Group	2012			2011		
	Effective contractual interest rate (%)	Maturity	HK$'000	Effective contractual interest rate (%)	Maturity	HK$'000
Current						
Bank loans – unsecured	1.76 – 5.88 (Floating)	2013	37,560	1.74-6.10 (Floating)	2012	39,454
Bank loans – secured	3.35 – 3.36 (Floating)	2013	21,900	–	–	–
Trust receipt loans – secured	1.76 – 3.15 (Floating)	2013	170,347	1.93-2.61 (Floating)	2012	36,577
			229,807			76,031

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

	Group 2012 HK$'000	2011 HK$'000
Analysed into:		
Bank loans repayable:		
Within one year or on demand	**229,807**	76,031

Notes:

(a) The unsecured bank loans of approximately HK$34,860,000 (2011: HK$35,554,000) were guaranteed by Peking Founder. The unsecured bank loan of approximately HK$2,700,000 (2011: HK$3,900,000) 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 and secured bank loans 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$53,880,000 (2011: HK$47,455,000);

(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$56,883,000 (2011: HK$53,100,000);

(iii) the pledge of certain of the Group's time deposits amounting to approximately HK$12,006,000 (2011: HK$12,121,000); and

(iv) 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$24,600,000 (2011: HK$3,900,000), HK$170,347,000 (2011: HK$36,577,000) and HK$34,860,000 (2011: HK$35,554,000) were denominated in Hong Kong dollars, United States dollars and RMB, respectively.

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

25. DEFERRED TAX

Deferred tax liabilities

	Group Revaluation of properties HK$'000
At 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 and 1 January 2012	**10,110**
Deferred tax debited to equity during the year	**13,211**
Exchange realignment	**156**
Gross deferred tax liabilities at 31 December 2012	**23,477**

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

	Group	
	2012 HK$'000	2011 HK$'000
Depreciation allowances in excess of related depreciation	**(18,889)**	(23,795)
Tax losses	**307,337**	301,677
Impairment of trade receivables	**2,212**	562
	290,660	278,444

25. DEFERRED TAX *(continued)*

The Group has tax losses arising in Hong Kong of approximately HK$290,184,000 (2011: HK$293,064,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. The Group also has tax losses arising in Mainland China of HK$17,153,000 (2011: HK$8,613,000) that will expire in one to five years for offsetting against future taxable profits. 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 10%. The Group is therefore liable to withholding taxes on dividends distributed by those subsidiaries and associates established in Mainland China in respect of earnings generated from 1 January 2008.

At 31 December 2012, 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 totaled approximately HK$170,397,000 at 31 December 2012 (2011: HK$137,363,000).

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

26. SHARE CAPITAL

	Group and Company	
	2012	2011
	HK$'000	HK$'000
Authorised:		
2,100,000,000 (2011: 2,100,000,000) ordinary shares of HK$0.10 each	**210,000**	210,000
Issued and fully paid:		
1,130,299,893 (2011: 1,130,299,893) ordinary shares of HK$0.10 each	**113,030**	113,030

27. 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.

27. SHARE OPTION SCHEME *(continued)*

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 Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of offer; and (iii) the nominal value of the shares of the Company.

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

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

	2012		2011	
	Weighted average exercise price HK$ per share	Number of options '000	Weighted average exercise price HK$ per share	Number of options '000
At 1 January	0.296	73,880	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	0.296	73,880

During the year ended 31 December 2011, 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 ended 31 December 2012 and 2011.

27. 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:

2012 and 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

Notes:

1. 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.

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 2011 Options at the date of grant was HK$8,009,000 (HK$0.11 each) of which the Group recognised a share option expense of HK$4,941,000 (2011: HK$657,000) during the year ended 31 December 2012.

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 73,879,900 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.

28. 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 33 and 34 of the financial statements.

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

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

In accordance with the relevant PRC regulations, each of the Group's PRC subsidiaries 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 in accordance with their articles of association. During the year, certain of the Group's PRC subsidiaries transferred HK$5,954,000, which represented 10% of the PRC subsidiaries' 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 2011	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**
Total comprehensive loss for the year	**–**	**–**	**–**	**(5,751)**	**(5,751)**
Equity-settled share option arrangements	**–**	**–**	**4,941**	**–**	**4,941**
At 31 December 2012	**32,470**	**448,209**	**5,598**	**(246,886)**	**239,391**

28. RESERVES *(continued)*

(b) Company *(continued)*

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 payments 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.

