



ANNUAL REPORT 2013

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# Corporate Information

## BOARD OF DIRECTORS

### Executive directors

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

### Independent non-executive directors

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

## COMMITTEES

### Audit Committee

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

### Remuneration Committee

Mr Li Fat Chung (*Chairman*)  
 Mr Fang Zhong Hua  
 Ms Wong Lam Kit Yee

### Nomination Committee

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

## COMPANY SECRETARY

Ms Tang Yuk Bo, Yvonne

## AUTHORISED REPRESENTATIVES

Mr Fang Zhong Hua  
 Ms Yi Mei

## AUDITORS

Ernst & Young  
 Certified Public Accountants

## LEGAL ADVISERS

Jun He Law Offices  
 DLA Piper Hong Kong

## PRINCIPAL BANKERS

Bank of Beijing  
 China Merchants Bank  
 DBS Bank (Hong Kong) Limited  
 Hang Seng Bank Limited  
 Industrial and Commercial Bank of China (Asia) Limited

## REGISTERED OFFICE

Canon's Court  
 22 Victoria Street  
 Hamilton HM12  
 Bermuda

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Unit 1408, 14th Floor  
 Cable TV Tower  
 9 Hoi Shing Road  
 Tsuen Wan  
 New Territories  
 Hong Kong

## SHARE REGISTRARS AND TRANSFER OFFICE

### Principal registrars

MUFG Fund Services (Bermuda) Limited  
 26 Burnaby Street  
 Hamilton HM 11  
 Bermuda

### Hong Kong branch share registrars and transfer office

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

## LISTING INFORMATION

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

## COMPANY WEBSITE

[www.irasia.com/listco/hk/founder](http://www.irasia.com/listco/hk/founder)

## Financial Highlights

Year	2013	2012	2011	2010	2009
Turnover ( <i>HK\$' million</i> )	1,291	2,131	1,647	2,241	1,912
Net profit ( <i>HK\$' million</i> )	86	45	50	63	23
Total assets ( <i>HK\$' million</i> )	1,609	1,506	1,342	1,288	1,376
Total liabilities ( <i>HK\$' million</i> )	659	732	677	699	887
Attributable to owners of the parent:					
Net assets ( <i>HK\$' million</i> )	950	774	664	588	488
Net asset value per share ( <i>HK\$</i> )	0.82	0.68	0.59	0.52	0.43
Working capital ratio	1.86	1.64	1.64	1.39	1.25
Earnings per share					
– basic ( <i>HK cents</i> )	7.6	3.9	4.4	5.6	2.0
Total number of staff ( <i>As at the end of the year</i> )	1,258	1,362	1,411	1,373	1,456

# Management Discussion and Analysis

## PERFORMANCE

The Group reported a profit attributable to equity holders of the parent for the year ended 31 December 2013 of approximately HK\$86.2 million (year ended 31 December 2012: HK\$44.5 million). The Group's turnover for the current financial year decreased by 39.4% to approximately HK\$1,291.0 million (year ended 31 December 2012: HK\$2,130.8 million) due to decrease in sales of information products for non-media segment and sales of hardware for media segment. Gross profit for the current year decreased by 13.3% to HK\$366.6 million compared with last financial year's HK\$422.8 million. Gross profit ratio increased from 19.8% for the last financial year to 28.4% for the current financial year as a results of increase in proportion of sales of technical services with higher gross profit margin.

The improvement 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 software development and systems integration by 39.4% to HK\$1,291.0 million (year ended 31 December 2012: HK\$2,130.8 million);
- b. an increase in other income and gains (excluding gain on transfer of intellectual properties in (c)) by 22.8% to HK\$99.1 million (year ended 31 December 2012: HK\$80.7 million) as a result of increase in government grants for the sale of software approved by the PRC tax authority and the development of software in Mainland China, and fair value gains on investment properties;
- c. gain on transfer of intellectual properties relating to broadcasting business of HK\$58.9 million (year ended 31 December 2012: Nil); and
- d. a slight decrease in total selling and distribution costs, administrative expenses and other expenses, net by 5.3% to HK\$423.7 million (year ended 31 December 2012: HK\$447.7 million) as a result of strict control on expenses imposed by the management under the competitive operating environment.

Basic and diluted earnings per share attributable to equity holders of the parent for the year was HK7.6 cents (year ended 31 December 2012: HK3.9 cents) and HK7.5 cents (year ended 31 December 2012: HK3.9 cents) respectively.

## Management Discussion and Analysis

### OPERATING REVIEW AND PROSPECTS

#### (A) Software development and systems integration for media sector (“Media Business”)

The turnover of the Media Business for the current financial year decreased by 16.9% to approximately HK\$911.7 million (year ended 31 December 2012: HK\$1,096.4 million). The segment results recorded a profit of approximately HK\$76.7 million (year ended 31 December 2012: HK\$38.4 million). The gross profit ratio for the Media Business has increased from last financial year’s 37.2% to 39.4% in current financial year due to increase in proportion of sales of technical services with higher gross profit margin.

The revenue of Media Business was influenced by the slow growth of traditional newspaper, media and printing industry in the PRC. In view of the loss-making results for the digital broadcasting business of Beijing Founder Electronics Co., Ltd. (“Founder Electronics”, the wholly owned subsidiary of the Group), for the previous two years and the increasing competition in digital broadcasting industry, Founder Electronics entered into intellectual properties transfer agreement and patents licence agreement on 18 March 2013 to transfer and assign the rights of patents relating to the broadcasting business to China Digital Video (Beijing) Limited. Further details are set out in the announcement of the Company dated 18 March 2013 and circular of the Company dated 16 April 2013. The transaction was partially completed during the financial year under review.

#### *Digital Media Business*

In 2013, Founder Electronics’ marketing of a All-round Media and News Editing System (全媒體新聞採編系統) was in full swing. Under these efforts, sales of that product recorded a substantial increase over the year under review and captured a leading position in the industry in the PRC. Founder Electronics actively expanded markets in addition to traditional newspaper publishers (such as coal, electricity, railway, education and real estate), and achieved an outstanding performance. Moreover, the Company launched a number of new products, including 方正暢營運營管理平台 and new media series solutions. Those new products received preliminary accreditation from the market. The Company still maintained its strong market position when competing for large customers and large projects, and has obtained orders from the People’s Daily (人民日報), Guangming Daily (光明日報) and Changan Web (長安網) etc.

#### *Printing Business*

In 2013, Founder Electronics initiated the concept of “all-in-one” (全能印廠) solutions, and successfully launched four core software products, namely EasiPrint screen printing network printing platform (印捷網印網絡印刷平台), production management platform (生產管理平台), hybrid workflow (混合工作流程), and Rui Cai color adjustment platform (睿彩校色平台). “All-in-one” model wins unanimous recognition from customers and industry experts. The new generation of L series inkjet printer (L系列噴墨印刷機), which was launched to market in 2013, has successfully penetrated the printing market of brochures, while inkjet coding segment maintained its leading position in terms of national market share. The new P5100 web inkjet printers will be launched to a larger market in terms of size and value in the coming year.

## Management Discussion and Analysis

### *Font Library Business*

In 2013, Founder Electronics introduced 67 new fonts, and was rated as a “Design Innovation Center in Beijing” by the Beijing Municipal Science and Technology Commission. Founder Electronics filed and won the lawsuit against enterprise for copyright infringement, showing that an ingeniously-designed single word can be protected by copyright. In 2013, Founder Electronics was awarded “Most influential company in China’s copyright industry”. In respect of B2C business, Founder Electronics launched “Mr. writing” (寫字先生) with IOS version and Android version. Users can make use of the program to practise calligraphy and to create font design on a phone screen, and then share their work on social networks. That product is expected to become a platform for calligraphy lovers.

### *Public Sentiment Business*

In 2013, Founder Electronics explored a technological route between Weixin (微信) and News Terminal Public Opinion Monitoring (新聞客端輿情監測), following the era of mobile and internet. Founder Electronics also upgraded its data center platform, which is based on cloud computing and cloud storage technology and provides a set of large-scale data application support system performing acquisition, storage, retrieval and analysis of data under one data centre platform. In 2013, by leveraging its extensive public sentiment technology expertise, Founder Electronics expanded vertically into the areas of information services (such as government, energy, automotive and home appliances) and made a breakthrough.

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

The turnover of the Non-Media Business for the current financial year decreased by 63.3% to approximately HK\$379.0 million (year ended 31 December 2012: HK\$1,034.0 million) while its segment results has recorded a profit of approximately HK\$5.5 million (year ended 31 December 2012: HK\$11.3 million).

The major products provided by the Non-Media Business include various information products such as servers, storage devices and workstations of a number of internationally famed and branded information products manufacturers such as HP, Cisco and Hitachi. The decrease in segment revenue and profit were mainly due to decrease in sales of information products in the banking sector in the PRC and decrease in sales of HP products to a subsidiary of Peking University Resources (Holdings) Company Limited, a related company of the Company. The demand of information products was lower during the current financial year after the banking systems and other information systems have been upgraded by the customers in the previous year.

In October 2013, the Company obtained Best Investment Value Award for listed companies (最具投資價值上市公司) from a number of consulting and public relations firms in Hong Kong. In December 2013, Founder Electronics obtained the special honours of Most Impressive Enterprise of Copyright in China (中國版權產業最具影響力企業) from Copyright Society of China (中國版權協會). In September 2013, Founder Electronics was awarded as 2013 Annual Invocative Software Enterprise (2013中國年度創新軟件企業) by China Software Industry Association (中國軟件協會). In July 2013, Founder Electronics obtained the special awards of The Sixth Wang Xuan Award (第六屆王選獎) from China Association of Press Technicians (中國新聞技術工作者聯合會) for the development of various successful systems and softwares.

## Management Discussion and Analysis

### PROSPECTS

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

### EMPLOYEES

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

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

As at 31 December 2013, the number of employees of the Group was approximately 1,258 (31 December 2012: 1,362).

