EC-FOUNDER (HOLDINGS) COMPANY LIMITED
方正數碼(控股)有限公司
(Incorporated in Bermuda with limited liability)

Stock Code: 00618

ANNUAL REPORT 2012

Contents

Corporate Information

BOARD OF DIRECTORS

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

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

COMMITTEES

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

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

Nomination Committee
Mr Zhang Zhao Dong *(Chairman)*
Ms Wong Lam Kit Yee
Ms Cao Qian

COMPANY SECRETARY
Ms Tang Yuk Bo, Yvonne

AUTHORISED REPRESENTATIVES
Mr Zhang Zhao Dong
Mr Chen Geng

AUDITORS
Ernst & Young
Certified Public Accountants

LEGAL ADVISERS
DLA Piper Hong Kong

PRINCIPAL BANKERS
China Everbright Bank
China Merchants Bank
Huaxia 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
Tricor Tengis Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Hong Kong

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

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

Financial Highlights

Year	**2012**	2011	2010	2009	2008
Turnover *(HK$' million)*	**2,724**	5,400	4,649	3,813	3,961
Net profit/(loss) *(HK$' million)*	**(25)**	(8)	16	33	18
Total assets *(HK$' million)*	**1,345**	1,922	2,130	1,451	1,477
Total liabilities *(HK$' million)*	**1,025**	1,583	1,782	1,130	1,192
Net assets *(HK$' million)*	**320**	339	348	321	285
Net assets per share *(HK$)*	**0.29**	0.31	0.31	0.29	0.26
Current ratio	**1.28**	1.19	1.17	1.24	1.20
Earnings/(loss) per share – basic *(HK cents)*	**(2.24)**	(0.76)	1.43	3.01	1.66

Management Discussion and Analysis

OVERALL PERFORMANCE

During the year under review, the Group reported a loss attributable to equity holders of the parent for the year ended 31 December 2012 of HK$24.8 million (year ended 31 December 2011: HK$8.4 million). The Group's revenue for the current financial year has decreased by 49.6% to HK$2,724.2 million compared to HK$5,400.1 million for the year ended 31 December 2011. Gross profit for the current financial year has decreased by 39.8% to HK$158.8 million compared with last financial year's HK$263.8 million and the gross profit margin has increased slightly from last financial year's 4.9% to 5.8% for the current financial year. Total selling and distribution expenses, and administrative expenses for the current year has decreased by 21.6% compared to the year ended 31 December 2011.

The decline in the Group's operating results for the year attributable to the equity holders of the parent was mainly the net results of:

a. a decrease in the revenue of the distribution of information products business by 49.6% to HK$2,724.2 million (year ended 31 December 2011: HK$5,400.1 million);

b. a decrease in total selling and distribution expenses, and administrative expenses by 21.6% to HK$166.9 million (year ended 31 December 2011: HK$212.9 million) as a result of better control on operating expenses;

c. a decrease in finance costs by 54.7% to HK$35.2 million (year ended 31 December 2011: HK$77.7 million) as a result of decrease in bank borrowings and interest rate;

d. improvement in the share of profits of associates to approximately HK$0.8 million (year ended 31 December 2011: share of losses of HK$4.5 million) as a result of increase in variety of mobile phones and data products distributed in Hong Kong; and

e. a decrease in income tax expense for the distribution of information products business by 38.0% to HK$1.7 million (year ended 31 December 2011: HK$2.8 million) as a result of decline in profit of a subsidiary in the PRC.

Basic and diluted loss per share attributable to equity holders of the parent for the year were HK2.24 cents (year ended 31 December 2011: HK0.76 cents) and HK2.24 cents (year ended 31 December 2011: diluted earnings per share of HK0.76 cents), respectively.

OPERATING REVIEW AND PROSPECTS

Distribution of information products ("Distribution Business")

The Group's principal operating activity during the year is the distribution of information products business. The Distribution Business recorded a turnover of HK$2,724.2 million representing a decrease of 49.6% comparing to the last financial year. Gross profit for the Distribution Business also recorded a decrease of 39.8% to HK$158.8 million for the year ended 31 December 2012 (year ended 31 December 2011: HK$263.8 million). Gross profit margin has increased slightly from last financial year's 4.9% to 5.8% for the current financial year.

The Distribution Business is mainly focused on the distribution of information products such as servers, printers, switches, networking products, storage devices, workstations and optical screen products of a number of internationally famed and branded information products manufacturers such as HP, H3C, CommScope, Barco, Brocade, Microsoft, Epson, Samsung, Corning, LifeSize and Iomega. The decrease in turnover during the current year is mainly attributable to the streamline of various product lines to concentrate the effort on product lines with better profit margin in view of intense competition in the distribution market.

The Distribution Business has been awarded by various upstream vendors during the current year for its excellent partnership in terms of distribution channel, coverage, growth and overall performance in the PRC. The Group's principal subsidiary, Beijing Founder Century Information Systems Co., Ltd. ("PRC Century"), obtained the special honor of 2011 Most Successful IT Distribution Channel Vendor award (2011年最成功IT渠道供應商) in 2011 Service platform selection organised by China Market Intelligence Center (賽迪網), and award of Financial year 2011 Best distribution of SWD product (FY11最佳SWD產品分銷獎) from HP in February 2012. PRC Century also obtained the award of Best workstations solutions distributor (最佳存儲解决方案分銷商) from HP in December 2012.

As the business environment in the PRC is becoming more competitive and the unfavorable factors arising from the macro-control policies, the management strictly control operating costs and expenses leading to a decrease in total selling and distribution expenses and administrative expenses by 21.6% to HK$166.9 million during the current year (year ended 31 December 2011: HK$212.9 million). The Distribution Business will continuously refine its product structure to avoid product overlapping and minimise market risk. The Group will focus on the distribution of information products with better trading terms and exploring the more profitable value-added service business.

In addition, the Group focus on the current assets management. The Group's trade and bills receivables and inventory turnover periods have increased from 2011's 46.4 days and 29.8 days to the current year's 89.7 days and 34.2 days. The increase in trade and bills receivables turnover period is due to increase in the proportion of sales to systems integration service providers with longer credit terms provided. The lengthening of aging of debtors led to an increase in impairment of trade receivables in accordance with the provision policy. The increase in inventory turnover period is mainly attributable to increase in inventory level of workstations for anticipated sales to systems integration service providers. The working capital ratio for the Group as at 31 December 2012 was maintained at 1.28 (31 December 2011: 1.19).

Management Discussion and Analysis

PROSPECTS

The Group is dedicated for a medium to long term development plan of maintaining a satisfactory growth in results and fulfilling its objective to enhance shareholders' value.

Distribution Business

The Distribution Business will continuously refine its product structure to avoid product overlapping and minimise market risk. The Group will focus on the distribution of information products with higher profit margin and exploring the more profitable value-added service business. Moreover, the management will also place stronger emphasis on operating cash flow, stringent control on working capital such as trade receivables and payables and inventory and cost management. The Group will continue to look for alliance with other international information products suppliers and investment opportunities.

Real Estate Business

The management team has been exploring business opportunities to expand the Group's operation and enhance its earnings. The management team is actively looking for suitable investments opportunities from time to time to diversify its existing business portfolio and to broaden its source of income. In view of the long term growth prospects in property market in the PRC, the Group enters into the new PRC real estate business after the completion of acquisition of subsidiaries on 2 January 2013. The management believes that by expanding and diversifying the Group's scope of business, the Group's future business outlook may be more promising.

The newly acquired PKU Resource – Li Cheng (北大資源一理城) in Kunsan (昆山) is erected on two various parcels of land located on the western side of Zhangjiagang River and the southern side of Yingbin Road, Bacheng Town, Kunshan city, Jiangsu province. The planned total site area of the project is 655,567 sq. m. Phase 1 has a planned site area of approximately 451,567 sq. m and comprises an arts exhibition center, a creative arts workshop, apartment buildings and auxiliary facilities, the construction work is in progress and some of the units have started to presell in 2012. Phase 2 will have a planned site area of approximately 204,000 sq. m and comprise residential buildings, an electronic arts complex and auxiliary business facilities. At present, the parcel of land for Phase 1 planned development with a total site area of 451,567 sq. m have been acquired, while that with a total site area of 204,000 sq. m needed for Phase 2 planned development are yet to be obtained. The management of Kunshan Hi-Tech Electronic Arts Creative Industry Development Co., Ltd. ("Kunshan Hi-Tech"), a subsidiary of the Group acquired on 2 January 2013, will closely monitor the property market of Kunshan city and prepare for bidding of the land. Considering Kunshan Hi-Tech's present success in Phase I development, the management is optimistic of Kunshan Hi-Tech's ability to acquire the land for Phase II development. Kunshan city is located in the southeastern part of Jiangsu province, adjacent to the border with the Shanghai Municipality, and is currently regarded as one of the most economically successful county-level administrations in the PRC. There is expected huge growth potential for Kunsan property industry as it is located in the most vigorous region in the PRC.

The newly acquired International Building of Wuhan (武漢國際大廈) is located at Dandong Road, Jianghan District, Wuhan city. The property has a total gross floor area of 35,000 sq. m. and comprises various office units on certain levels of an office complex, in which the Group owns 26,963.32 sq.m, representing 77% of the total gross floor area. The International Building of Wuhan is located at a geographically prestigious spot in Wuguang business district. However, its tenants mainly comprise small to medium-sized companies and the current rental is lower than the average rental level of Wuguang business district. There is potential for an upward adjustment of rental. The management of Hubei Tianranju Business Management Limited, a subsidiary of the Group, will evaluate whether there is a need to make relevant alteration of the establishment to upgrade the overall image of and maximise the value generated from the building through attracting tenants with higher quality and higher rental income.