29. CONTINGENT LIABILITIES

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

	Company	
	2012	2011
	HK$'000	HK$'000
Guarantees given to banks in connection with facilities granted to subsidiaries	**364,860**	165,000

As at 31 December 2012, 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$201,389,000 (2011: HK$84,105,000).

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

30. OPERATING LEASE ARRANGEMENTS

(a) As lessor

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

At 31 December 2012, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2012	2011
	HK$'000	HK$'000
Within one year	**1,671**	1,045
In the second to fifth years, inclusive	**1,839**	425
	3,510	1,470

(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 2012, the Group had total future minimum lease payments under the non-cancellable operating leases falling due as follows:

	Group	
	2012	2011
	HK$'000	HK$'000
Within one year	**20,947**	14,419
In the second to fifth years, inclusive	**19,106**	26,897
	40,053	41,316

31. 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 2012 HK$'000	Group 2011 HK$'000
Purchase of goods from a company, in which a 11.65% (2011: 11.65%) equity interest was held by Peking Founder	(i)	–	744
Management fee income received from EC-Founder and its subsidiary	(i)	1,058	1,046
Management fee income received from a company, in which a 11.65% (2011: 11.65%) equity interest was held by Peking Founder	(i)	170	550
Banking facilities guarantees given by Peking Founder and its subsidiary	(ii)	44,235	245,200

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$44,235,000 at 31 December 2012 (2011: HK$49,606,000).

31. 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, for the aggregate of annual rental and management fees of RMB6,900,000 and RMB4,845,000 (equivalent to approximately HK$8,490,000 and HK$5,961,000).

During the year, rental and management fees of approximately HK$14,451,000 (2011: HK$12,276,000) were paid by Founder Electronics and Founder EasiPrint 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 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.

During the year, information products in the amount of approximately HK$6,664,000 (2011: HK$7,431,000) were purchased from EC-Founder Group. The directors consider that the purchase of information products were made in accordance with the master agreement.

31. RELATED PARTY TRANSACTIONS *(continued)*

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

(d) On 15 December 2008, the Company entered into a HP Master Agreement with EC-Founder for the sales of HP 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.

During the year, sales of HP products of approximately HK$131,787,000 (2011: HK$229,095,000) were made to EC-Founder Group and commission fee of approximately HK$395,000 (2011: HK$775,000) was received from EC-Founder Group. The directors consider that the sales of HP products and commission fee were made in accordance with the New HP Master Agreement.

(e) 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 new 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.

During the year, products and services of approximately HK$2,063,000 (2011: HK$3,692,000) were purchased from Peking Founder Group. The directors consider that the purchase of products and services were made in accordance with the master agreements.

31. RELATED PARTY TRANSACTIONS *(continued)*

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

(f) 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 ended 31 December 2012.

On 14 December 2012, the Company entered into a new master agreement with Peking Founder for the sales of information products to Peking Founder Group for a term of three years from 1 January 2013 to 31 December 2015. Further details of the transaction were set out in the announcement of the Company dated 14 December 2012.

During the year, sales of information products of approximately HK$132,907,000 (2011: HK$202,742,000) were made to Peking Founder Group and commission fee of approximately HK$399,000 (2011: HK$608,000) 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.

(g) On 15 July 2009, the Company entered into an entrusted loan master agreement with Peking Founder (the "Entrusted Loan Master Agreement"), pursuant to which the Group would provide short term loans through a financial institution to Peking Founder 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 10% of such rate.

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% of such rate.

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 was unsecured and bore interest at rate 6.10% per annum, and was settled by 12 January 2012. The entrusted loan of RMB80,000,000 (equivalent to approximately HK$98,080,000) and related interest receivable of HK$3,176,000 were included in prepayments, deposits and other receivables as at 31 December 2011.