### 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 2013, the Group had interest-bearing bank borrowings of approximately HK\$231.0 million (31 December 2012: HK\$229.8 million), of which HK\$71.8 million (31 December 2012: Nil) were fixed interest bearing and HK\$159.2 million (31 December 2012: HK\$229.8 million) were floating interest bearing. The bank borrowings were denominated in Hong Kong Dollars ("HKD"), Renminbi ("RMB"), United States Dollars ("U.S. dollars") and GBP, and were repayable within one year. The Group's banking facilities were secured by corporate guarantees given by the Company and 北大方正集團有限公司 (Peking University Founder Group Company Limited\*) ("Peking Founder"), a substantial shareholder of the Company, the Government of the Hong Kong Special Administrative Region under the SME Loan Guarantee Scheme, certain of the Group's land and buildings, investment properties and bank deposits.

At 31 December 2013, the Group recorded total assets of HK\$1,609.3 million which were financed by liabilities of HK\$659.0 million, non-controlling interests of HK\$0.4 million and equity of HK\$949.9 million. The Group's net asset value per share as at 31 December 2013 amounted to HK\$0.82 (31 December 2012: HK\$0.68).

\* For identification purpose only



## Management Discussion and Analysis

The Group had total cash and bank balances of HK\$573.3 million as at 31 December 2013 (31 December 2012: HK\$442.0 million). After deducting total bank borrowings of HK\$231.0 million (31 December 2012: HK\$229.8 million), the Group recorded net cash and bank balances of HK\$342.3 million as at 31 December 2013 as compared to HK\$212.2 million as at 31 December 2012. The Group's borrowings, which are subject to little seasonality, consist of mainly short term bank loans and trust receipt loans. As at 31 December 2013, the Group's gearing ratio, measured on the basis of total borrowings as a percentage of total shareholders' equity, was 0.24 (31 December 2012: 0.30) while the Group's working capital ratio was 1.86 (31 December 2012: 1.64).

At 31 December 2013, the Group did not have any material capital expenditure commitments.

### Treasury policies

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

### Exposure to fluctuations in exchange rates and related hedges

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

### Contracts

At 31 December 2013, the major contracts in hand for the software development and systems integration business amounted to approximately HK\$392.0 million (31 December 2012: HK\$275.8 million), which are all expected to be completed within one year time.

### Material acquisitions and disposals of subsidiaries and associates

The Group had no material acquisition or disposal of subsidiaries and associates in 2013.

### Charges on assets

At 31 December 2013, the Group's land and buildings in Hong Kong of approximately HK\$80.6 million and investment properties of approximately HK\$68.8 million and bank deposits of approximately HK\$11.9 million were pledged to banks to secure banking facilities granted.

### Future Plans for Material Investments or Capital Assets

The Group did not have any concrete future plans for material investments or capital assets as at 31 December 2013.

### Contingent liabilities

At 31 December 2013, the Group did not have any significant contingent liabilities.

# Corporate Governance Report

## CORPORATE GOVERNANCE PRACTICES

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

In the opinion of the directors, the Company has fully complied with all the code provisions as set out in the CG Code throughout the year ended 31 December 2013, except for the following deviations:

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. Mr Fung Man Yin, Sammy (independent non-executive director of the Company) could not attend the special general meeting of the Company held on 22 January 2013 due to other business engagements. However, all other independent non-executive directors of the Company were present thereat to be available to answer any question to ensure effective communication with shareholders of the Company.

Provision E.1.2 of the CG Code provides that the Chairman of the board should attend the annual general meeting. Mr Fang Zhong Hua could not attend the annual general meeting of the Company held on 29 May 2013 due to business commitment in the PRC. Professor Yang Bin, the President of the Company, was present thereat to be available to answer questions at the annual general meeting.

## 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 2013.

## BOARD OF DIRECTORS

As at the date of this Corporate Governance Report, the board of directors of the Company (the “Board”) comprises six executive directors and three independent non-executive directors. The executive directors are Mr Fang Zhong Hua (Chairman), Professor Xiao Jian Guo (Deputy Chairman), Professor Yang Bin (President), Ms Yi Mei, Ms Zuo Jin and Ms Liu Yu Xiao, the independent non-executive directors are Mr Li Fat Chung, Ms Wong Lam Kit Yee and Mr Fung Man Yin, Sammy. To the best of knowledge of the directors, there is no relationship (including financial, business, family or other material/relevant relationship) among members of the Board.

The biographical details of each director are disclosed on pages 17 to 18 of this Annual Report.

## Corporate Governance Report

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

The Board held four regular Board meetings at approximately quarterly intervals during the year ended 31 December 2013. Additional Board meetings were held when necessary. Due notice and Board papers were given to all directors prior to the meetings in accordance with the Listing Rules and the Code.

The attendance record of each director at the Board and general meetings is as follows:

Name of director	Board meetings attended/ Eligible to attend	Annual General meeting attended/ Eligible to attend	Special General meetings attended/ Eligible to attend
<i>Executive Directors</i>			
Mr Fang Zhong Hua ( <i>Chairman</i> )	4/4	0/1	2/2
Professor Xiao Jian Guo	3/4	0/1	0/2
Professor Yang Bin	4/4	1/1	0/2
Ms Yi Mei	4/4	0/1	0/2
Ms Liu Yu Xiao (appointed on 2 April 2013)	2/2	0/1	0/1
Mr Li Sheng Li (appointed on 2 April 2013 and resigned on 20 March 2014)	2/2	0/1	0/1
Mr Liu Xiao Kun (resigned on 2 April 2013)	0/1	N/A	0/1
Mr Wo Fei Yu (resigned on 2 April 2013)	0/1	N/A	0/1
<i>Independent Non-executive Directors</i>			
Mr Li Fat Chung	2/4	1/1	2/2
Ms Wong Lam Kit Yee	2/4	1/1	2/2
Mr Fung Man Yin, Sammy	3/4	1/1	1/2

## Corporate Governance Report

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

Each newly appointed director is provided with necessary induction and information to ensure that he has a proper understanding of the Company's operations and businesses as well as his responsibilities under the relevant statutes, laws, 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 2013. The individual training record of each director received for the year ended 31 December 2013 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
<i>Executive Directors</i>		
Mr Fang Zhong Hua ( <i>Chairman</i> )	✓	✓
Professor Xiao Jian Guo	✓	✓
Professor Yang Bin	✓	✓
Ms Yi Mei	✓	✓
Ms Liu Yu Xiao (appointed on 2 April 2013)	✓	✓
Mr Li Sheng Li (appointed on 2 April 2013 and resigned on 20 March 2014)	✓	✓
Mr Liu Xiao Kun (resigned on 2 April 2013)	✓	✓
Mr Wo Fei Yu (resigned on 2 April 2013)	✓	✓
<i>Independent Non-executive Directors</i>		
Mr Li Fat Chung	✓	✓
Ms Wong Lam Kit Yee	✓	✓
Mr Fung Man Yin, Sammy	✓	✓

## Corporate Governance Report

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

### CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The roles of the Chairman and the Chief Executive Officer are segregated and are not exercised by the same individual. Mr Fang Zhong Hua is the Chairman of the Board. The primary role of the Chairman is to provide leadership for the Board and to ensure that it works effectively in the discharge of its responsibilities. Prior to 2 April 2013, Mr Liu Xiao Kun continued to act as the President of the Company, who acts as the chief executive officer of the Company. Professor Yang Bin succeeded Mr Liu Xiao Kun as the President of the Board on 2 April 2013. The President is responsible for the day-to-day management of the Group's business. Their respective role and responsibilities are set out in writing which have been approved by the Board.

### NON-EXECUTIVE DIRECTORS

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

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

### REMUNERATION OF DIRECTORS

The Remuneration Committee of the Board was established in 2005 with specific written terms of reference which deal clearly with its authorities and duties. The role and functions of the committee include formulating the remuneration policy, making recommendations to the Board on the remuneration packages of all executive directors and senior management, making recommendations to the Board on the remuneration of non-executive directors, reviewing and approving performance-based remuneration, and ensuring that no director or any of his associates is involved in deciding his own remuneration.

In 2013, 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 2013 is set out in Note 8 to the Company's 2013 Financial Statements.

## Corporate Governance Report

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 ( <i>Chairman</i> ) ( <i>Independent non-executive director</i> )	1/1
Mr Fang Zhong Hua ( <i>Executive director</i> )	1/1
Ms Wong Lam Kit Yee ( <i>Independent non-executive director</i> )	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 diversity of the board.

The Board Diversity Policy was adopted by the Board on 30 August 2013. In designing the Board's composition, Board diversity has been considered from a number of aspect including, but not limited to, gender, age, cultural and educational background, professional experience, skills, knowledge and length of services. Candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board.

In 2013, the Nomination Committee met once to review the structure, size and diversity of the Board, nomination procedure and the independence of the independent non-executive directors, and to recommend the Board on the appointment and reappointment of directors and succession planning for directors.

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

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

### AUDIT COMMITTEE

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

## Corporate Governance Report

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

In 2013, the Audit Committee met three times. During the meetings, the Committee reviewed reports from the independent auditors regarding their audit on annual financial statements, review on interim financial results, discussed the internal control of the Group, and met with the independent auditors. The attendance report of the members of the Audit Committee at the meetings are as follows:

Name of member	Meetings attended/Eligible to attend
Mr Li Fat Chung ( <i>Chairman</i> )	3/3
Ms Wong Lam Kit Yee	3/3
Mr Fung Man Yin, Sammy	3/3

### INTERNAL CONTROL

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

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

During the year, the Company has carried out an overview on the effectiveness of the internal control system of the Group. The review covers all material controls, including financial, operational and compliance controls and risk management functions of the Group. No material internal control aspects of any significant problems were noted.

Both the Audit Committee and the Board were satisfied that the internal control system of the Group had functioned effectively during the year under review.

## Corporate Governance Report

### AUDITORS' REMUNERATION

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

	<u>HK\$'000</u>
Statutory audit services	2,100
Non-audit services:	
Agreed-upon procedures on interim results	350
Limited assurance services on continuing connected transactions	35
Compliance and tax advisory services	<u>152</u>
	<u>537</u>
Total	<u>2,637</u>

### DIRECTORS' AND AUDITORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for the preparation of the financial statements of the Group which give a true and fair view of the state of affairs of the Company and of the Group on a going concern basis in accordance with the statutory requirements and applicable accounting standards. The statement of the Auditors of the Company about their reporting responsibilities on the financial statements of the Group is set out in the Independent Auditors' Report on pages 27 to 28 of this Annual Report.