The newly acquired residential site in Hubei is located at Honglianhu Tourism New Town (紅蓮湖旅遊新城) in Ezhou city (鄂州市), Hubei province of the PRC, adjacent to the emerging growth area of the Wuhan Donghu High & New Technology Development Zone (known as "China Optics Valley") in Hubei. The project has a total site area of approximately 675,000 sq. m and is planned to be developed into low-rise apartment buildings, high-rise residential buildings and other auxiliary facilities. The project is in the progress of demolition. Upon assisting the local government to complete the removal work, Tianhe Property Development Limited, a subsidiary of the Group, will promptly apply for the construction planning permits and construction permits, and commence the construction under the conditions set by the construction planning authority. As the interaction and integration between Wuhan Donghu High & New Technology Development Zone and Honglianhu New Town is steadily underway, the Honglianhu area becomes more prestigious geographically. Therefore, we expected that the investment value of the Group's newly acquired residential land thereon will continue to increase.

Founder International Building (方正國際大廈) leased under the new Master Lease Agreement is an office building located at a geographically superb spot in the western part of Zhongguancun, Haidian District, Beijing. The total site area and the gross floor area of the property are 5,121 sq. m and 51,159.23 sq. m respectively. In Beijing, the property prices showed another round of booming after the Chinese New Year of 2013 and this drove the rental level to rise simultaneously, suggesting a strong rigid demand for properties in Beijing. As a well-known commercial property in Zhongguancun, the Group will also be benefited from such rental increment and the increase in rental income will provide steady cash flow for the Group.

The overall PRC's real estate will embrace ample opportunities in 2013. As stated in the Report to the Eighteenth National Congress of the Communist Party of the PRC, the 2010 GDP and per capita income of both urban and rural residents are targeted to double by 2020. Doubling per capita income will provide a purchasing power of RMB64 trillion, while the Chinese traditional ideology of Home Ownership will make the real estate industry continue to be the major consumption market for residents. Also, the sustainable growth of per capita income will keep the property price to remain high.

Furthermore, on 1 March 2013, the State Council (國務院) announced detailed rules of "Five Regulations" (國五條), which provided that the down payment ratio and interest on second homes should be raised in cities where housing prices have grown too fast and that the added value on sales of second-hand houses should be levied individual income tax at a rate of 20% in accordance with the relevant regulations. The significant increase in transaction tax levied on second-hand houses objectively stimulated transactions of newly developed properties and drove the rental price growth in the housing rental market.

Management Discussion and Analysis

Currently, the PRC's property industry is still under various challenges. During the Central Economic Work Conference of the PRC held in December 2012, the Central Government of the PRC announced that it would continue to firmly pursue its property-tightening policies to promote the return of home prices to reasonable levels and promote the healthy development of the property market. In the view of the management, the overall property market in the PRC shows a growing trend, and despite that property-tightening policies would restrain the over-surging home prices in the near-term, they will be beneficial to the long-term development of the property market.

In order to create more value for our shareholders, the management will consistently and closely monitor the price fluctuation of properties in the major cities over the PRC and actively exploit opportunities to invest in the Chinese market, so as to continuously enhance the profitability and operating performance of its real estate segment.

EMPLOYEES

The Group has developed its human resources policies and procedures based on performance and merits. The Group ensures that the pay level of its employees are competitive and employees are rewarded on a performance related basis within the general framework of the Group's salary and bonus systems. The Group provides on-the-job training to its employees in addition to retirement benefit schemes and medical insurance. The Group operates share option schemes for the purpose of providing incentives and rewards to eligible directors and employees of the Group who contribute to the success of the Group's operations. The Group did not grant any share option to its eligible directors and employees during the current financial year.

The Group has approximately 523 employees as at 31 December 2012 (31 December 2011: 718).

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 approximately HK$262.7 million interest-bearing bank borrowings (31 December 2011: HK$566.9 million) which were floating interest bearing. Bank borrowings were denominated in Renminbi ("RMB") and repayable within one year. The Group's banking facilities were guaranteed by the Company and Peking University Founder Group Company Limited.

At 31 December 2012, the Group recorded total assets of approximately HK$1,344.7 million (31 December 2011: HK$1,921.7 million) which were financed by liabilities of approximately HK$1,024.7 million (31 December 2011: HK$1,582.5 million) and equity of approximately HK$320.0 million (31 December 2011: HK$339.2 million). The Group's net asset value per share as at 31 December 2012 was maintained at HK$0.29 (31 December 2011: HK$0.31). The Group had total cash and bank balances of approximately HK$398.3 million as at 31 December 2012 (31 December 2011: HK$530.4 million). After deducting the Group's bank borrowings, the Group recorded net cash and bank balances of approximately HK$135.6 million as at 31 December 2012 (31 December 2011: net borrowings of HK$36.5 million). The Group's borrowings, which are subject to little seasonality, consist of mainly short term bank loans and trust receipt loans. The decrease in bank borrowings was attributable to the better utilisation of fund to reduce the cost of financing and maintain a better capital structure. 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 0.82 (31 December 2011: 1.67) while the Group's current ratio was maintained at 1.28 (31 December 2011: 1.19).

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 Hong Kong dollars ("HKD"), RMB and United States Dollars ("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.

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

As at 31 December 2012, bank deposits of approximately HK$106.3 million (31 December 2011: HK$81.2 million) were pledged to banks to secure general 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.

Management Discussion and Analysis

Events after reporting period

On 23 August 2012, the Company and Founder Information (Hong Kong) Limited ("Founder Information") (the substantial shareholder of the Company) entered into a sale and purchase and subscription agreement (the "S&P and Subscription Agreement"), pursuant to which the Company conditionally agreed to acquire 100% equity interests in Hong Kong Tianranju Holdings Limited and Hong Kong Tianhe Holdings Limited (the "Acquisition"), which are principally engaged in property development and property investment, from Founder Information at a total consideration of HK$537 million, which would be satisfied by the issue of the consideration shares of the Company as to HK$227 million and the consideration convertible bonds of the Company as to HK$310 million. Further details of the transactions were set out in the circular of the Company dated 16 November 2012. The Acquisition was completed on 2 January 2013.

On 2 January 2013, pursuant to the S&P and Subscription Agreement, the Company issued subscription convertible bonds to Founder Information at a consideration of HK$62,000,000. Further details of the transactions were set out in the circular of the Company dated 16 November 2012.

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 the code provisions as set out in the Old Code from 1 January 2012 to 31 March 2012. The Company has also complied with the code provisions as set out in the CG Code during the period from 1 April 2012 to 31 December 2012, except for the following deviation:

Provision A.6.7 of the CG Code provides that independent non-executive directors and other non-executive directors should attend general meetings and develop a balanced understanding of the views of shareholders. Ms Cao Qian (independent non-executive director of the Company) could not attend the annual general meeting of the Company held on 1 June 2012 and the special general meeting of the Company held on 5 December 2012 due to business commitment in the PRC.

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") currently comprises five executive directors and three independent non-executive directors. The executive directors are Mr Zhang Zhao Dong (Chairman), Mr Chen Geng (President), Mr Xia Yang Jun, Mr Xie Ke Hai and Mr Zheng Fu Shuang, the independent non-executive directors are Mr Li Fat Chung, Ms Wong Lam Kit Yee and Ms Cao Qian. 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 18 to 19 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

Corporate Governance Report

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 meetings and general meetings is as follows:

Name of director	**Board Meetings attended/ Eligible to attend**	**Annual General Meeting attended/ Eligible to attend**	**Special General Meeting attended/ Eligible to attend**
Executive Directors			
Mr Zhang Zhao Dong *(Chairman)*	3/4	1/1	1/1
Mr Chen Geng	4/4	0/1	0/1
Mr Xia Yang Jun	2/4	0/1	0/1
Mr Xie Ke Hai	2/4	0/1	0/1
Mr Zheng Fu Shuang	2/4	0/1	0/1
Independent Non-executive Directors			
Mr Li Fat Chung	2/4	1/1	1/1
Ms Wong Lam Kit Yee	2/4	1/1	1/1
Ms Cao Qian	3/4	0/1	0/1

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/she has a proper understanding of the Company's operations and businesses as well as his/her 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.

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 Zhang Zhao Dong *(Chairman)*	✓	✓
Mr Chen Geng	✓	✓
Mr Xia Yang Jun	✓	✓
Mr Xie Ke Hai	✓	✓
Mr Zheng Fu Shuang	✓	✓
Independent Non-executive Directors		
Mr Li Fat Chung	✓	✓
Ms Wong Lam Kit Yee	✓	✓
Ms Cao Qian	✓	✓

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 Zhang Zhao Dong is the Chairman of the Board. The primary role of the Chairman is to provide leadership for the Board and to ensure that it works effectively in the discharge of its responsibilities. Mr Chen Geng is the President of the Company, who acts as the Chief Executive Officer of the Company. The President is responsible for the day-to-day management of the Group's business. Their respective roles and responsibilities are set out in writing which have been approved by the Board.

NON-EXECUTIVE DIRECTORS

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

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All the three independent non-executive directors are professional accountants and two of them are 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 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/her 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 Chen Geng *(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 Zhang Zhao Dong *(Chairman) (Executive director)*	1/1
Ms Wong Lam Kit Yee *(Independent non-executive director)*	1/1
Ms Cao Qian *(Independent non-executive director)*	0/1

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, namely, Mr Li Fat Chung (Chairman), Ms Wong Lam Kit Yee and Ms Cao Qian. All the committee members possess appropriate professional accounting and financial qualifications.