31. RELATED PARTY TRANSACTIONS *(continued)*

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

(g) *(continued)*

For the year ended 31 December 2012, entrusted loans in the amount of RMB200,000,000 (equivalent to approximately HK$249,000,000) was provided to Peking Founder Group. The entrusted loans were unsecured and bore interest at rates ranging from 6.44% to 7.02% per annum, and were settled by 7 July 2012 as to the amount of RMB100,000,000 (equivalent to approximately HK$124,500,000). The entrusted loan of RMB100,000,000 (equivalent to approximately HK$124,500,000) and related interest receivable of HK$3,653,000 remained undue and were included in prepayments, deposits and other receivables as at 31 December 2012. 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$8,223,000 (2011: HK$4,342,000). 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.

(h) 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 services agreement.

As at 31 December 2012, the Group made deposits of approximately HK$55,652,000 (2011: HK$13,302,000) in Founder Finance. During the year ended 31 December 2012, the Group earned interest income of approximately HK$1,169,000 (2011: HK$791,000). 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.

31. RELATED PARTY TRANSACTIONS *(continued)*

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

(i) On 7 December 2012, the Company entered into a Master Sales Agreement with EC-Founder, pursuant to which the Group would provide EC-Founder Group with the information products developed by the Group, the systems integration products and the related services on a non-exclusive basis, from the date of the agreement to 31 December 2014. Further details of the transaction were set out in the announcement of the Company dated 7 December 2012.

During the year, the Group did not provide any information products, systems integration products or related services to EC-Founder Group.

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

(II) Outstanding balances with related parties

(a) As at 31 December 2012, other than the entrusted loan receivables from Peking Founder Group as disclosed in note 31(I)(g) to the financial statements, balances due from Peking Founder Group included in prepayments, deposits and other receivables were approximately HK$17,493,000 (2011: HK$23,680,000) and balances due to Peking Founder Group included in other payables and accruals were approximately HK$31,011,000 (2011: HK$1,333,000). These balances are unsecured, interest-free and have no fixed terms of repayment.

(b) The balances due from EC-Founder Group included in prepayments, deposits and other receivables as at 31 December 2012 are approximately HK$4,207,000 (2011: HK$866,000). The balances are unsecured, interest-free and have no fixed terms of repayment.

(c) 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.

(d) Details of the Group's trade balances with its associates and related companies as at the end of the reporting period are disclosed in notes 20 and 23 to the financial statements.

31. RELATED PARTY TRANSACTIONS *(continued)*

(III) Compensation of key management personnel of the Group

	2012 HK$'000	2011 HK$'000
Short term employee benefits	**5,260**	3,341
Equity-settled share option expenses	**2,470**	264
Post-employment benefits	**3**	21
Total compensation paid to key management personnel	**7,733**	3,626

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

32. FINANCIAL INSTRUMENTS BY CATEGORY

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

Group-2012

Financial assets-Loans and receivables

	HK$'000
Due from associates	**37**
Trade and bills receivables	**447,343**
Financial assets included in prepayments, deposits and other receivables	**155,166**
Finance lease receivables	**9,793**
Pledged deposits	**12,006**
Cash and cash equivalents	**429,955**
	1,054,300

32. FINANCIAL INSTRUMENTS BY CATEGORY *(continued)*

Group-2012 *(continued)*

Financial liabilities – Financial liabilities at amortised cost

	HK$'000
Trade and bills payables	**185,900**
Financial liabilities included in other payables and accruals	**73,249**
Interest-bearing bank borrowings	**229,807**
	488,956

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

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

32. FINANCIAL INSTRUMENTS BY CATEGORY *(continued)*

	Company	
	2012	2011
	HK$'000	HK$'000
Financial assets-Loans and receivables		
Cash and cash equivalents	730	1,222
Financial liability-Financial liability at amortised cost		
Due to a subsidiary	207,695	206,700

33. 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	
	2012	2011	2012	2011
	HK$'000	HK$'000	HK$'000	HK$'000
Financial assets				
Cash and cash equivalents	429,955	440,611	429,955	440,611
Pledged deposits	12,006	12,121	12,006	12,121
Due from associates	37	39	37	39
Trade and bills receivables	447,343	232,621	447,343	232,621
Financial assets included in prepayments, deposits and other receivables	155,166	122,476	155,166	122,476
Finance lease receivables	9,793	–	9,793	–
	1,054,300	807,868	1,054,300	807,868
Financial liabilities				
Trade and bills payables	185,900	292,566	185,900	292,566
Financial liabilities included in other payables and accruals	73,249	80,819	73,249	80,819
Interest-bearing bank borrowings	229,807	76,031	229,807	76,031
Due to associates	–	63	–	63
	488,956	449,479	488,956	449,479

33. FAIR VALUE AND FAIR VALUE HIERARCHY *(continued)*

Company

	Carrying amounts		Fair values	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Financial assets				
Cash and cash equivalents	**730**	1,222	**730**	1,222

	Carrying amounts		Fair values	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Financial liability				
Due to a subsidiary	**207,695**	206,700	**207,695**	206,700

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.