### COMPANY SECRETARY

Ms Tang Yuk Bo, Yvonne has been the company secretary of the Company since 20 November 2000. Ms Tang has taken relevant professional training to comply with Rule 3.29 of the Listing Rules for the year ended 31 December 2013.

### COMMUNICATION WITH SHAREHOLDERS

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



## Corporate Governance Report

### **THE SHAREHOLDERS' RIGHTS TO CONVENE A SPECIAL GENERAL MEETING**

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

### **CONSTITUTIONAL DOCUMENTS**

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

ON BEHALF OF THE BOARD

**Fang Zhong Hua**  
*Chairman*

Hong Kong  
26 March 2014

## Biographical Details of Directors and Senior Management

### EXECUTIVE DIRECTORS

**Mr Fang Zhong Hua**, aged 50, is the Chairman and an executive director of the Company. He is the member of executive committee and senior vice president of Peking University Founder Group Company Limited (“Peking Founder”), and chief executive officer of Peking University Founder Information Industry Group Co., Ltd. (北大方正信息產業集團有限公司) (“Founder Information”), a subsidiary of Peking Founder. He is a director of Founder Technology Group Corporation (“Founder Technology”) (stock code: 600601), a company listed in the Shanghai Stock Exchange. He is also a director of a number of associated companies of Peking Founder. Mr Fang graduated from Zhengzhou Institute of Aeronautical Industry Management and obtained a master’s degree in Business Administration at Peking University. He is also a Senior Economist in the People’s Republic of China (the “PRC”). He is the overall team leader of National Digital Publishing Systems Engineering Project (國家數字複合出版系統工程), the major digital publishing project included in National “Eleventh Five-Year” during the Cultural Development Plan (國家“十一五”時期文化發展規劃綱要) and News publishing industry “Eleventh Five-Year Plan” (新聞出版業“十一五”發展規劃). He is the vice president of China Computer Industry Association (中國計算機行業協會).

**Professor Xiao Jian Guo**, aged 57, is the Deputy Chairman and an executive director of the Company. He is also an executive director and Chief Technical Officer of Peking Founder. He is a director of an associated company of Peking Founder. He is a professor and a supervisor of PhD students of the Peking University. He graduated from the Department of Computer Science at the College of Dalian Ocean Communication with a bachelor’s degree in 1982 and obtained a master’s degree in Computer Science at Peking University.

**Professor Yang Bin**, aged 44, is the President and an executive director of the Company. He is also the Chairman and the President of Beijing Founder Electronics Co., Ltd., a subsidiary of the Company. He obtained a master’s degree of Computer Science at Peking University in 1994. Professor Yang has extensive experience in the research and development in the information technology industry. He was awarded the “Major Technological Inventions of Information Industry Award” (信息產業重大技術發明獎) by Ministry of Information Industry in the PRC (國家信息產業部), “China’s Top Ten Scientific and Technological Progress in Higher Education Award” (中國高等學校十大科技進展獎) by Ministry of Education in the PRC (國家教育部), and First prize of Electronic Information Science and Technology Award (電子信息科學技術獎一等獎) by Chinese Institute of Electronics (中國電子學會).

**Ms Yi Mei**, aged 49, is an executive director of the Company. Ms Yi is also the vice president of Peking Founder and Founder Information. She is a director of a number of associated companies of Peking Founder. She is the chairwoman of Founder Technology (stock code: 600601), a company listed in the Shanghai Stock Exchange. Ms Yi has extensive experience in finance and management and worked in various government departments and large enterprises in the PRC.

## Biographical Details of Directors and Senior Management

**Ms Zuo Jin**, aged 40, is an executive director of the Company and the vice president and chief financial officer of Founder Information. She is the director of 北京方正印捷數碼技術有限公司 (Beijing Founder EasiPrint Digital Technology Co., Ltd.\*) and 珠海方正特會軟件系統有限公司 (Zhu Hai Te Hui Software System Co., Ltd.\*), subsidiaries of the Company. Ms Zuo received her bachelor's degree in Economics at University of International Business and Economics in the PRC and is a Certified Public Accountant in the PRC. Prior to joining Peking Founder in 2003, she was a manager of an international firm of Certified Public Accountants. Ms Zuo has extensive knowledge and experience in financial management.

**Ms Liu Yu Xiao**, aged 37, is the vice president of Founder Information. She also holds directorships in a number of associated companies of Peking Founder. She received her bachelor's degree in industrial and foreign trading at Xi'an University of Technology in 1998 and obtained Master's degree in Economics at Northwest University in 2001. Ms Liu also obtained qualification certificate of security industry from The Security Association of China and graduation certificate of Master's degree in Real estate economy from East China Normal University. Ms Liu has extensive experience in the strategic investment.

### INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr Li Fat Chung**, aged 53, is an independent non-executive director of the Company and Peking University Resources (Holdings) Company Limited (formerly known as EC-Founder (Holdings) Company Limited). Mr Li is a director of Chan, Li, Law CPA Limited in Hong Kong. Mr Li is a Certified Public Accountant (Practising) in Hong Kong and is a fellow member of the Association of Chartered Certified Accountants in the United Kingdom, the Hong Kong Institute of Certified Public Accountants and The Taxation Institute of Hong Kong. He is also an associate member of the Institute of Chartered Accountants in England and Wales and a Certified Tax Adviser of the Taxation Institute of Hong Kong. Mr Li received a master's degree in Business Administration from the University of Warwick, England. Mr Li has extensive experience in auditing, taxation and accounting.

**Ms Wong Lam Kit Yee**, aged 50, is an independent non-executive director of the Company and Peking University Resources (Holdings) Company Limited (formerly known as EC-Founder (Holdings) Company Limited). Mrs Wong is a Certified Public Accountant (Practising) in Hong Kong. She is also a fellow member of the Association of Chartered Certified Accountants in the United Kingdom and the Hong Kong Institute of Certified Public Accountants. Mrs Wong has extensive experience in auditing and accounting.

**Mr Fung Man Yin, Sammy**, aged 54, is the Group Financial Controller of Frontier Services Group Limited (formerly known as DVN (Holdings) Limited), the shares of which are listed on the main board of The Stock Exchange of Hong Kong Limited. Mr Fung was the Group Financial Controller of Management Investment & Technology (Holdings) Limited (now known as Peking University Resources (Holdings) Company Limited, and is a then associated company of the Company) from 1992 to 2000, and the Group Financial Controller of the Company from 2000 to 2006. He has over 20 years of experience in financial management of listed companies. Mr Fung holds a first class honours degree in Economics and Accounting from the Newcastle University (formerly known as University of Newcastle Upon Tyne), England. Mr Fung is a fellow member of the Institute of Chartered Accountants in England and Wales and a member of the Hong Kong Institute of Certified Public Accountants. He worked with several international accounting firms in UK and Hong Kong for 10 years, and he had been a practicing certified public accountant in Hong Kong for 19 years.

\* For identification purpose only

# Report of the Directors

The directors present their report and the audited financial statements for the year ended 31 December 2013.

## PRINCIPAL ACTIVITIES

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

## RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2013 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 129.

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

## SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the audited financial statements, is set out on page 132 of the annual report. This summary does not form part of the audited financial statements.

## PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

Details of movements in the property, plant and equipment and investment properties of the Group during the year are set out in notes 13 and 14 to the financial statements, respectively. Further details of the Group's investment properties are set out on pages 130 to 131 of the annual report.

## SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year are set out in notes 27 and 28 to the financial statements.

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

## Report of the Directors

### DISTRIBUTABLE RESERVES

At 31 December 2013, the Company's reserves available for distribution amounted to approximately HK\$196,907,000. In addition, the Company's share premium account, in the amount of approximately HK\$40,778,000, 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 42% of the total purchases for the year and purchases from the largest supplier included therein amounted to 14%.

At 31 December 2013, Peking University Founder Group Company Limited ("Peking Founder"), the substantial shareholder of the Company, has beneficial interests in Peking University Resources (Holdings) Company Limited, the holding company of one of the five largest customers of the Group. Save as disclosed above, none of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest suppliers and customers.

### DIRECTORS

The directors of the Company during the year were:

#### Executive directors:

Mr Fang Zhong Hua

Professor Xiao Jian Guo

Professor Yang Bin

Ms Yi Mei

Mr Li Sheng Li (*appointed on 2 April 2013*)

Ms Liu Yu Xiao (*appointed on 2 April 2013*)

Mr Liu Xiao Kun (*resigned on 2 April 2013*)

Mr Wo Wei Yu (*resigned on 2 April 2013*)

#### Independent non-executive directors:

Mr Li Fat Chung

Ms Wong Lam Kit Yee

Mr Fung Man Yin, Sammy

Subsequent to the balance sheet date, on 20 March 2014, Mr Li Sheng Li resigned as an executive director of the Company. On the same date, Ms Zuo Jin was appointed as an executive director of the Company.

In accordance with the bye-laws of the Company, Mr Fang Zhong Hua, Ms Yi Mei, Mr Li Fat Chung and Ms Zuo Jin will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

## Report of the Directors

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

### DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 17 to 18 of the annual report.

### DIRECTORS' SERVICE CONTRACTS

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

### DIRECTORS' EMOLUMENTS

The emoluments of the directors of the Company are determined by reference to the market rates, commitments, contribution and their duties and responsibilities within the Group.

### DIRECTORS' INTERESTS IN CONTRACTS

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

### DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 31 December 2013, 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 Fang Zhong Hua	Directly beneficially owned	2,955,200	0.25
Professor Xiao Jian Guo	Directly beneficially owned	2,955,200	0.25
Professor Yang Bin	Directly beneficially owned	2,955,200	0.25
Ms Yi Mei	Directly beneficially owned	2,955,200	0.25

## Report of the Directors

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

Name of directors	Number of options directly beneficially owned
Mr Fang Zhong Hua	4,432,800
Professor Xiao Jian Guo	4,432,800
Professor Yang Bin	4,432,800
Ms Yi Mei	4,432,800
	17,731,200

Save as disclosed above, as at 31 December 2013, none of the directors had registered an interest or short position in the shares or underlying shares of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of the Listed Issuers.

### SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Further details of the Scheme are disclosed in note 28 to the financial statements.

## Report of the Directors

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

Name or category of the participants	Number of share options			At 31 December 2013	Date of grant of the share options (Note 1)	Exercise period of the share options (Note 2)	Exercise price of the share options (Note 3) HK\$ per share
	At 1 January 2013	Exercised during the year	Transferred in-between categories				
<b>Executive Directors</b>							
Mr Fang Zhong Hua	7,388,000	(2,955,200)	-	4,432,800	17.11.2011	17.11.2012 to 16.11.2014	0.296
Professor Xiao Jian Guo	7,388,000	(2,955,200)	-	4,432,800	17.11.2011	17.11.2012 to 16.11.2014	0.296
Mr Liu Xiao Kun <sup>#</sup>	7,388,000	(2,955,200)	(4,432,800)	-	-	-	-
Professor Yang Bin	7,388,000	(2,955,200)	-	4,432,800	17.11.2011	17.11.2012 to 16.11.2014	0.296
Ms Yi Mei	7,388,000	(2,955,200)	-	4,432,800	17.11.2011	17.11.2012 to 16.11.2014	0.296
Subtotal	36,940,000	(14,776,000)	(4,432,800)	17,731,200			
<b>Other employees of the Group</b>							
In aggregate	36,939,900	(14,775,960)	4,432,800	26,596,740	17.11.2011	17.11.2012 to 16.11.2014	0.296
Total	73,879,900	(29,551,960)	-	44,327,940			

<sup>#</sup> Mr Liu Xiao Kun resigned as an executive director of the Company on 2 April 2013.

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

- The vesting period of the share options is from the date of grant until the commencement of the exercise period.
- The options granted on 17 November 2011 are exercisable in the following two tranches:
  - First 40% of the options are exercisable from 17 November 2012 to 16 November 2013; and
  - The remaining 60% of the options are exercisable from 17 November 2013 to 16 November 2014.
- 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.



## Report of the Directors

Save as disclosed above, at no time during the year were rights to acquire benefits by means of the acquisition of shares of the Company granted to any of the directors or their respective spouses or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

### SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES

At 31 December 2013, the following interests of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

#### Long positions:

Name	Notes	Capacity and nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital
北大資產經營有限公司 (Peking University Asset Management Company Limited*)	1	Through a controlled corporation	367,179,610	31.66
北大方正集團有限公司 (Peking Founder)	2	Through a controlled corporation	367,179,610	31.66
北大方正信息產業集團有限公司 (Peking University Founder Information Industry Group Co., Ltd.*) (formerly known as 方正信息產業控股有限公司)		Directly beneficially owned	367,179,610	31.66

\* For identification purpose only

#### Notes:

1. Peking University Asset Management Company Limited was deemed to be interested in the 367,179,610 shares under the SFO by virtue of its interest in Peking Founder.
2. Peking Founder was deemed to be interested in the 367,179,610 shares under the SFO by virtue of its interest in Peking University Founder Information Industry Group Co., Ltd.

Save as disclosed above, as at 31 December 2013, no person, other than the directors of the Company, whose interests are set out in the section "Directors' interests and short positions in shares and underlying shares" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

## Report of the Directors

### CONTINUING CONNECTED TRANSACTIONS

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

#### Continuing connected transactions

The independent non-executive directors of the Company have reviewed the continuing connected transactions set out in notes 32(l)(b) to 32(l)(i) to the financial statements and have confirmed that these continuing connected transactions were entered into (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Group than terms available to or from (as appropriate) independent third parties; and (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

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

### DISCLOSURES PURSUANT TO RULES 13.21 AND 13.22 OF THE LISTING RULES

In accordance with the disclosure requirements of Rule 13.21 of the Listing Rules, the following disclosures are included in respect of one of the Company's subsidiary's loan agreements, which contain covenants requiring performance obligations of the controlling shareholder of the Company. Pursuant to a loan agreement dated 25 January 2013 between Founder (Hong Kong) Limited, a wholly-owned subsidiary of the Company, the Company and DBS Bank (Hong Kong) Limited relating to a one-year and four-month loan facility of US\$25 million, a termination event would arise if Peking Founder ceased to own beneficially, directly or indirectly, at least 30% of the shares in the Company's issued capital.

### SUFFICIENCY OF PUBLIC FLOAT

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

## 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

**Fang Zhong Hua**  
*Chairman*

Hong Kong  
26 March 2014

# Independent Auditors' Report



## To the shareholders of Founder Holdings Limited

*(Incorporated in Bermuda with limited liability)*

We have audited the consolidated financial statements of Founder Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 29 to 129, which comprise the consolidated and company statements of financial position as at 31 December 2013, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### **DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS**

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### **AUDITORS' RESPONSIBILITY**

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

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

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

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

## Independent Auditors' Report (continued)

### **OPINION**

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2013, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of Hong Kong Companies Ordinance.

### **Ernst & Young**

*Certified Public Accountants*

22/F, CITIC Tower

1 Tim Mei Avenue

Central

Hong Kong

26 March 2014

# Consolidated Statement of Profit or Loss

Year ended 31 December 2013

	Notes	2013 HK\$'000	2012 HK\$'000
REVENUE	5	1,291,015	2,130,753
Cost of sales		(924,408)	(1,707,999)
Gross profit		366,607	422,754
Other income and gains	5	158,002	80,678
Selling and distribution expenses		(237,964)	(261,839)
Administrative expenses		(64,872)	(68,233)
Other expenses, net		(120,882)	(117,602)
Finance costs	7	(7,778)	(9,396)
Share of profits and losses of associates		1,561	1,371
PROFIT BEFORE TAX	6	94,674	47,733
Income tax expense	10	(8,187)	(3,322)
PROFIT FOR THE YEAR		86,487	44,411
Attributable to:			
Owners of the parent	11	86,241	44,523
Non-controlling interests		246	(112)
		86,487	44,411
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	12		
Basic		HK7.6 cents	HK3.9 cents
Diluted		HK7.5 cents	HK3.9 cents

## Consolidated Statement of Comprehensive Income

Year ended 31 December 2013

	2013 HK\$'000	2012 HK\$'000
PROFIT FOR THE YEAR	<b>86,487</b>	44,411
OTHER COMPREHENSIVE INCOME/(LOSS)		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Share of other comprehensive income/(loss) of associates	<b>(794)</b>	138
Exchange differences on translation of foreign operations	<b>13,320</b>	6,092
Net other comprehensive income to be reclassified to profit or loss in subsequent periods	<b>12,526</b>	6,230
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:		
Revaluation surplus of land and buildings	<b>73,230</b>	67,982
Income tax effect	<b>(7,339)</b>	(13,211)
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods	<b>65,891</b>	54,771
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	<b>78,417</b>	61,001
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<b>164,904</b>	105,412
Attributable to:		
Owners of the parent	<b>164,651</b>	105,511
Non-controlling interests	<b>253</b>	(99)
	<b>164,904</b>	105,412

# Consolidated Statement of Financial Position

31 December 2013

	Notes	2013 HK\$'000	2012 HK\$'000
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	13	333,053	257,257
Investment properties	14	70,292	55,430
Investment in associates	16	6,831	17,995
Available-for-sale investments	17	15,860	–
Capitalised software costs	18	7,632	2,917
Finance lease receivables	22	7,216	8,168
Total non-current assets		440,884	341,767
<b>CURRENT ASSETS</b>			
Inventories	19	49,979	40,976
Gross amount due from contract customers	20	11,496	17,061
Trade and bills receivables	21	218,087	447,343
Prepayments, deposits and other receivables		313,633	215,103
Finance lease receivables	22	1,946	1,625
Pledged deposits	23	11,859	12,006
Cash and cash equivalents	23	561,448	429,955
Total current assets		1,168,448	1,164,069
<b>CURRENT LIABILITIES</b>			
Trade and bills payables	24	106,594	185,900
Gross amount due to contract customers	20	9,882	9,639
Other payables and accruals		275,545	280,095
Interest-bearing bank borrowings	25	231,014	229,807
Tax payable		3,486	2,695
Total current liabilities		626,521	708,136
NET CURRENT ASSETS		541,927	455,933
TOTAL ASSETS LESS CURRENT LIABILITIES		982,811	797,700



## Consolidated Statement of Financial Position (continued)

31 December 2013

	Notes	2013 HK\$'000	2012 HK\$'000
NON-CURRENT LIABILITIES			
Deferred tax liabilities	26	32,540	23,477
Net assets		950,271	774,223
EQUITY			
<b>Equity attributable to owners of the parent</b>			
Issued capital	27	115,985	113,030
Reserves	29(a)	833,901	661,061
		949,886	774,091
<b>Non-controlling interests</b>		<b>385</b>	132
Total equity		950,271	774,223

**Fang Zhong Hua**  
Director

**Yang Bin**  
Director

# Consolidated Statement of Changes in Equity

Year ended 31 December 2013

Notes	Attributable to owners of the parent											
	Issued capital	Share		Employee share-based compensation reserve	Capital reserve	Land and buildings revaluation reserve	Exchange fluctuation reserve	General reserve	Accumulated losses	Non-controlling interests	Total equity	
		premium account	Contributed surplus									
		HK\$'000	HK\$'000									
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
At 1 January 2012	113,030	32,470	867,910	657	3,685	118,110	41,106	39,530	(552,859)	663,639	909	664,548
Profit for the year	-	-	-	-	-	-	-	-	44,523	44,523	(112)	44,411
Other comprehensive income for the year:												
Revaluation surplus of land and buildings, net of tax	-	-	-	-	-	54,771	-	-	-	54,771	-	54,771
Share of other comprehensive loss of associates	-	-	-	-	-	-	138	-	-	138	-	138
Exchange differences on translation of foreign operations	-	-	-	-	-	-	6,079	-	-	6,079	13	6,092
Total comprehensive income for the year	-	-	-	-	-	54,771	6,217	-	44,523	105,511	(99)	105,412
Dividends paid to non-controlling shareholders	-	-	-	-	-	-	-	-	-	-	(678)	(678)
Transfer to general reserve	-	-	-	-	-	-	-	5,954	(5,954)	-	-	-
Equity-settled share option arrangements	28	-	-	4,941	-	-	-	-	-	4,941	-	4,941
At 31 December 2012	113,030	32,470*	867,910*	5,598*	3,685*	172,881*	47,323*	45,484*	(514,290)*	774,091	132	774,223