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

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 record 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
Ms Cao Qian	1/3

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.

Corporate Governance Report

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	1,480
Non-audit services:	
Agreed-upon procedures on interim results	300
Limited assurance services on continuing connected transactions	40
Tax compliance services	46
	386
Total	1,866

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 1 June 1992. 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 2017.

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

Zhang Zhao Dong
Chairman

Hong Kong
27 March 2013

Biographical Details of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr Zhang Zhao Dong, aged 63, is the Chairman and an executive director of the Company. He is also the director and president of Peking University Founder Group Company Limited ("Peking Founder"). He is a director of a number of associated companies of Peking Founder. Mr Zhang graduated from the Department of Geophysics at the Peking University in 1977 and is a research fellow at the Peking University.

Mr Chen Geng, aged 42, is the President and an executive director of the Company. Mr Chen graduated from the Northwest University with a bachelor's degree in Executive Management and obtained an EMBA degree from the Peking University Guanghua School of Management. Mr Chen is also a Senior Economist in the People's Republic of China. Before joining the Group in 2005, he was a Vice-President of a subsidiary of Peking Founder and worked in various investment companies in the People's Republic of China and has extensive experience in finance and management. Mr Chen is responsible for the overall strategic planning and development of the Group.

Mr Xia Yang Jun, aged 40, is an executive director of the Company. He is also a Vice-President of Peking Founder. Mr Xia graduated from the Peking University Guanghua School of Management with an EMBA degree. He is also a Financial Economist and Certified Public Accountant in the People's Republic of China.

Mr Xie Ke Hai, aged 47, is an executive director of the Company. He is also a Senior Vice-President and Chief Human Resources Officer of Peking Founder. Mr Xie graduated from the University of Science & Technology Beijing and obtained a master's degree. He is also a director of a number of associated companies of Peking Founder. He has extensive experience in human resources.

Mr Zheng Fu Shuang, aged 47, is an executive director of the Company. He is also the substantial shareholder of the Company. Mr Zheng graduated from the Institute of Electronics, Chinese Academy of Sciences with a master's degree in Engineering, and Peking University Guanghua School of Management with an EMBA degree. Mr Zheng has over 20 years' experience in the radio film and television business in the People's Republic of China. Mr Zheng was awarded the "Best Technology Entrepreneur of Private Enterprise in China"（中國優秀民營科技企業家）and "Outstanding entrepreneurs medal of The Hong Kong Polytechnic University's Bauhinia Cup"（香港理工大學紫荊花杯傑出企業家獎）and "The Eighteenth Beijing May Fourth Medal"（第十八屆北京市「五四獎章」）.

Biographical Details of Directors and Senior Management

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr Li Fat Chung, aged 52, is an independent non-executive director of the Company and Founder Holdings 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 Accountant 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 Founder Holdings 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.

Ms Cao Qian, aged 49, is an independent non-executive director of the Company. Ms Cao is a Certified Public Accountant in the People's Republic of China. Ms Cao graduated from the Central University of Finance & Economics and obtained a bachelor's degree in finance and revenue professional. Ms Cao also received her EMBA degree from the Peking University Guanghua School of Management. Ms Cao has over 20 years of experience in auditing, accounting and financial management.

Report of the Directors

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

The Group's loss 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 95.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets and liabilities of the Group for the last five financial years, as extracted from the audited financial statements, is set out on page 96 of the annual report. This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL AND SHARE OPTIONS

There were no movements in either the Company's authorised or issued share capital 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 26(b) to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At 31 December 2012, the Company's reserves available for distribution amounted to approximately HK$50,142,000. In addition, the Company's share premium account, in the amount of approximately HK$156,019,000, may be distributed in the form of fully paid bonus shares.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for less than 30% of the total sales for the year. Purchases from the Group's five largest suppliers accounted for approximately 80% of the total purchases for the year and purchases from the largest supplier included therein amounted to approximately 37%.

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

DIRECTORS

The directors of the Company during the year were:

Executive directors:

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

Independent, non-executive directors:

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

In accordance with the Company's Bye-laws, Mr Zhang Zhao Dong, Mr Zheng Fu Shuang and Mr Li Fat Chung will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

The Company has received annual confirmations of independence from Mr Li Fat Chung, Ms Wong Lam Kit Yee and Ms Cao Qian and as at the date of this report 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 18 to 19 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, commitment, 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:

Long positions in ordinary shares of the Company:

Name of director	Capacity and nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital
Mr Zhang Zhao Dong	Directly beneficially owned	3,956,000	0.36
Mr Zheng Fu Shuang	Directly beneficially owned	200,019,000	18.08

Long positions in share options of the Company:

Name of director	Number of options directly beneficially owned
Mr Zhang Zhao Dong	10,514,050
Mr Chen Geng	10,514,050
Mr Xia Yang Jun	10,514,050
Mr Xie Ke Hai	10,514,050
	42,056,200

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.

SHARE OPTION SCHEME

The Company operates share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Further details of the scheme are disclosed in note 25 to the financial statements.

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

Name or category of participant	Number of share options at 1 January 2012 and 31 December 2012	Date of grant of share options (Note 1)	Exercise period of share options (Note 2)	Exercise price of share options (Note 3) HK$ per share
Director				
Mr Zhang Zhao Dong	10,514,050	5.12.2011	5.12.2012 to 4.12.2014	0.281
Mr Chen Geng	10,514,050	5.12.2011	5.12.2012 to 4.12.2014	0.281
Mr Xia Yang Jun	10,514,050	5.12.2011	5.12.2012 to 4.12.2014	0.281
Mr Xie Ke Hai	10,514,050	5.12.2011	5.12.2012 to 4.12.2014	0.281
Total under the 2002 Scheme	42,056,200			

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

2. The option granted on 5 December 2011 are exercisable in the following two tranches:

   (i) First 40% of the options are exercisable from 5 December 2012 to 4 December 2014; and

   (ii) The remaining 60% of options are exercisable from 5 December 2013 to 4 December 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 in the Company granted to any director or their respective spouses or minor children, or were any such rights exercised by them; or was the company, or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES

At 31 December 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 position:

Name	Notes	Capacity and nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital
北京北大資產經營有限公司 (Peking University Asset Management Company Limited*)	1	Through a controlled corporation	363,265,000	32.84
北大方正集團有限公司 (Peking University Founder Group Company Limited*) ("Peking Founder")	2	Through a controlled corporation	363,265,000	32.84
Founder Information (Hong Kong) Limited ("Founder Information")		Directly beneficially owned	363,265,000	32.84
Mr Zheng Fu Shuang		Directly beneficially owned	200,019,000	18.08
Peking University Education Foundation		Directly beneficially owned	93,240,000	8.43
Peking University Education Foundation		Beneficiary of a trust	2,330,000	0.21
Ms Li Yong Hui	3	As trustee	60,671,600	5.49
Ms Ying Yu Ling	3	As trustee	60,671,600	5.49
F2 Consultant Limited	3	Owned as nominee	60,671,600	5.49

* *For identification purpose only*

Notes:

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

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

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

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

Details of the continuing connected transactions are set out in notes 29(I)(a) to 29(I)(i) to the financial statements.

The independent non-executive directors of the Company have reviewed the continuing connected transactions as set out in notes 29(I)(a) to 29(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 no sufficient comparable transaction to judge whether they are on normal commercial terms, on terms no less favourable to the Group than terms available to or from (as appropriate) independent third parties; and (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

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

SUFFICIENCY OF PUBLIC FLOAT

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

EVENTS AFTER THE REPORTING PERIOD

Details of the significant events of the Group after the reporting period are set out in note 33 to the financial statements.

Report of the Directors

AUDITORS

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

ON BEHALF OF THE BOARD

Zhang Zhao Dong
Chairman

Hong Kong
27 March 2013

Independent Auditors' Report

安 永

To the shareholders of EC-Founder (Holdings) Company Limited

(Incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of EC-Founder (Holdings) Company Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 29 to 95, 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 the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

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

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

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

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

Independent Auditors' Report (continued)

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2012, and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
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	**2,724,229**	5,400,140
Cost of sales		**(2,565,464)**	(5,136,292)
Gross profit		**158,765**	263,848
Other income and gains	5	**10,857**	28,092
Selling and distribution expenses		**(123,941)**	(155,702)
Administrative expenses		**(42,996)**	(57,223)
Other operating income/(expenses), net		**8,687**	(2,357)
Finance costs	7	**(35,210)**	(77,740)
Share of profits and losses of associates		**821**	(4,528)
LOSS BEFORE TAX	6	**(23,017)**	(5,610)
Income tax expense	10	**(1,736)**	(2,801)
LOSS FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE PARENT	11	**(24,753)**	(8,411)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	12		
Basic		**HK(2.24) cents**	HK(0.76) cents
Diluted		**HK(2.24) cents**	HK(0.76) cents

Consolidated Statement of Comprehensive Income

Year ended 31 December 2012

	2012 HK$'000	2011 HK$'000
LOSS FOR THE YEAR	**(24,753)**	(8,411)
OTHER COMPREHENSIVE INCOME/(LOSS)		
Exchange differences on translation of foreign operations	**2,565**	(756)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE PARENT, NET OF TAX	**2,565**	(756)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE PARENT	**(22,188)**	(9,167)