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 2012 and 2011.

34. 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.

Credit risk

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

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

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

Further quantitative data in respect of the Group's exposure to credit risk arising from trade and bills receivables are disclosed in note 20 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.

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

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 2012, approximately HK$229,807,000 (2011: HK$76,031,000) 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.

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
2012		
Hong Kong dollar	**100**	**(246)**
United States dollar	**100**	**(1,703)**
RMB	**100**	**(349)**
Hong Kong dollar	**(100)**	**246**
United States dollar	**(100)**	**1,703**
RMB	**(100)**	**349**
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

34. 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:

	2012 Within 1 year HK$'000
Trade and bills payables	**185,900**
Financial liabilities included in other payables and accruals	**73,249**
Interest-bearing bank borrowings	**232,771**
	491,920

	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

34. 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	2012		
	Within 1 year HK$'000	Over 1 year HK$'000	Total HK$'000
Due to a subsidiary	–	207,695	207,695
Guarantees given to banks in connection with facilities granted to subsidiaries	201,389	–	201,389
	201,389	207,695	409,084

	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

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 2012 and 31 December 2011.

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

Capital management *(continued)*

The Group monitors capital using a debt to equity ratio, which is 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	
	2012	2011
	HK$'000	HK$'000
Interest-bearing bank borrowings	**229,807**	76,031
Total equity attributable to owners of the parent	**774,091**	663,639
Debt to equity ratio	**30%**	11%

35. EVENT AFTER THE REPORTING PERIOD

On 18 March 2013, Peking Founder and Founder Electronics entered into the Intellectual Properties Transfer Agreement with China Digital Video (Beijing) Limited* (新奧特(北京)視頻技術有限公司) ("China Digital Video") to transfer their title and interest in certain patents, patent application rights, trademarks and the software copyrights to China Digital Video at an aggregate consideration of RMB101,475,970 (equivalent to approximately HK$126,845,000), out of which RMB54,975,970 (equivalent to approximately HK$68,720,000), representing approximately 54.2%, is payable to Founder Electronics.

On the same date, Peking Founder, Founder Electronics, Peking University* (北京大學) (major shareholder of Peking Founder) entered into the Patents Licence Agreement with China Digital Video to grant certain exclusive rights to use the patents and patent application rights for the entire validity period to China Digital Video at a consideration of RMB7,000,000 (equivalent to approximately HK$8,750,000), out of which RMB3,000,000 (equivalent to approximately HK$3,750,000), representing approximately 42.9%, is payable to Founder Electronics.

Details of the transactions are set out in the announcement of the Company dated 18 March 2013.

* *For identification purpose only*

36. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 27 March 2013.

Particulars of Investment Properties

31 December 2012

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

Particulars of Investment Properties

31 December 2012

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

Five Year Financial Summary

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

RESULTS

	Year ended 31 December				
	2012	2011	2010	2009	2008
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
REVENUE	**2,130,753**	1,647,234	2,240,732	1,912,093	1,285,617
PROFIT FOR THE YEAR	**44,411**	49,934	62,944	23,366	23,354
Attributable to:					
Owners of the parent	**44,523**	49,913	62,823	23,155	23,535
Non-controlling interests	**(112)**	21	121	211	(181)
	44,411	49,934	62,944	23,366	23,354

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	As at 31 December				
	2012	2011	2010	2009	2008
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
TOTAL ASSETS	**1,505,836**	1,341,682	1,288,093	1,376,031	1,052,621
TOTAL LIABILITIES	**(731,613)**	(677,134)	(698,827)	(887,215)	(647,470)
NON-CONTROLLING INTERESTS	**(132)**	(909)	(852)	(707)	(491)
	774,091	663,639	588,414	488,109	404,660