## Consolidated Statement of Changes in Equity (continued)

Year ended 31 December 2013

Notes	Attributable to owners of the parent											
	Issued capital HK\$'000	Share premium account HK\$'000	Contributed surplus HK\$'000	Employee	Land and	Exchange fluctuation reserve HK\$'000	General reserve HK\$'000	Accumulated losses HK\$'000	Non- controlling Total interests HK\$'000	Total equity HK\$'000		
				share-based	buildings							
				compensation reserve HK\$'000	revaluation reserve HK\$'000							
At 1 January 2013	113,030	32,470	867,910	5,598	3,685	172,881	47,323	45,484	(514,290)	774,091	132	774,223
Profit for the year	-	-	-	-	-	-	-	-	86,241	86,241	246	86,487
Other comprehensive income for the year:												
Revaluation surplus of land and buildings, net of tax	-	-	-	-	-	65,891	-	-	-	65,891	-	65,891
Share of other comprehensive income of associates	-	-	-	-	-	-	(794)	-	-	(794)	-	(794)
Exchange differences on translation of foreign operations	-	-	-	-	-	-	13,313	-	-	13,313	7	13,320
Total comprehensive income for the year	-	-	-	-	-	65,891	12,519	-	86,241	164,651	253	164,904
Issue of shares	2,955	8,308	-	(2,516)	-	-	-	-	-	8,747	-	8,747
Deemed disposal of an associate	16	-	-	-	(3,685)	-	-	-	3,685	-	-	-
Transfer to general reserve	-	-	-	-	-	-	-	9,078	(9,078)	-	-	-
Equity-settled share option arrangements	28	-	-	2,397	-	-	-	-	-	2,397	-	2,397
At 31 December 2013	115,985	40,778*	867,910*	5,479*	-*	238,772*	59,842*	54,562*	(433,442)*	949,886	385	950,271

\* These reserve accounts comprise the consolidated reserves of HK\$833,901,000 (2012: HK\$661,061,000) in the consolidated statement of financial position.

# Consolidated Statement of Cash Flows

Year ended 31 December 2013

	Notes	2013 HK\$'000	2012 HK\$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit before tax		94,674	47,733
Adjustments for:			
Finance costs	7	7,778	9,396
Share of profits and loss of associates		(1,561)	(1,371)
Interest income	5	(13,903)	(11,706)
Gain on deemed disposal of an associate	5	(4,530)	–
Write-back of trade and other payables		(3,027)	–
Changes in fair value of investment properties	5	(14,862)	(7,075)
Loss on disposal of items of property, plant and equipment	6	281	82
Depreciation	6	14,055	11,220
Amortisation of capitalised software costs	6	1,245	113
Impairment of trade receivables	6	6,036	6,257
Impairment of other receivables	6	1,345	2,904
Equity-settled share option expense	6	2,397	4,941
		<b>89,928</b>	62,494
Decrease/(increase) in inventories		(13,509)	20,799
Decrease in gross amount due from contract customers		5,565	129,665
Decrease/(increase) in trade and bills receivables		222,596	(221,223)
Decrease in prepayments, deposits and other receivables		6,329	7,151
Decrease/(increase) in finance lease receivables		754	(9,793)
Decrease in trade and bills payables		(77,752)	(106,666)
Increase/(decrease) in gross amount due to contract customers		243	(9,040)
Increase/(decrease) in other payables and accruals		(3,077)	347
Exchange differences		1,663	752
		<b>232,740</b>	(125,514)
Cash generated from/(used in) operations			
Interest received		3,146	3,483
Interest paid	7	(7,778)	(9,396)
Hong Kong profits tax paid		(227)	(32)
Mainland of the People's Republic of China ("Mainland China" or the "PRC") corporate income tax paid		(6,037)	(4,322)
PRC corporate income tax refund		–	3,727
		<b>221,844</b>	(132,054)

## Consolidated Statement of Cash Flows (continued)

Year ended 31 December 2013

	Notes	2013 HK\$'000	2012 HK\$'000
Net cash flows from/(used in) operating activities		221,844	(132,054)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		10,150	7,746
Dividend received from an associate		398	–
Purchases of items of property, plant and equipment	13	(7,691)	(13,786)
Addition of capitalised software costs	18	(5,896)	(2,997)
Proceeds from disposal of items of property, plant and equipment		490	33
Decrease in amounts due from associates		6	2
Decrease in amounts due to associates		–	(63)
Increase in non-pledged time deposits with original maturity of more than three months when acquired		11,391	(9,123)
Advances of entrusted loans to related companies		(416,688)	(249,000)
Repayment of entrusted loans from related companies		310,968	222,580
Decrease in pledged deposits		147	115
Net cash flows used in investing activities		(96,725)	(44,493)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		8,747	–
New bank loans		189,902	167,565
Repayment of bank loans		(94,596)	(148,110)
Increase/(decrease) in trust receipt loans		(95,051)	133,770
Dividends paid to non-controlling shareholders		–	(678)
Net cash flows from financing activities		9,002	152,547
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		134,121	(24,000)
Cash and cash equivalents at beginning of year		418,564	438,343
Effect of foreign exchange rate changes, net		8,763	4,221
CASH AND CASH EQUIVALENTS AT END OF YEAR		561,448	418,564
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	23	531,166	290,355
Non-pledged time deposits	23	30,282	139,600
Cash and cash equivalents as stated in the consolidated statement of financial position		561,448	429,955
Non-pledged time deposits with original maturity of more than three months when acquired		–	(11,391)
Cash and cash equivalents as stated in the consolidated statement of cash flows		561,448	418,564

# Statement of Financial Position

31 December 2013

	Notes	2013 HK\$'000	2012 HK\$'000
<b>NON-CURRENT ASSETS</b>			
Investments in subsidiaries	15	559,088	559,088
<b>CURRENT ASSETS</b>			
Prepayments		575	298
Cash and cash equivalents	23	1,410	730
Total current assets		1,985	1,028
<b>CURRENT LIABILITIES</b>			
Other payables and accruals		214	–
<b>NET CURRENT ASSETS</b>		1,771	1,028
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		560,859	560,116
<b>NON-CURRENT LIABILITY</b>			
Due to a subsidiary	15	201,710	207,695
<b>Net assets</b>		359,149	352,421
<b>EQUITY</b>			
Issued capital	27	115,985	113,030
Reserves	29(b)	243,164	239,391
<b>Total equity</b>		359,149	352,421

**Fang Zhong Hua**  
Director

**Yang Bin**  
Director

# Notes to Financial Statements

31 December 2013

## 1. CORPORATE INFORMATION

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

During the year, the Company and its subsidiaries (collectively referred to as the “Group”) were principally engaged in software development and systems integration.

## 2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the disclosure requirements of Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties, certain buildings classified as property, plant and equipment, and available-for-sale investments, which have been measured at fair value. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand 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 2013. 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 on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described in the accounting policy for subsidiaries below. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

## Notes to Financial Statements

31 December 2013

### 2.1 BASIS OF PREPARATION *(continued)*

#### Basis of consolidation *(continued)*

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, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

### 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

HKFRS 1 Amendments	Amendments to HKFRS 1 <i>First-time Adoption of Hong Kong Financial Reporting Standards – Government Loans</i>
HKFRS 7 Amendments	Amendments to HKFRS 7 <i>Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities</i>
HKFRS 10	<i>Consolidated Financial Statements</i>
HKFRS 11	<i>Joint Arrangements</i>
HKFRS 12	<i>Disclosure of Interests in Other Entities</i>
HKFRS 10, HKFRS 11 and HKFRS 12 Amendments	Amendments to HKFRS 10, HKFRS 11 and HKFRS 12 – <i>Transition Guidance</i>
HKFRS 13	<i>Fair Value Measurement</i>
HKAS 1 Amendments	Amendments to HKAS 1 <i>Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income</i>
HKAS 19 (2011)	<i>Employee Benefits</i>
HKAS 27 (2011)	<i>Separate Financial Statements</i>
HKAS 28 (2011)	<i>Investments in Associates and Joint Ventures</i>
HKAS 36 Amendments	Amendments to HKAS 36 <i>Impairment of Assets – Recoverable Amount Disclosures for Non-Financial Assets</i> (early adopted)
HK(IFRIC)-Int 20 <i>Annual Improvements 2009-2011 Cycle</i>	<i>Stripping Costs in the Production Phase of a Surface Mine</i> Amendments to a number of HKFRSs issued in June 2012

Other than as further explained below regarding the impact of HKFRS 10, HKFRS 12, HKFRS 13, HKAS 19 (2011), amendments to HKFRS 10, HKFRS 11, HKFRS 12, HKAS 1 and HKAS 36 and certain amendments included in *Annual Improvements 2009-2011 Cycle*, the adoption of the new and revised HKFRSs has had no significant financial effect on these financial statements.



## Notes to Financial Statements

31 December 2013

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

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

- (a) HKFRS 10 replaces the portion of HKAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements and addresses the issues in HK(SIC)-Int 12 *Consolidation – Special Purpose Entities*. It establishes a single control model used for determining which entities are consolidated. To meet the definition of control in HKFRS 10, an investor must have (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. The changes introduced by HKFRS 10 require management of the Group to exercise significant judgement to determine which entities are controlled.

As a result of the application of HKFRS 10, the Group has changed the accounting policy with respect to determining which investees are controlled by the Group.