Consolidated Statement of Financial Position

31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**7,849**	9,351
Goodwill	14	**2,892**	2,892
Investments in associates	16	**34,990**	34,169
Total non-current assets		**45,731**	46,412
CURRENT ASSETS			
Inventories	17	**186,578**	293,528
Trade and bills receivables	18	**633,704**	705,426
Prepayments, deposits and other receivables		**80,390**	345,660
Tax recoverable		**–**	288
Pledged deposits	19	**106,320**	81,178
Cash and cash equivalents	20	**291,994**	449,188
Total current assets		**1,298,986**	1,875,268
CURRENT LIABILITIES			
Trade and bills payables	21	**583,636**	828,146
Other payables and accruals		**170,011**	180,907
Interest-bearing bank borrowings	22	**262,695**	566,856
Tax payable		**–**	1,160
Total current liabilities		**1,016,342**	1,577,069
NET CURRENT ASSETS		**282,644**	298,199
TOTAL ASSETS LESS CURRENT LIABILITIES		**328,375**	344,611
NON-CURRENT LIABILITY			
Long term payable	29	**8,400**	5,400
Net assets		**319,975**	339,211
EQUITY			
Issued capital	24	**110,606**	110,606
Reserves	26(a)	**209,369**	228,605
Total equity		**319,975**	339,211

Zhang Zhao Dong
Director

Chen Geng
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2012

		Attributable to owners of the parent							
		Issued share capital	Share premium account	Employee share-based compensation reserve	Contributed surplus	Exchange fluctuation reserve	General reserve	Accumulated losses	Total equity
	Note	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2011		110,606	156,019	–	520,156	41,057	10,505	(490,221)	348,122
Total comprehensive loss for the year		–	–	–	–	(756)	–	(8,411)	(9,167)
Equity-settled share option arrangements	25	–	–	256	–	–	–	–	256
Transfer to general reserve		–	–	–	–	–	53	(53)	–
At 31 December 2011		110,606	156,019*	256*	520,156*	40,301*	10,558*	(498,685)*	339,211
At 1 January 2012		**110,606**	**156,019**	**256**	**520,156**	**40,301**	**10,558**	**(498,685)**	**339,211**
Total comprehensive loss for the year		**–**	**–**	**–**	**–**	**2,565**	**–**	**(24,753)**	**(22,188)**
Equity-settled share option arrangements	25	**–**	**–**	**2,952**	**–**	**–**	**–**	**–**	**2,952**
At 31 December 2012		**110,606**	**156,019***	**3,208***	**520,156***	**42,866***	**10,558***	**(523,438)***	**319,975**

* These reserve accounts comprise the consolidated reserves of HK$209,369,000 (2011: HK$228,605,000) 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			
Loss before tax:		**(23,017)**	(5,610)
Adjustments for:			
Finance costs	7	**35,210**	77,740
Share of profits and losses of associates		**(821)**	4,528
Interest income	5	**(10,664)**	(23,050)
Depreciation	6	**3,812**	2,800
Loss/(gain) on disposal of items of property, plant and equipment	6	**6**	(11)
Impairment/(reversal of impairment) of trade receivables	6	**12,958**	(1,431)
Write off of prepayment, deposits and other receivables	6	**74**	3,097
Write-back of trade and other payables	6	**(21,686)**	–
(Reversal of provision of)/provision for obsolete inventories	6	**(5,209)**	6,118
Equity-settled share option expense	25	**2,952**	256
		(6,385)	64,437
Decrease in inventories		**112,159**	245,279
Decrease/(increase) in trade and bills receivables		**58,764**	(37,919)
Decrease in prepayments, deposits and other receivables		**29,296**	35,310
Decrease in trade and bills payables		**(242,274)**	(619,033)
Increase/(decrease) in other payables and accruals		**8,554**	(46,227)
Increase in long term payable		**3,000**	5,400
Exchange differences		**2,534**	(16,444)
Cash generated used in operations		**(34,352)**	(369,197)
Interest received		**5,463**	8,337
Interest paid		**(35,210)**	(77,740)
Mainland of the People's Republic of China ("Mainland China" or the "PRC") corporate income tax paid		**(2,896)**	(3,008)
Hong Kong profits tax refund/(paid)		**288**	(274)
Net cash flows used in operating activities		**(66,707)**	(441,882)

Consolidated Statement of Cash Flows (continued)

Year ended 31 December 2012

	Note	2012 HK$'000	2011 HK$'000
Net cash flows used in operating activities		**(66,707)**	(441,882)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**8,922**	9,641
Dividend received from an associate		**–**	1,376
Purchases of items of property, plant and equipment	13	**(2,432)**	(4,945)
Proceeds from disposal of items of property, plant and equipment		**261**	42
Decrease/(increase) in time deposits with original maturity of over three months when acquired		**95,737**	(96,417)
Advance of entrusted loans to related companies		**(49,800)**	(559,130)
Repayment of entrusted loans from related companies		**281,980**	359,416
(Increase)/decrease in pledged deposits		**(25,142)**	107,843
Net cash flows from/(used in) investing activities		**309,526**	(182,174)
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans		**701,838**	735,259
Repayment of bank loans		**(1,011,109)**	(276,931)
Other loans from PKU Founder Group Finance Co., Ltd. ("Founder Finance")		**270,685**	–
Repayment of loans from Founder Finance		**(270,685)**	–
Net cash flows (used in)/from financing activities		**(309,271)**	458,328
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(66,452)**	(165,728)
Cash and cash equivalents at beginning of year		**341,001**	489,062
Effect of foreign exchange rate changes, net		**4,995**	17,667
CASH AND CASH EQUIVALENTS AT END OF YEAR		**279,544**	341,001

Consolidated Statement of Cash Flows (continued)

Year ended 31 December 2012

	Note	2012 HK$'000	2011 HK$'000
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	20	**184,194**	338,001
Non-pledged time deposits	20	**107,800**	111,187
Cash and cash equivalents as stated in the consolidated statement of financial position		**291,994**	449,188
Non-pledged time deposits with original maturity of over three months when acquired		**(12,450)**	(108,187)
Cash and cash equivalents as stated in the consolidated statement of cash flows		**279,544**	341,001

Statement of Financial Position

31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
NON-CURRENT ASSETS			
Investments in subsidiaries	15	328,185	342,824
Total non-current assets		328,185	342,824
CURRENT ASSETS			
Prepayments, deposits and other receivables		434	396
Cash and cash equivalents	20	63,519	3,820
Total current assets		63,953	4,216
CURRENT LIABILITIES			
Other payables and accruals		63,763	2,429
Total current liabilities		63,763	2,429
NET CURRENT ASSETS		190	1,787
TOTAL ASSETS LESS CURRENT LIABILITIES		328,375	344,611
NON-CURRENT LIABILITY			
Long term payable	29	8,400	5,400
Net assets		319,975	339,211
EQUITY			
Issued capital	24	110,606	110,606
Reserves	26(b)	209,369	228,605
Total equity		319,975	339,211

Zhang Zhao Dong
Director

Chen Geng
Director

1. CORPORATE INFORMATION

EC-Founder (Holdings) Company 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 the distribution of information products.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand (HK$'000) except when otherwise indicated.

Basis of consolidation

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

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*

The adoption of the above revised HKFRSs has had no significant financial effect on these financial statements.

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]

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

(continued)

HKAS 32 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentations – 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.

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.

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

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.

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.

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

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.

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:

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

(continued)

(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 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Joint ventures *(continued)*

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.

Associates

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

The Group's investments in associates are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 measures the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-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 or loss is recognised in profit or loss.

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 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Business combinations and goodwill *(continued)*

Impairment is determined by assessing the recoverable amount of the cash-generating units (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill 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.

Impairment of non-financial assets

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

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

An assessment is made at 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.

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 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.

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

Furniture, fixtures and office equipment	12½% - 33⅓%
Motor vehicles	10% - 25%

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

Operating leases

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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:

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

Impairment of financial assets

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets *(continued)*

Financial assets carried at amortised cost

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

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

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

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 operating expenses in the income statement.

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial liabilities

Initial recognition and measurement

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

All financial liabilities are recognised initially at fair value 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, long term payable and interest-bearing bank borrowings.

Subsequent measurement

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

Loans and borrowings

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

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

Financial guarantee contracts

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Derecognition of financial liabilities

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

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

Offsetting of financial instruments

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

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments where there is no active market, the fair value is determined using appropriate valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and other valuation models.

Inventories

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

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax

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

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

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

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

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax *(continued)*

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.

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

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

Share-based payments

The Company operates share option schemes for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Share-based payments *(continued)*

The cost of equity-settled transactions with employees for grants after 7 November 2002 is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 25 to the financial statement.

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

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

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

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

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 scheme

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

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

Borrowing costs

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

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies *(continued)*

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. 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 ESTIMATES

The preparation of the Group's financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and 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.

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.

3. SIGNIFICANT ACCOUNTING ESTIMATES *(continued)*

Impairment of trade receivables

The Group maintains an allowance for the 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 included in note 18 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 condition was to deteriorate so that the actual provision might be higher than expected, the Group would be required to revise the basis of making the provision and its future results would be affected.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2012 was approximately HK$2,892,000 (2011: HK$2,892,000). Further details are included in note 14 to the financial statements.

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses and other deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The amount of unrecognised deductible temporary differences at 31 December 2012 was approximately HK$89,843,000 (2011: HK$94,823,000). Further details are included in note 23 to the financial statements.

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group has only one operating segment which is the distribution of information products. Since this is the only operating segment of the Group, no further operating segment analysis thereof is presented.

Revenue from external customers based on the location of these customers is analysed as follows:

	2012 HK$'000	2011 HK$'000
Hong Kong	3,853	71,370
Mainland China	2,720,376	5,328,770
	2,724,229	5,400,140

The geographical locations of the Group's non-current assets are analysed as follows:

	2012 HK$'000	2011 HK$'000
Hong Kong	37,882	37,061
Mainland China	7,849	9,351
	45,731	46,412

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

Information about a major customer

During the year, there was no external customer accounted for 10% or more of the Group's total revenue (2011: Nil).

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 during the year.

An analysis of other income and gains is as follows:

	Group	
	2012	2011
	HK$'000	HK$'000
Other income		
Bank interest income	**5,463**	8,337
Other interests income	**5,201**	14,713
Others	**–**	348
	10,664	23,398
Gains		
Foreign exchange differences, net	**193**	4,117
Others	**–**	577
	193	4,694
	10,857	28,092

6. LOSS BEFORE TAX

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

	Notes	Group 2012 HK$'000	Group 2011 HK$'000
Auditors' remuneration		**1,480**	1,480
Cost of inventories sold		**2,570,253**	5,109,247
Depreciation	13	**3,812**	2,800
Impairment/(reversal of impairment) of trade receivables*	18	**12,958**	(1,431)
Write off of prepayments, deposits and other receivables*		**74**	3,097
Write-back of trade and other payables*		**(21,686)**	–
Loss/(gain) on disposal of items of property, plant and equipment*		**6**	(11)
(Reversal of provision of)/provision for obsolete inventories**		**(5,209)**	6,118
Operating lease rentals in respect of land and buildings		**11,749**	17,947
Employee benefit expense (including directors' remuneration – note 8):			
Wages and salaries		**77,288**	87,934
Pension scheme contributions***		**7,498**	8,271
Equity-settled share option expense		**2,952**	256
		87,738	96,461

* These items are included in "Other operating income/(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 scheme 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	**16,186**	33,896
Interest on discounted bills	**16,643**	43,844
Interest on loans from Founder Finance	**2,381**	–
	35,210	77,740

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	**372**	372
Other emoluments:		
Salaries, allowances and benefits in kind	**542**	518
Performance related bonuses	**218**	592
Pension scheme contributions	**14**	12
Equity-settled share option expense	**2,952**	256
	3,726	1,378
	4,098	1,750

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 25 to the financial statements. The fair value of such options, which has been recognised in the income statement over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors' remuneration disclosures.

8. DIRECTORS' REMUNERATION *(continued)*

(a) Independent non-executive directors

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

	2012 HK$'000	2011 HK$'000
Mr Li Fat Chung	126	126
Ms Wong Lam Kit Yee	126	126
Ms Cao Qian	120	120
	372	372

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 contribution HK$'000	Total remuneration HK$'000
2012						
Executive directors:						
Mr Zhang Zhao Dong	–	–	–	738	–	738
Mr Chen Geng	–	542	218	738	14	1,512
Mr Xia Yang Jun	–	–	–	738	–	738
Mr Xie Ke Hai	–	–	–	738	–	738
Mr Zheng Fu Shuang	–	–	–	–	–	–
	–	542	218	2,952	14	3,726

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 contribution HK$'000	Total remuneration HK$'000
2011						
Executive directors:						
Mr Zhang Zhao Dong	–	–	–	64	–	64
Mr Chen Geng	–	518	592	64	12	1,186
Mr Xia Yang Jun	–	–	–	64	–	64
Mr Xie Ke Hai	–	–	–	64	–	64
Mr Zheng Fu Shuang	–	–	–	–	–	–
	–	518	592	256	12	1,378

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

	Group 2012 HK$'000	2011 HK$'000
Salaries, allowances and benefits in kind	**1,924**	1,918
Performance related bonuses	**2,414**	1,947
Pension scheme contributions	**131**	70
	4,469	3,935

9. FIVE HIGHEST PAID EMPLOYEES *(continued)*

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	**1**	2
HK$1,000,001 to HK$1,500,000	**3**	2
	4	4

10. INCOME TAX

	Group	
	2012	2011
	HK$'000	HK$'000
Current – Hong Kong	**–**	–
Current – PRC		
Charge for the year	**178**	2,801
Underprovision in prior years	**1,558**	–
Total tax charge for the year	**1,736**	2,801

No Hong Kong profits tax has been provided as there were no assessable profits arising in Hong Kong during the year or the Group has available tax losses brought forward from prior years to offset the assessable profit generated during the year (2011: Nil).

Under the PRC income tax laws, enterprises are subject to corporate income tax at a rate of 25% during the years ended 31 December 2012 and 2011.

The share of tax attributable to associates amounting to approximately HK$891,000 (2011: HK$1,282,000) is included in "Share of profits and losses of associates" in the consolidated income statement.

A reconciliation of the tax expense applicable to profit/(loss) before tax at the statutory rates for the jurisdictions in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

10. INCOME TAX *(continued)*

Group – 2012

	Hong Kong		Mainland China		Total	
	HK$'000	%	HK$'000	%	HK$'000	%
Loss before tax	(6,670)		(16,347)		(23,017)	
Tax at the statutory tax rate	(1,100)	16.5	(4,087)	25.0	(5,187)	22.5
Profits and losses attributable to associates	(135)	2.0	–	–	(135)	0.6
Income not subject to tax	(169)	2.5	(1,024)	6.3	(1,193)	5.2
Expenses not deductible for tax	1,176	(17.6)	5,289	(32.4)	6,465	(28.0)
Tax losses utilised from previous periods	(503)	7.6	–	–	(503)	2.2
Tax losses not recognised	731	(11.0)	–	–	731	(3.2)
Adjustment in respect of current tax of previous periods	–	–	1,558	(9.5)	1,558	(6.8)
Tax charge at the Group's effective rate	–	–	1,736	(10.6)	1,736	(7.5)

Group – 2011

	Hong Kong		Mainland China		Total	
	HK$'000	%	HK$'000	%	HK$'000	%
Profit/(loss) before tax	(8,946)		3,336		(5,610)	
Tax at the statutory tax rate	(1,476)	16.5	834	25.0	(642)	11.4
Profits and losses attributable to associates	747	(8.4)	–	–	747	(13.3)
Income not subject to tax	(47)	0.5	(311)	(9.3)	(358)	6.4
Expenses not deductible for tax	166	(1.8)	2,278	68.3	2,444	(43.5)
Tax losses not recognised	610	(6.8)	–	–	610	(10.9)
Tax charge at the Group's effective rate	–	–	2,801	84.0	2,801	(49.9)

11. LOSS ATTRIBUTABLE TO OWNERS OF THE PARENT

The consolidated loss attributable to owners of the parent for the year ended 31 December 2012 includes a loss of approximately HK$22,188,000 (2011: a loss of HK$9,167,000) which has been dealt with in the financial statements of the Company (note 26(b)).

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

The calculation of basic loss per share amounts is based on the loss for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 1,106,062,040 (2011: 1,106,062,040) in issue during the year.

No adjustment has been made to the basic loss per share amounts presented for the years ended 31 December 2012 and 2011 in respect of a dilution as the impact of the options outstanding had an anti-dilutive effect on the basic loss per share amounts presented.

13. PROPERTY, PLANT AND EQUIPMENT

Group

	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	19,574	7,383	26,957
Accumulated depreciation	(12,885)	(4,721)	(17,606)
Net carrying amount	6,689	2,662	9,351
At 1 January 2012, net of accumulated depreciation	6,689	2,662	9,351
Additions	1,982	450	2,432
Disposals	(267)	–	(267)
Depreciation provided during the year	(2,959)	(853)	(3,812)
Exchange realignment	104	41	145
At 31 December 2012, net of accumulated depreciation	5,549	2,300	7,849
At 31 December 2012:			
Cost	19,798	7,936	27,734
Accumulated depreciation	(14,249)	(5,636)	(19,885)
Net carrying amount	5,549	2,300	7,849

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

Group

	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
31 December 2011			
At 1 January 2011:			
Cost	15,075	7,116	22,191
Accumulated depreciation	(11,508)	(3,770)	(15,278)
Net carrying amount	3,567	3,346	6,913
At 1 January 2011, net of accumulated depreciation	3,567	3,346	6,913
Additions	4,945	–	4,945
Disposals	(31)	–	(31)
Depreciation provided during the year	(1,990)	(810)	(2,800)
Exchange realignment	198	126	324
At 31 December 2011, net of accumulated depreciation	6,689	2,662	9,351
At 31 December 2011:			
Cost	19,574	7,383	26,957
Accumulated depreciation	(12,885)	(4,721)	(17,606)
Net carrying amount	6,689	2,662	9,351

14. GOODWILL

	Group HK$'000
Cost, net of accumulated amortisation, at 1 January 2011, 31 December 2011, 1 January 2012 and 31 December 2012	**2,892**

Impairment testing of goodwill

Goodwill acquired through business combination has been allocated to the distribution of information products cash-generating unit for impairment testing. The recoverable amount of the distribution of information products cash-generating unit has been determined based on a value in use calculation using a cash flow projection based on financial budgets covering a five-year period approved by the directors.

Assumptions were used in the value in use calculation of the distribution of information products cash-generating unit for 31 December 2012 and 31 December 2011. The cash flow projection was based on the expected gross margins during the budget period. Budgeted gross margin was determined based on past performance and management's expectation on market development. The discount rate used is before tax and reflects specific risks relating to the cash-generating unit.