The application of HKFRS 10 does not change any of the consolidation conclusions of the Group in respect of its involvement with investees as at 1 January 2013.

- (b) HKFRS 12 sets out 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. Details of the disclosures for subsidiaries and associates are included in notes 15 and 16 to the financial statements.
- (c) The HKFRS 10, HKFRS 11 and HKFRS 12 Amendments 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.

## Notes to Financial Statements

31 December 2013

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

- (d) 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 rather provides guidance on how fair value should be applied where its use is already required or permitted under other HKFRSs. HKFRS 13 is applied prospectively and the adoption has had no material impact on the Group's fair value measurements. As a result of the guidance in HKFRS 13, the policies for measuring fair value have been amended. Additional disclosures required by HKFRS 13 for the fair value measurements of land and buildings, investment properties and financial instruments are included in notes 13, 14 and 33 to the financial statements.
- (e) The HKAS 1 Amendments change the grouping of items presented in other comprehensive income ("OCI"). Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) are presented separately from items which will never be reclassified (for example, the revaluation of land and buildings). The amendments have affected the presentation only and have had no impact on the financial position or performance of the Group. The consolidated statement of comprehensive income has been restated to reflect the changes. In addition, the Group has chosen to use the new title "statement of profit or loss" as introduced by the amendments in these financial statements.
- (f) 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. As the Group does not have any defined benefit plan or employee termination plan and the Group does not have any significant employee benefits that are expected to be settled for more than twelve months after the reporting period, the adoption of the revised standard has had no effect on the financial position or performance of the Group.

## Notes to Financial Statements

31 December 2013

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

- (g) The HKAS 36 Amendments remove the unintended disclosure requirement made by HKFRS 13 on the recoverable amount of a cash-generating unit which is not impaired. In addition, the amendments require the disclosure of the recoverable amounts for the assets or cash-generating units for which an impairment loss has been recognised or reversed during the reporting period, and expand the disclosure requirements regarding the fair value measurement for these assets or units if their recoverable amounts are based on fair value less costs of disposal. The amendments are effective retrospectively for annual periods beginning on or after 1 January 2014 with earlier application permitted, provided HKFRS 13 is also applied. The Group has early adopted the amendments in these financial statements. The amendments have had no impact on the financial position or performance of the Group.
- (h) *Annual Improvements 2009-2011 Cycle* issued in June 2012 sets out amendments to a number of standards. 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 have had a significant financial impact on the Group. Details of the key amendments most applicable to the Group are as follows:
- *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.

- *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.

## Notes to Financial Statements

31 December 2013

### 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 9	<i>Financial Instruments</i> <sup>3</sup>
HKFRS 9, HKFRS 7 and HKAS 39 Amendments	<i>Hedge Accounting and amendments to HKFRS 9, HKFRS 7 and HKAS 39</i> <sup>3</sup>
HKFRS 10, HKFRS 12 and HKAS 27 (2011) Amendments	Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) – <i>Investment Entities</i> <sup>1</sup>
HKAS 19 Amendments	Amendments to HKAS 19 <i>Employee Benefits</i> – <i>Defined Benefit Plans: Employee Contributions</i> <sup>2</sup>
HKAS 32 Amendments	Amendments to HKAS 32 <i>Financial Instruments: Presentation</i> – <i>Offsetting Financial Assets and Financial Liabilities</i> <sup>1</sup>
HKAS 39 Amendments	Amendments to HKAS 39 <i>Financial Instruments: Recognition and Measurement</i> – <i>Novation of Derivatives and Continuation of Hedge Accounting</i> <sup>1</sup>
HK(IFRIC)-Int 21	<i>Levies</i> <sup>1</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2014

<sup>2</sup> Effective for annual periods beginning on or after 1 July 2014

<sup>3</sup> No mandatory effective date yet determined but is available for adoption

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

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

## Notes to Financial Statements

31 December 2013

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

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 as 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 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.

In December 2013, the HKICPA added to HKFRS 9 the requirements related to hedge accounting and made some related changes to HKAS 39 and HKFRS 7 which include the corresponding disclosures about risk management activity for applying hedge accounting. The amendments to HKFRS 9 relax the requirements for assessing hedge effectiveness which result in more risk management strategies being eligible for hedge accounting. The amendments also allow greater flexibility on the hedged items and relax the rules on using purchased options and non-derivative financial instruments as hedging instruments. In addition, the amendments to HKFRS 9 allow an entity to apply only the improved accounting for own credit risk-related fair value gains and losses arising on FVO liabilities as introduced in 2010 without applying the other HKFRS 9 requirements at the same time.

HKAS 39 is aimed to be replaced by HKFRS 9 in its entirety. Before this entire replacement, the guidance in HKAS 39 on impairment of financial assets continues to apply. The previous mandatory effective date of HKFRS 9 was removed by the HKICPA in December 2013 and a mandatory effective date will be determined after the entire replacement of HKAS 39 is completed. However, the standard is available for application now. The Group will quantify the effect in conjunction with other phases, when the final standard including all phases is issued.

Amendments to HKFRS 10 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.

The HKAS 32 Amendments clarify the meaning of “currently has a legally enforceable right to set off” 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.

## Notes to Financial Statements

31 December 2013

### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Subsidiaries

A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group's voting rights and potential voting rights.

The results of subsidiaries are included in the Company's statement of profit or loss to the extent of dividends received and receivable. The Company's investments in subsidiaries that are not classified as held for sale in accordance with HKFRS 5 are stated at cost less any impairment losses.

#### Investments in associates and joint ventures

An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

## Notes to Financial Statements

31 December 2013

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

#### **Investments in associates and joint ventures** *(continued)*

The Group's investments in associates and joint ventures 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 other comprehensive income of associates and joint ventures is included in the consolidated statement of profit or loss and consolidated other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's investments in the associates or joint ventures, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of associates or joint ventures is included as part of the Group's investments in associates or joint ventures.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

When an investment in an associate or a joint venture is classified as held for sale, it is accounted for in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

#### **Business combinations and goodwill**

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

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

## Notes to Financial Statements

31 December 2013

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

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

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

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

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

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

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

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed in these circumstances is measured based on the relative value of the disposed operation and the portion of the cash-generating unit retained.



## Notes to Financial Statements

31 December 2013

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

#### Fair value measurement

The Group measures its land and buildings, investment properties, and available-for-sale investment at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
- Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

## Notes to Financial Statements

31 December 2013

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

#### Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, systems integration contract assets, financial assets, investment properties and goodwill), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, 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 statement of profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the statement of profit or loss in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

## Notes to Financial Statements

31 December 2013

### 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).

## Notes to Financial Statements

31 December 2013

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

#### Property, plant and equipment and depreciation

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

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

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

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

Land and buildings	Over the lease terms
Leasehold improvements	20% or over the lease terms, whichever is shorter
Furniture, fixtures and office equipment	20% to 33 $\frac{1}{3}$ %
Motor vehicles	10% to 30%
Machinery and equipment	16 $\frac{2}{3}$ % to 20%

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

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the statement of profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

## Notes to Financial Statements

31 December 2013

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

#### Investment properties

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

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

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

#### Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

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

## Notes to Financial Statements

31 December 2013

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

#### Research and development costs

All research costs are charged to the statement of profit or loss as incurred.

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

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

#### Leases

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

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

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

## Notes to Financial Statements

31 December 2013

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

#### **Investments and other financial assets**

##### ***Initial recognition and measurement***

Financial assets are classified, at initial recognition, 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. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, 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 statement of profit or loss. The loss arising from impairment is recognised in the statement of profit or loss in finance costs for loans and in other expenses for receivables.

## Notes to Financial Statements

31 December 2013

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

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

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

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

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

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

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the statement of profit or loss.



## Notes to Financial Statements

31 December 2013

### 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 primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) 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 Group continues to recognise the transferred assets to the extent of the Group's continuing involvement. 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.

#### Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have 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.

## Notes to Financial Statements

31 December 2013

### 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 whether impairment exists individually 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.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

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

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

## Notes to Financial Statements

31 December 2013

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

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

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

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

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

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

#### **Financial liabilities**

##### **Initial recognition and measurement**

Financial liabilities are classified, at initial recognition, 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.

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

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

## Notes to Financial Statements

31 December 2013

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

#### **Financial liabilities** *(continued)*

##### ***Subsequent measurement***

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

##### ***Loans and borrowings***

After initial recognition, interest-bearing bank borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the statement of profit or loss 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 statement of profit or loss.

##### ***Financial guarantee contracts***

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

##### ***Derecognition of financial liabilities***

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

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

## Notes to Financial Statements

31 December 2013

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

#### 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.

#### Inventories

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

#### Systems integration contracts

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

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

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

#### Cash and cash equivalents

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

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

## Notes to Financial Statements

31 December 2013

### 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.

## Notes to Financial Statements

31 December 2013

### 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.

#### **Government grants**

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

#### **Revenue recognition**

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

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) from systems integration contracts, on the percentage of completion basis, as further explained in the accounting policy for "Systems integration contracts" above;
- (c) from the rendering of services, when the transactions have been completed in accordance with the terms of the relevant contracts;
- (d) rental income, on a time proportion basis over the lease terms;

## Notes to Financial Statements

31 December 2013

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

#### Revenue recognition *(continued)*

- (e) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset; and
- (f) dividend income, when the shareholders' right to receive payment has been established.

#### Share-based payments

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

The cost of equity-settled transactions with employees for grants after 7 November 2002 is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 28 to the financial statements.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled in employee benefit expense. 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 statement of profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

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

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



## Notes to Financial Statements

31 December 2013

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

#### **Share-based payments** *(continued)*

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

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

#### **Other employee benefits**

##### ***Pension schemes***

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

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

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 statement of profit or loss as they become payable in accordance with the rules of the central pension scheme.

##### ***Termination benefits***

Termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises restructuring costs involving the payment of termination benefits.

## Notes to Financial Statements

31 December 2013

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

#### 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.

#### Dividends

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

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

#### Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss.

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 measured. 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).