15. INVESTMENTS IN SUBSIDIARIES

	Company	
	2012 HK$'000	2011 HK$'000
Unlisted shares, at cost	**450,071**	450,071
Due from subsidiaries	**250,308**	263,668
	700,379	713,739
Impairment *(Note)*	**(372,194)**	(370,915)
	328,185	342,824

Note: An impairment was recognised for an unlisted investment with a carrying amount of HK$372,194,000 (2011: HK$370,915,000) because the relevant subsidiary had suffered losses for years.

15. INVESTMENTS IN SUBSIDIARIES *(continued)*

The amounts due from subsidiaries included in the investments in subsidiaries above are unsecured, interest-free and the Company does not expect these loans to be repaid within the next 12 months. In the opinion of the Company's directors, these loans are considered as quasi-equity loans to the subsidiaries.

Particulars of the principal subsidiaries are as follows:

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

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

\# Registered as a wholly-foreign-owned enterprise under PRC law

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

16. INVESTMENTS IN ASSOCIATES

	Group	
	2012	2011
	HK$'000	HK$'000
Share of net assets	**34,990**	34,169

Particulars of the principal associates are as follows:

Name	Particulars of issued shares held	Place of incorporation and operations	Percentage of ownership interest attributable to the Group	Principal activities
MC.Founder Limited*	Ordinary shares of HK$1 each	Hong Kong	36.69	Investment holding and distribution of mobile phones and data products
MC.Founder (Distribution) Limited*	Ordinary shares of HK$1 each	Hong Kong	36.69	Distribution of mobile phones and accessories, and provision of repair services
Fast Rich Technology Limited*	Ordinary shares of HK$1 each	Hong Kong	36.69	Retail of data products
Fast Rich Technology (Macau) Limited*	Ordinary shares of MOB1 each	Macau	36.69	Retail of data products
MC.Founder (Technology) Limited*	Ordinary shares of HK$1 each	Hong Kong	36.69	Sale of data products

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

16. INVESTMENTS IN ASSOCIATES *(continued)*

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

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

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

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

	2012	2011
	HK$'000	HK$'000
Assets	**200,603**	215,406
Liabilities	**105,236**	122,277
Revenue	**1,339,663**	1,051,953
Profit/(loss) after tax	**2,238**	(12,341)

17. INVENTORIES

	Group	
	2012	2011
	HK$'000	HK$'000
Trading stocks	**186,578**	293,528

18. TRADE AND BILLS RECEIVABLES

	Group	
	2012	2011
	HK$'000	HK$'000
Trade and bills receivables	**671,136**	732,782
Impairment	**(37,432)**	(27,356)
	633,704	705,426

18. TRADE AND BILLS RECEIVABLES *(continued)*

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 receivables balances. Trade and bills receivables are non-interest-bearing.

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

	Group	
	2012	2011
	HK$'000	HK$'000
Within 6 months	**585,269**	612,476
7 to 12 months	**22,552**	64,349
13 to 24 months	**25,883**	28,601
	633,704	705,426

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

	Group	
	2012	2011
	HK$'000	HK$'000
At 1 January	**27,356**	27,672
Impairment losses recognised/(reversed) *(note 6)*	**12,958**	(1,431)
Amount written off as uncollectible	**(3,408)**	–
Exchange realignment	**526**	1,115
At 31 December	**37,432**	27,356

Included in the above provision for impairment for trade receivables is a provision for individually impaired trade receivables of HK$7,864,000 (2011: HK$8,392,000) with a carrying amount before provision of HK$10,819,000 (2011: HK$8,392,000). The individually impaired trade receivables relate to customers that were in financial difficulties and only a portion of the receivables is expected to be recovered.

18. TRADE AND BILLS RECEIVABLES *(continued)*

The aged analysis of the trade and bills receivables that are not individually nor collectively considered to be impaired is as follows:

	Group	
	2012	2011
	HK$'000	HK$'000
Neither past due nor impaired	**511,862**	516,243
Past due but not impaired:		
Less than 1 month past due	**51,197**	33,620
1 to 3 months past due	**18,549**	13,523
Over 3 months past due	**3,286**	88,873
	584,894	652,259

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 individual 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 北大方正集團有限公司 (Peking University Founder Group Company Limited*) ("Peking Founder"), a substantial shareholder of the Company, of approximately HK$31,312,000 (2011: HK$85,591,000), and a subsidiary of Founder Holdings Limited ("FHL"), in which a 32.49% equity interest was held by Peking Founder, of approximately HK$873,000 (2011: HK$1,125,000), which are repayable on similar credit terms to those offered to the major customers of the Group.

* *For identification purpose only*

19. PLEDGED DEPOSITS

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

20. CASH AND CASH EQUIVALENTS

	Group		Company	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and bank balances	**184,194**	338,001	**5,519**	820
Time deposits with original maturity of less than three months when acquired	**95,350**	3,000	**58,000**	3,000
Time deposits with original maturity of over three months when acquired	**12,450**	108,187	**–**	–
Cash and cash equivalents	**291,994**	449,188	**63,519**	3,820

At the end of the reporting period, the cash and cash equivalents of the Group denominated in Renminbi ("RMB") amounted to approximately HK$216,194,000 (2011: HK$430,473,000). 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 from one to six months depending on the immediate cash requirement of the Group, and earn interest at the respective short term time deposit rates. The bank balances and time 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$37,350,000 (2011: HK$95,843,000) and HK$12,979,000 (2011: HK$84,000), respectively, placed with Founder Finance, a financial institution approved by the People's Bank of China ("PBOC"). Founder Finance is a subsidiary of Peking Founder. The interest rates for these deposits were the prevailing saving rates offered by the PBOC.

21. TRADE AND BILLS PAYABLES

	Group	
	2012	2011
	HK$'000	HK$'000
Trade payables	**253,711**	484,449
Bills payable	**329,925**	343,697
	583,636	828,146

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	**557,478**	641,016
Over 6 months	**26,158**	187,130
	583,636	828,146

As at 31 December 2012, included in the Group's trade and bills payables are amounts due to subsidiaries of FHL 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.

As at 31 December 2011, included in the Group's trade and bills payables was an amount due to a subsidiary of Peking Founder of approximately HK$2,371,000, which was repayable on similar credit terms to those offered by the related company to its major customers.

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

22. INTEREST-BEARING BANK BORROWINGS

Group

	2012			2011		
	Effective interest rate (%)	**Maturity**	**HK$'000**	Effective interest rate (%)	Maturity	HK$'000
Current						
Bank loans						
– unsecured	**5.53-7.32**	**2013**	**262,695**	4.86-7.22	2012	566,856

The unsecured bank loans were repayable within one year, which were guaranteed by Peking Founder (2011: unsecured bank loans of HK$199,056,000 were guaranteed by Peking Founder and unsecured bank loans of HK$367,800,000 were jointly guaranteed by Peking Founder and an independent third party).

As at 31 December 2012 and 31 December 2011, all the above bank borrowings were denominated in RMB.

The carrying amounts of the Group's bank borrowings approximate to their fair values. All borrowings of the Group bear interest at floating interest rates.

23. DEFERRED TAX

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

	Group	
	2012 HK$'000	2011 HK$'000
Tax losses	**87,689**	93,494
Deductible temporary differences	**2,154**	1,329
	89,843	94,823

The Group has tax losses arising in Hong Kong that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses and other deductible temporary differences as they have arisen in subsidiaries that have been loss making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

23. DEFERRED TAX *(continued)*

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 for withholding taxes on dividends distributed by those subsidiaries 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 subsidiary established in Mainland China. In the opinion of the directors, it is not probable that this subsidiary will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investment in the subsidiary in Mainland China for which deferred tax liabilities have not been recognised totalled approximately HK$27,173,000 at 31 December 2012 (2011: HK$45,255,000).

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

24. SHARE CAPITAL

Shares

	Group and Company	
	2012	2011
	HK$'000	HK$'000
Authorised:		
3,000,000,000 (2011: 3,000,000,000) ordinary shares of HK$0.10 each	**300,000**	300,000
Issued and fully paid:		
1,106,062,040 (2011: 1,106,062,040) ordinary shares of HK$0.10 each	**110,606**	110,606

25. SHARE OPTION SCHEMES

On 24 May 2002, the Company adopted a share option scheme (the "2002 Scheme") in compliance with Chapter 17 of the Listing Rules. The purpose of the 2002 Scheme is to recognise and acknowledge the contributions or potential contributions made or to be made by the participants to the Group, to motivate the participants to optimise their performance and efficiency for the benefit of the Group, and to maintain or attract business relationships with participants whose contributions are or may be beneficial to the growth of the Group. Eligible participants of the 2002 Scheme include (i) any part-time or full-time employee or officer of any member of the Group or of any substantial shareholder of the Company or of any associated company of the Company; (ii) any substantial shareholder of the Company; (iii) the chief executive or director (executive, non-executive or independent non-executive) of any member of the Group or of any substantial shareholder of the Company or of any associated company of the Company; and (iv) any supplier, agent, customer, partner or business associate of, or adviser or consultant to any member of the Group. The 2002 Scheme became effective on 24 May 2002 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the 2002 Scheme is an amount equivalent, upon their exercise, to 10% of the 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 2002 Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

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

The offer of a grant of share options is deemed to have been accepted when the duplicate offer letter comprising the acceptance of the 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.

25. SHARE OPTION SCHEMES *(continued)*

The share option scheme adopted by the Company on 7 May 2001 (the "2001 Scheme") was terminated on 24 May 2002, however, the options granted under the 2001 Scheme remained in full force and effect prior to expiry on 17 May 2011.

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

	2012		2011	
	Weighted average exercise price HK$ per share	**Number of share options '000**	Weighted average exercise price HK$ per share	Number of share options '000
At 1 January	**0.281**	**42,056**	0.378	38,800
Expired during the year	**–**	**–**	0.450	(4,300)
Cancelled during the year	**–**	**–**	0.369	(34,500)
Granted during the year	**–**	**–**	0.281	42,056
At 31 December	**0.281**	**42,056**	0.281	42,056

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 34,500,000 shares of the Company at exercise prices of HK$0.381 per share and HK$0.340 per share, respectively, with validity periods of 10 years ending 5 February 2014 and 31 December 2013, respectively. The Company paid each grantee HK$1 as a consideration for the cancellation.

On 5 December 2011, a total of 42,056,200 share options were granted to certain directors of the Company in respect of their services to the Group (the "2011 Options"). The 2011 Options have an exercise price of HK$0.281 per share. The closing price of the Company's shares at the date of grant was HK$0.280 per share. None of the 2011 Options was exercised or forfeited during the year ended 31 December 2012 and year ended 31 December 2011.

25. SHARE OPTION SCHEMES *(continued)*

The exercise prices and exercise periods 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** HK$ per share *(Note 1)*	**Exercise period** *(Note 2)*
42,056	0.281	05.12.2012 to 04.12.2014

Notes:

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

2. The 2011 Options granted on 5 December 2011 are exercisable in the following two tranches:

   (i) First 40% of the 2011 Options are exercisable from 5 December 2012 to 4 December 2014; and

   (ii) The remaining 60% of the 2011 Options are exercisable from 5 December 2013 to 4 December 2014.

The fair value of the 2011 Options at the date of grant was HK$4,542,000 (HK$0.108 each) of which the Group recognised a share option expense of HK$2,952,000 (2011: HK$256,000) during the year ended 31 December 2012.

At the end of the reporting period, the Company had 42,056,200 share options outstanding under the 2002 Scheme. The exercise in full of the remaining share options under the 2002 Scheme would, under the present capital structure of the Company, result in the issue of 42,056,200 additional ordinary shares of the Company and additional share capital of HK$4,206,000 and share premium of HK$7,612,000 (before issue expenses).

At the date of approval of these financial statements, the Company had 42,056,200 share options outstanding under the Scheme, which represented approximately 2.6% of the Company's shares in issue as at that date.

26. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 32 of the financial statements.

The Group's contributed surplus represents the excess of nominal value of the shares of the subsidiaries acquired over the nominal value of the Company's share issued in exchange therefor.

In accordance with the relevant PRC regulations, each of the Group's PRC subsidiaries and associates is required to transfer not less than 10% of its profit after tax, as determined in accordance with PRC accounting standards and regulations, to the general reserve until such reserve reaches 50% of its registered capital. The quantum of the annual transfer is subject to the approval of the board of directors of the PRC subsidiaries and associates in accordance with their articles of association.

(b) Company

	Share premium account	Employee share-based compensation reserve	Contributed surplus	Accumulated losses	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2011	156,019	–	528,980	(447,483)	237,516
Loss for the year	–	–	–	(9,167)	(9,167)
Equity-settled share option arrangements	–	256	–	–	256
At 31 December 2011	**156,019**	**256**	**528,980**	**(456,650)**	**228,605**
Loss for the year	**–**	**–**	**–**	**(22,188)**	**(22,188)**
Equity-settled share option arrangements	**–**	**2,952**	**–**	**–**	**2,952**
At 31 December 2012	**156,019**	**3,208**	**528,980**	**(478,838)**	**209,369**

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

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.

27. 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	**96,000**	98,000
Guarantees given to suppliers in connection with credit facilities granted to a subsidiary	**52,738**	47,481
	148,738	145,481

As at 31 December 2012, none of the banking facilities granted to subsidiaries subject to guarantees given to the banks by the Company were utilised (2011: Nil).

As at 31 December 2012, the credit facilities granted to a subsidiary subject to guarantees given to suppliers by the Company were utilised to the extent of approximately HK$52,738,000 (2011: HK$47,481,000).

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

28. OPERATING LEASE ARRANGEMENTS AS LESSEE

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

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

	Group	
	2012	2011
	HK$'000	HK$'000
Within one year	**5,492**	8,043
In the second to fifth years, inclusive	**2,256**	5,659
	7,748	13,702

29. RELATED PARTY TRANSACTIONS

(I) Transactions and commitments with related parties

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

(a) On 15 December 2008, the Company entered into a master agreement with Peking Founder to govern the sale of information products to Peking Founder and its subsidiaries (collectively "Peking Founder Group") for a term of three years from 1 January 2009 to 31 December 2011.

On 27 July 2010, the Group entered into a supplemental agreement with Peking Founder to revise the annual caps for the two years ended 31 December 2011. On 1 November 2011, the Company entered into a master agreement with Peking Founder for the sale of information products to Peking Founder Group for the three years ending 31 December 2014.

During the year, information products of approximately HK$62,965,000 (2011: HK$224,199,000) were sold to Peking Founder Group. The directors consider that the sales of products were made according to published prices and conditions similar to those offered to other customers of the Group.

(b) On 15 December 2008, the Group entered into a master agreement with FHL to govern the sale of information products to FHL and its subsidiaries (collectively "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 FHL 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 FHL to govern the sale of information products to Founder Group for a term of three years from 1 January 2011 to 31 December 2013.

During the year, information products of approximately HK$6,664,000 (2011: HK$7,431,000) were sold to Founder Group. The directors consider that the sales of these products were made according to published prices and conditions similar to those offered to other customers of the Group.

(c) On 15 December 2008, the Company entered into an HP Master Agreement with FHL to govern the purchase of HP products from 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 FHL to govern the purchase of HP products from Founder Group for a term of three years from 1 January 2011 to 31 December 2013.

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

29. RELATED PARTY TRANSACTIONS *(continued)*

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

(d) On 19 November 2010, the Company entered into a master agreement with Peking Founder for the purchase of information products from Peking Founder Group for the three years ended 31 December 2012.

On 7 December 2012, the Company and Peking Founder revised the annual caps for the year ended 31 December 2012. On the same date, the Company entered into a master agreement with Peking Founder for the purchase of information products from 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 7 December 2012.

During the year, purchases of information products of approximately HK$9,232,000 (2011: HK$335,000) from Peking Founder Group were made by the Group. The directors consider that the purchases of information products from Peking Founder Group were made in accordance with the terms of the master agreement.

(e) On 7 December 2012, the Company entered into a master agreement with FHL to govern the purchase of software products developed by Founder Group, the systems integration products and the related services for the three years ending 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 purchase any software product or systems integration product from Founder Group.

(f) On 12 June 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.

On 21 March 2011, the Group provided a six-month short term loan of approximately HK$192,800,000 to a subsidiary of Peking Founder and the related interest of approximately HK$5,712,000 was earned by the Group during the year ended 31 December 2011. The loan was unsecured and bore an interest at the prevailing benchmark Renminbi lending rate for loan period of six months offered by the PBOC plus 15% of such rate. The entrusted loan and related interest receivable were fully settled by that subsidiary of Peking Founder during the year ended 31 December 2011.

On 29 March 2011, the Group provided a six-month short term loan of approximately HK$84,350,000 to a subsidiary of Peking Founder and the related interest of approximately HK$2,893,000 was earned by the Group during the year ended 31 December 2011. The loan was unsecured and bore an interest at the prevailing benchmark Renminbi lending rate for loan period of six months offered by the PBOC plus 10% of such rate. The entrusted loan and related interest receivable were fully settled by that subsidiary of Peking Founder during the year ended 31 December 2011.

29. RELATED PARTY TRANSACTIONS *(continued)*

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

(f) *(continued)*

On 21 September 2011, the Group provided a six-month short term loan of approximately HK$196,160,000 to a subsidiary of Peking Founder and the related interest of approximately HK$2,493,000 (2011: HK$3,329,000) was earned by the Group during the year ended 31 December 2012. The loan is unsecured and bears an interest at the prevailing benchmark Renminbi lending rate for loan period of six months offered by the PBOC plus 15% of such rate. The entrusted loan and related interest receivables were fully settled by that subsidiary of Peking Founder during the year ended 31 December 2012.

On 30 September 2011, the Group provided a six-month short term loan of approximately HK$85,820,000 to a subsidiary of Peking Founder and the related interest of approximately HK$1,043,000 (2011: HK$1,393,000) was earned by the Group during the year ended 31 December 2012. The loan is unsecured and bears an interest at the prevailing benchmark Renminbi lending rate for loan period of six months offered by the PBOC plus 10% of such rate. The entrusted loan and related interest receivables were fully settled by that subsidiary of Peking Founder during the year ended 31 December 2012.

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.

On 4 July 2012, the Group provided a six-month short term loan of approximately HK$49,800,000 to a subsidiary of Peking Founder and the related interest of approximately HK$1,665,000 was earned by the Group during the year ended 31 December 2012. The loan is unsecured and bears an interest at the prevailing benchmark Renminbi lending rate for loan period of six months offered by the PBOC plus 15% of such rate.

The entrusted loan of HK$49,800,000 and related interest of HK$1,665,000 receivable from the subsidiary of Peking Founder remained undue and were included in prepayments, deposits and other receivables in the consolidated statement of financial position as at 31 December 2012.

Subsequent to the end of the reporting period, such entrusted loan and related interest receivables were settled by that subsidiary of Peking Founder. The directors consider that the provision of the entrusted loan to Peking Founder Group was made in accordance with the Entrusted Loan Master Agreement.

29. RELATED PARTY TRANSACTIONS *(continued)*

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

(g) On 13 January 2011, the Company, Founder Finance and Peking Founder entered into a financial services agreement, pursuant to which Founder Finance would provide the Group with (i) deposit service, (ii) loan services; 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 the guarantee to the Company in the financial services agreement.