## Notes to Financial Statements

31 December 2013

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

#### **Foreign currencies** *(continued)*

The functional currencies of certain overseas subsidiaries and associates are currencies other than the Hong Kong dollar. As at the end of 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 statements of profit or loss 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 statement of profit or loss.

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

### 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

#### **Judgements**

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

#### ***Operating lease commitments – Group as lessor***

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

## Notes to Financial Statements

31 December 2013

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

#### **Judgements** *(continued)*

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

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

##### **Estimation uncertainty**

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

##### ***Impairment of trade receivables***

The Group maintains an allowance for estimated loss arising from the inability of its customers to make the required payments. The Group makes its estimates based on the ageing of its trade receivable balances, customers' creditworthiness, and historical write-off experience. If the financial condition of its customers was to deteriorate so that the actual impairment loss might be higher than expected, the Group would be required to revise the basis of making the allowance and its future results would be affected. Further details are given in note 21 to the financial statements.

##### ***Provision for obsolete inventories***

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

## Notes to Financial Statements

31 December 2013

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

#### **Estimation uncertainty** *(continued)*

##### ***Percentage of completion of systems integration contracts***

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

##### ***Fair value of investment properties and land and buildings***

Investment properties and land and buildings are carried in the statement of financial position at their fair values. The fair value was based on a valuation on the properties conducted by an independent firm of professionally qualified valuers using property valuation techniques which involve making assumptions on certain market conditions. Favourable or unfavourable changes to these assumptions would result in changes in the fair values of the Group's investment properties and land and buildings and the corresponding adjustments to the gain or loss recognised in the statement of profit or loss and asset revaluation reserve, respectively. Further details, including the key assumptions used for fair value measurement and a sensitivity analysis, are given in notes 14 and 13 to the financial statements.

##### ***Deferred tax assets***

Deferred tax assets are recognised for unused tax losses and other deductible temporary differences to the extent that it is probable that taxable profits will be available against which the losses and the deductible temporary differences can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The total amount of unrecognised deductible temporary differences and unrecognised tax losses at 31 December 2013 was approximately HK\$302,703,000 (2012: HK\$290,660,000). Further details are included in note 26 to the financial statements.

## Notes to Financial Statements

31 December 2013

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

#### Estimation uncertainty *(continued)*

##### *Development costs*

Development costs are capitalised in accordance with the accounting policy for research and development costs in note 2.4 to the financial statements. Determining the amounts to be capitalised requires management to make assumptions regarding the expected future cash generation of the assets, discount rates to be applied and the expected period of benefits. At 31 December 2013, the best estimate of the carrying amount of capitalised development cost was HK\$7,632,000 (2012: HK\$2,917,000).

### 4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has four reportable operating segments as follows:

- (a) the software development and systems integration for media business segment provides electronic publishing and broadcasting systems to media companies;
- (b) the software development and systems integration for non-media business segment provides banking and information systems to financial institutions, enterprises and government departments;
- (c) the corporate segment comprises corporate income and expense items; and
- (d) the "others" segment comprises principally the Group's editing services for newspapers and magazines.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit or loss, which is a measure of adjusted profit or loss before tax. The adjusted profit or loss before tax is measured consistently with the Group's profit before tax except that interest income, gain on deemed disposal of an associate, net foreign exchange differences, finance costs and share of profits and losses of associates as well as head office and corporate expenses are excluded from such measurement.

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

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

## Notes to Financial Statements

31 December 2013

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

	Software development and systems integration for media business		Software development and systems integration for non-media business		Corporate		Others		Total	
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Segment revenue:</b>										
Sales to external customers	911,664	1,096,425	378,965	1,033,973	-	-	386	355	1,291,015	2,130,753
Revenue									1,291,015	2,130,753
<b>Segment results</b>	76,701	38,361	5,496	11,251	(682)	(8,642)	1,654	1,730	83,169	42,700
<i>Reconciliation:</i>										
Interest income									13,903	11,706
Gain on deemed disposal of an associate									4,530	-
Foreign exchange differences, net									(711)	1,352
Finance costs									(7,778)	(9,396)
Share of profits and losses of associates									1,561	1,371
Profit before tax									94,674	47,733

## Notes to Financial Statements

31 December 2013

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

	Software development and systems integration for media business		Software development and systems integration for non-media business		Others		Total	
	2013	2012	2013	2012	2013	2012	2013	2012
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Segment assets</b>	<b>799,626</b>	660,631	<b>125,972</b>	317,254	<b>155,301</b>	121,805	<b>1,080,899</b>	1,099,690
<i>Reconciliation:</i>								
Elimination of intersegment receivables							(52,280)	(54,109)
Investments in associates							6,831	17,995
Corporate and other unallocated assets							573,882	442,260
Total assets							<b>1,609,332</b>	1,505,836
<b>Segment liabilities</b>	<b>450,837</b>	442,634	<b>15,262</b>	100,044	<b>10,530</b>	10,534	<b>476,629</b>	553,212
<i>Reconciliation:</i>								
Elimination of intersegment payables							(52,280)	(54,109)
Corporate and other unallocated liabilities							234,712	232,510
Total liabilities							<b>659,061</b>	731,613
<b>Other segment information:</b>								
Depreciation and amortisation	13,942	10,153	1,356	1,168	2	12	15,300	11,333
Capital expenditure*	7,651	13,786	36	-	4	-	7,691	13,786

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



## Notes to Financial Statements

31 December 2013

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

#### Geographical information

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

	2013 HK\$'000	2012 HK\$'000
Hong Kong	385,428	1,114,286
Mainland China	905,571	1,016,387
Others	16	80
	<b>1,291,015</b>	<b>2,130,753</b>

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

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

	2013 HK\$'000	2012 HK\$'000
Hong Kong	155,322	121,788
Mainland China	263,557	201,984
Others	22,005	17,995
	<b>440,884</b>	<b>341,767</b>

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

#### Information about a major customer

Revenue of approximately HK\$108,683,000 (2012: HK\$499,594,000) was derived from sales by the software development and systems integration for non-media business segment to a single customer.

## Notes to Financial Statements

31 December 2013

### 5. REVENUE, OTHER INCOME AND GAINS

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

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

	Notes	2013 HK\$'000	2012 HK\$'000
Revenue			
Software development and systems integration		1,290,629	2,130,398
Others		386	355
		<b>1,291,015</b>	<b>2,130,753</b>
Other income			
Bank interest income		3,146	3,483
Other interest income		10,634	8,223
Interest income on finance lease receivables		123	205
Gross rental income		2,778	1,383
Government grants (note a)		56,589	53,381
Others		6,406	5,493
		<b>79,676</b>	<b>72,168</b>
Gains			
Fair value gains on investment properties	14	14,862	7,075
Foreign exchange differences, net		–	1,352
Gain on deemed disposal of an associate	16	4,530	–
Gain on transfer of intellectual properties (note b)		58,934	–
Others		–	83
		<b>78,326</b>	<b>8,510</b>
		<b>158,002</b>	<b>80,678</b>

## Notes to Financial Statements

31 December 2013

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

Notes:

- a. Various government grants have been received for the sale of software approved by the PRC tax authority and the development of software in Mainland China. The government grants have been recognised upon sale of approved software and completion of the development of related software, respectively. There are no unfulfilled conditions or contingencies relating to these grants.
- b. On 18 March 2013, 北大方正集團有限公司 (Peking University Founder Group Company Limited\*) ("Peking Founder") and Beijing Founder Electronics Co., Ltd. ("Founder Electronics") entered into the Intellectual Properties Transfer Agreement with 新奧特(北京)視頻技術有限公司 (China Digital Video (Beijing) Limited\*) ("China Digital Video") to transfer their title and interest in certain patents, patent application rights, trademarks and the software to China Digital Video at an aggregate consideration of RMB101,475,970 (equivalent to approximately HK\$126,845,000), out of which RMB54,975,970 (equivalent to approximately HK\$68,720,000), representing approximately 54.2%, is payable to Founder Electronics.

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

During the year, a gain of HK\$58,934,000 of the above transactions has been recognised in other income and gains in the statement of profit or loss.

\* *For identification purpose only*

## Notes to Financial Statements

31 December 2013

**6. PROFIT BEFORE TAX**

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

	Notes	2013 HK\$'000	2012 HK\$'000
Auditors' remuneration		2,100	1,950
Cost of inventories sold		845,339	1,601,568
Cost of services provided		47,906	68,227
Depreciation	13	14,055	11,220
Amortisation of capitalised software costs*	18	1,245	113
Loss on disposal of items of property, plant and equipment*		281	82
Operating lease rentals in respect of land and buildings		16,874	18,048
Impairment of trade receivables*	21	6,036	6,257
Impairment of others receivables*		1,345	2,904
Reversal of provision for obsolete inventories**		(2,259)	(2,818)
Research and development costs: current year expenditure*		105,316	108,214
Employee benefit expense (including directors' remuneration – note 8):			
Wages and salaries		159,833	177,727
Pension scheme contributions***		26,777	25,490
Equity-settled share option expense		2,397	4,941
		<b>189,007</b>	<b>208,158</b>
Foreign exchange differences, net		711	(1,352)
Direct operating expenses (including repair and maintenance) arising on rental-earning investment properties		681	610

\* These items are included in "Other expenses, net" in the consolidated statement of profit or loss.

\*\* This item is included in "Cost of sales" in the consolidated statement of profit or loss.

\*\*\* At 31 December 2013, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (2012: Nil).

## Notes to Financial Statements

31 December 2013

### 7. FINANCE COSTS

An analysis of finance costs is as follows:

	Group	
	2013	2012
	HK\$'000	HK\$'000
Interest on bank loans and overdrafts	7,778	9,396

### 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	
	2013	2012
	HK\$'000	HK\$'000
Fees	399	396
Other emoluments:		
Salaries, allowances and benefits in kind	2,327	2,066
Performance related bonuses	1,325	2,798
Equity-settled share option expenses	1,020	2,470
Pension scheme contributions	–	3
	4,672	7,337
	5,071	7,733

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 28 to the financial statements. The fair value of such options, which has been recognised in the statement of profit or loss 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.