As at 31 December 2012, deposits of approximately HK$50,329,000 (2011: HK$95,927,000) were placed by the Group with Founder Finance. During the year, interest of approximately HK$1,416,000 (2011: HK$1,472,000) was earned by the Group. The interest rates on these deposits offered by Founder Finance were the prevailing rates offered by the PBOC.

On 13 January 2012 and 4 December 2012, the Group borrowed loans from Founder Finance of approximately HK$246,077,000 and HK$24,608,000, respectively. The above loans and related interests of approximately HK$2,381,000 were fully paid by the Group to Founder Finance during the year ended 31 December 2012.

(h) On 28 August 2012, the Company entered into a master lease agreement with Peking Founder, pursuant to which the Company agrees to procure one of its subsidiaries to lease certain commercial premises at Founder International Building to Peking Founder Group for the three years ending 31 December 2014. Further details of the transaction were set out in the circular of the Company dated 16 November 2012.

During the year, the Group did not lease any commercial premises at Founder International Building to Peking Founder Group.

(i) On 13 November 2008, PRC Century entered into two lease agreements with a subsidiary of Peking Founder to lease office premises in Beijing, the PRC, effective from 1 January 2009 to 31 December 2011.

During the year ended 31 December 2011, rental and management fee expenses of approximately HK$2,093,000 were paid by the Group to that subsidiary of Peking Founder. The directors consider that the rental and management fee expenses were paid in accordance with the terms of the lease agreements.

(j) As at 31 December 2012, guarantees were given by Peking Founder to banks in connection with banking facilities granted to the Group of approximately HK$1,002,430,000 (2011: jointly given by Peking Founder and an independent third party of approximately HK$1,753,180,000) which were utilised to the extent of approximately HK$568,149,000 (2011: HK$551,299,000).

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

29. RELATED PARTY TRANSACTIONS *(continued)*

(II) Outstanding balances with related parties

(a) The balances due to subsidiaries of FHL included in other payables and accruals as at 31 December 2012 were approximately HK$4,207,000 (2011: HK$866,000). The balances are unsecured, interest-free and have no fixed terms of repayment.

(b) Except for the entrusted loan and related interest receivables due from a subsidiary of Peking Founder disclosed in note 29(I)(f) to the financial statements, other balances due from Peking Founder Group included in prepayments, deposits and other receivables were approximately HK$2,765,000 (2011: HK$11,703,000). The balances are unsecured, interest-free and have no fixed terms of repayment.

(c) The balances due to Peking Founder Group included in other payables and accruals as at 31 December 2012 were approximately HK$65,314,000 (2011: HK$1,706,000). The balances are unsecured, interest-free and have no fixed terms of repayment.

(d) The balance due to Peking Founder Group included in long term payable as at 31 December 2012 was approximately HK$8,400,000 (2011: HK$5,400,000). The balance is unsecured, interest-free and not repayable within one year.

(e) Details of the Group's trade receivables and trade payables with its related companies as at the end of the reporting period are included in notes 18 and 21 to the financial statements.

(III) Compensation of key management personnel of the Group

	2012 **HK$'000**	2011 HK$'000
Short term employee benefits	**1,132**	1,482
Equity-settled share option expense	**2,952**	256
Post-employment benefits	**14**	12
Total compensation paid to key management personnel	**4,098**	1,750

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

30. 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		Company	
	2012 HK$'000	2011 HK$'000	2012 HK$'000	2011 HK$'000
Financial assets – Loans and receivables				
Trade and bills receivables	633,704	705,426	–	–
Financial assets included in prepayments, deposits and other receivables	70,218	313,425	434	396
Due from subsidiaries (note 15)	–	–	250,308	263,668
Pledged deposits	106,320	81,178	–	–
Cash and cash equivalents	291,994	449,188	63,519	3,820
	1,102,236	1,549,217	314,261	267,884
Financial liabilities – Financial liabilities at amortised cost				
Trade and bills payables	583,636	828,146	–	–
Financial liabilities included in other payables and accruals	69,710	115,652	1,763	2,429
Interest-bearing bank borrowings	262,695	566,856	–	–
Long term payable	8,400	5,400	8,400	5,400
	924,441	1,516,054	10,163	7,829

31. 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	**291,994**	449,188	**291,994**	449,188
Pledged deposits	**106,320**	81,178	**106,320**	81,178
Trade and bills receivables	**633,704**	705,426	**633,704**	705,426
Financial assets included in prepayments, deposits and other receivables	**70,218**	313,425	**70,218**	313,425
	1,102,236	1,549,217	**1,102,236**	1,549,217
Financial liabilities				
Trade and bills payables	**583,636**	828,146	**583,636**	828,146
Financial liabilities included in other payables and accruals	**69,710**	115,652	**69,710**	115,652
Interest-bearing bank borrowings	**262,695**	566,856	**262,695**	566,856
Long term payable	**8,400**	5,400	**8,400**	5,400
	924,441	1,516,054	**924,441**	1,516,054

Company

	Carrying amounts		Fair values	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Financial assets				
Cash and cash equivalents	**63,519**	3,820	**63,519**	3,820
Due from subsidiaries	**250,308**	263,668	**250,308**	263,668
Financial assets included in prepayments, deposits and other receivables	**434**	396	**434**	396
	314,261	267,884	**314,261**	267,884

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

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

Company

	Carrying amounts		Fair values	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Financial liabilities				
Financial liabilities included in other payables and accruals	**1,763**	2,429	**1,763**	2,429
Long term payable	**8,400**	5,400	**8,400**	5,400
	10,163	7,829	**10,163**	7,829

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 subsidiaries 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.

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

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

Credit risk

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

The credit risk of the Group's other financial assets, which comprise pledged deposits, cash and cash equivalents and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments. The Company is also exposed to credit risk through the granting of financial guarantees, further details of which are disclosed in note 27 to the financial statements.

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

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

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

32. 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 borrowings. In addition, banking facilities have been put in place for contingency purpose.

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

Group

		2012	
	Within 1 year HK$'000	**Over 1 year HK$'000**	**Total HK$'000**
Trade and bills payables	**583,636**	**–**	**583,636**
Financial liabilities included in other payables and accruals	**69,710**	**–**	**69,710**
Interest-bearing bank borrowings	**270,743**	**–**	**270,743**
Long term payable	**–**	**8,400**	**8,400**
	924,089	**8,400**	**932,489**

		2011	
	Within 1 year HK$'000	Over 1 year HK$'000	Total HK$'000
Trade and bills payables	828,146	–	828,146
Financial liabilities included in other payables and accruals	115,652	–	115,652
Interest-bearing bank borrowings	572,718	–	572,718
Long term payable	–	5,400	5,400
	1,516,516	5,400	1,521,916

32. 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**
Financial liabilities included in other payables and accruals	**1,763**	**–**	**1,763**
Long term payable	**–**	**8,400**	**8,400**
Guarantees given to suppliers in connection with credit facilities granted to a subsidiary	**52,738**	**–**	**52,738**
	54,501	**8,400**	**62,901**

	2011		
	Within 1 year HK$'000	Over 1 year HK$'000	Total HK$'000
Financial liabilities included in other payables and accruals	2,429	–	2,429
Long term payable	–	5,400	5,400
Guarantees given to suppliers in connection with credit facilities granted to a subsidiary	47,481	–	47,481
	49,910	5,400	55,310

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. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2012 and 31 December 2011.

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

Capital management *(continued)*

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

	2012 **HK$'000**	2011 HK$'000
Interest-bearing bank borrowings	**262,695**	566,856
Total equity	**319,975**	339,211
Debt to equity ratio	**0.82**	1.67

33. EVENTS AFTER REPORTING PERIOD

(a) On 23 August 2012, the Company and Founder Information (Hong Kong) Limited ("Founder Information"), the substantial shareholder of the Company, entered into a sale and purchase and subscription agreement (the "S&P and Subscription Agreement"), pursuant to which the Company conditionally agreed to acquire 100% equity interests in Hong Kong Tianranju Holdings Limited and Hong Kong Tianhe Holdings Limited (the "Acquisition"), which are principally engaged in property development and property investment, from Founder Information at a total consideration of HK$537 million, which would be satisfied by the issue of the consideration shares of the Company as to HK$227 million and the consideration convertible bonds of the Company as to HK$310 million. Further details of the transactions were set out in the circular of the Company dated 16 November 2012. The Acquisition was completed on 2 January 2013.

(b) On 2 January 2013, pursuant to the S&P and Subscription Agreement, the Company issued subscription convertible bonds to Founder Information at a consideration of HK$62,000,000. Further details of the transactions were set out in the circular of the Company dated 16 November 2012.

34. APPROVAL OF THE FINANCIAL STATEMENTS

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

Five Year Financial Summary

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

RESULTS

	Year ended 31 December				
	2012	2011	2010	2009	2008
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
REVENUE	**2,724,229**	5,400,140	4,649,269	3,812,755	3,961,403
PROFIT/(LOSS) FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE PARENT	**(24,753)**	(8,411)	15,763	33,325	18,362

ASSETS AND LIABILITIES

	As at 31 December				
	2012	2011	2010	2009	2008
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
TOTAL ASSETS	**1,344,717**	1,921,680	2,130,027	1,450,716	1,476,864
TOTAL LIABILITIES	**(1,024,742)**	(1,582,469)	(1,781,905)	(1,130,186)	(1,192,327)
	319,975	339,211	348,122	320,530	284,537