## Notes to Financial Statements

31 December 2013

**8. DIRECTORS' REMUNERATION** (continued)**(a) Independent non-executive directors**

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

	2013 HK\$'000	2012 HK\$'000
Mr Li Fat Chung	138	138
Ms Wong Lam Kit Yee	129	126
Mr Fung Man Yin, Sammy	132	132
	<b>399</b>	<b>396</b>

There were no other emoluments payable to the independent non-executive directors during the year (2012: Nil).

**(b) Executive directors**

	Salaries, allowances and benefits	Performance related bonuses	Equity-settled share option expenses	Pension scheme contributions	Total remuneration
	Fees HK\$'000	in kind HK\$'000	HK\$'000	HK\$'000	HK\$'000
2013					
Mr Fang Zhong Hua	-	43	-	240	283
Professor Xiao Jian Guo	-	1,363	795	240	2,398
Professor Yang Bin	-	867	530	240	1,637
Ms Yi Mei	-	43	-	240	283
Mr Li Sheng Li <sup>1</sup>	-	-	-	-	-
Ms Liu Yu Xiao <sup>1</sup>	-	-	-	-	-
Mr Liu Xiao Kun <sup>2</sup>	-	11	-	60	71
Mr Wo Fei Yu <sup>2</sup>	-	-	-	-	-
	-	<b>2,327</b>	<b>1,325</b>	<b>1,020</b>	<b>4,672</b>

## Notes to Financial Statements

31 December 2013

### 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 expenses HK\$'000	Pension scheme contributions HK\$'000	Total remuneration HK\$'000
2012						
Mr Fang Zhong Hua	–	–	–	494	–	494
Professor Xiao Jian Guo	–	1,248	689	494	–	2,431
Mr Liu Xiao Kun <sup>2</sup>	–	570	835	494	–	1,899
Professor Yang Bin	–	115	637	494	–	1,246
Ms Yi Mei	–	133	637	494	3	1,267
Mr Wo Fei Yu <sup>2</sup>	–	–	–	–	–	–
	–	2,066	2,798	2,470	3	7,337

<sup>1</sup> Appointed on 2 April 2013

<sup>2</sup> Resigned on 2 April 2013

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

## Notes to Financial Statements

31 December 2013

### 9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two (2012: one) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining three (2012: four) non-director, highest paid employees for the year are as follows:

	Group	
	2013 HK\$'000	2012 HK\$'000
Salaries, allowances and benefits in kind	2,576	1,632
Performance related bonuses	783	5,274
Equity-settled share option expenses	240	–
Pension scheme contributions	152	104
	<b>3,751</b>	7,010

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

	Number of employees	
	2013	2012
HK\$1,000,001 to HK\$1,500,000	3	–
HK\$1,500,001 to HK\$2,000,000	–	4
	<b>3</b>	4



## Notes to Financial Statements

31 December 2013

### 10. INCOME TAX

	2013 HK\$'000	2012 HK\$'000
Group:		
Current – Hong Kong		
Charge for the year	547	237
Under provision in prior years	190	–
Current – Mainland China		
Charge for the year	6,856	6,812
Over provision in prior years	(539)	(3,727)
Deferred (note 26)	1,133	–
Total tax charge for the year	<b>8,187</b>	3,322

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong during the year.

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

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

The share of tax attributable to associates amounting to approximately HK\$210,000 (2012: HK\$492,000) is included in "Share of profits and losses of associates" in the consolidated statement of profit or loss.

## Notes to Financial Statements

31 December 2013

**10. INCOME TAX** (continued)

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

**Group – 2013**

	Hong Kong		Mainland China		Overseas		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
Profit before tax	7,409		81,008		6,257		94,674	
Tax at the statutory tax rate	1,222	16.5	20,252	25.0	1,539	24.6	23,013	24.3
Lower tax rate for specific provinces or enacted by local authority	-	-	(9,282)	(11.5)	-	-	(9,282)	(9.8)
Adjustment in respect of current tax of previous period	190	2.6	(539)	(0.7)	-	-	(349)	(0.4)
Profits and losses attributable to associates	-	-	-	-	(308)	(4.9)	(308)	(0.3)
Income not subject to tax	(2,292)	(30.9)	(11,587)	(14.3)	(143)	(2.3)	(14,022)	(14.8)
Expenses not deductible for tax	527	7.1	5,013	6.2	45	0.7	5,585	5.9
Tax losses not recognised	1,090	14.6	2,460	3.1	-	-	3,550	3.7
Tax charge at the Group's effective rate	737	9.9	6,317	7.8	1,133	18.1	8,187	8.6

## Notes to Financial Statements

31 December 2013

### 10. INCOME TAX *(continued)*

#### Group – 2012

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

### 11. PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

The consolidated profit attributable to owners of the parent for the year ended 31 December 2013 includes a loss of approximately HK\$4,416,000 (2012: a loss of HK\$5,751,000) which has been dealt with in the financial statements of the Company (note 29(b)).

## Notes to Financial Statements

31 December 2013

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

The calculation of basic earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 1,134,348,107 (2012: 1,130,299,893) in issue during the year.

The calculation of diluted earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent as used in the basic earnings per share calculation. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise of all dilutive potential ordinary shares into ordinary shares.

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

	Number of shares	
	2013	2012
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	1,134,348,107	1,130,299,893
Effect of dilution – weighted average number of ordinary shares: share options	15,199,429	–
	<b>1,149,547,536</b>	1,130,299,893

## Notes to Financial Statements

31 December 2013

### 13. PROPERTY, PLANT AND EQUIPMENT

#### Group

	Land and buildings HK\$'000	Leasehold improvements HK\$'000	Furniture, fixtures and office equipment HK\$'000	Machinery and equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
<b>31 December 2013</b>						
At 31 December 2012 and at 1 January 2013:						
Cost or valuation	237,310	11,877	53,854	–	10,768	313,809
Accumulated depreciation	–	(10,747)	(37,643)	–	(8,162)	(56,552)
Net carrying amount	237,310	1,130	16,211	–	2,606	257,257
At 1 January 2013, net of accumulated depreciation	237,310	1,130	16,211	–	2,606	257,257
Additions	–	–	4,790	–	2,901	7,691
Transfer from inventories	–	–	–	4,506	–	4,506
Disposals	–	–	(766)	–	(5)	(771)
Surplus on revaluation	73,230	–	–	–	–	73,230
Depreciation provided during the year	(6,022)	(578)	(5,466)	(1,133)	(856)	(14,055)
Transfers	–	–	(5,026)	5,026	–	–
Exchange realignment	4,608	23	344	122	98	5,195
At 31 December 2013, net of accumulated depreciation	309,126	575	10,087	8,521	4,744	333,053
At 31 December 2013:						
Cost or valuation	309,126	12,028	47,238	9,668	12,035	390,095
Accumulated depreciation	–	(11,453)	(37,151)	(1,147)	(7,291)	(57,042)
Net carrying amount	309,126	575	10,087	8,521	4,744	333,053
Analysis of cost or valuation:						
At cost	–	12,028	47,238	9,668	12,035	80,969
At 31 December 2013 valuation	309,126	–	–	–	–	309,126
	309,126	12,028	47,238	9,668	12,035	390,095

## Notes to Financial Statements

31 December 2013

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

	Land and buildings HK\$'000	Leasehold improvements HK\$'000	Furniture, fixtures and office equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
<b>31 December 2012</b>					
At 1 January 2012:					
Cost or valuation	170,967	11,792	44,250	10,619	237,628
Accumulated depreciation	–	(10,096)	(35,513)	(7,232)	(52,841)
Net carrying amount	170,967	1,696	8,737	3,387	184,787
At 1 January 2012, net of accumulated depreciation	170,967	1,696	8,737	3,387	184,787
Additions	788	–	12,993	5	13,786
Disposals	–	–	(115)	–	(115)
Surplus on revaluation	67,982	–	–	–	67,982
Depreciation provided during the year	(4,180)	(586)	(5,625)	(829)	(11,220)
Exchange realignment	1,753	20	221	43	2,037
At 31 December 2012, net of accumulated depreciation	237,310	1,130	16,211	2,606	257,257
At 31 December 2012:					
Cost or valuation	237,310	11,877	53,854	10,768	313,809
Accumulated depreciation	–	(10,747)	(37,643)	(8,162)	(56,552)
Net carrying amount	237,310	1,130	16,211	2,606	257,257
Analysis of cost or valuation:					
At cost	–	11,877	53,854	10,768	76,499
At 31 December 2012 valuation	237,310	–	–	–	237,310
	237,310	11,877	53,854	10,768	313,809

## Notes to Financial Statements

31 December 2013

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

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

	Hong Kong HK\$'000	Mainland China HK\$'000	Total HK\$'000
Long term leases	–	224,169	224,169
Medium term leases	84,957	–	84,957
	84,957	224,169	309,126

The Group's land and buildings consist of one residential property in the PRC, certain commercial properties and car parking spaces in Hong Kong. The directors of the Company have determined that the land and buildings consist of three classes of asset, i.e., residential, commercial and car parking spaces, based on the nature, characteristics and risks of each property. The Group's land and buildings were revalued individually at the end of the reporting period by LCH (Asia-Pacific) Surveyors Limited, independent professionally qualified valuers, at an aggregate open market value of HK\$309,126,000 based on their existing use. A revaluation surplus of HK\$73,230,000, resulting from the above valuations, has been credited to other comprehensive income. Each year, the Group's management decide to appoint which external valuer to be responsible for the external valuations of the Group's land and buildings. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. The Group's management have discussions with the valuer on the valuation assumptions and valuation results when the valuation is performed for annual financial reporting.

Had these land and buildings been carried at historical cost less accumulated depreciation, their carrying amounts would have been approximately HK\$39,903,000 (2012: HK\$41,394,000).

At 31 December 2013, certain of the Group's land and buildings with a net carrying amount of approximately HK\$80,600,000 (2012: HK\$61,680,000) in Hong Kong were pledged to secure general banking facilities granted to the Group (note 25).

## Notes to Financial Statements

31 December 2013

**13. PROPERTY, PLANT AND EQUIPMENT** *(continued)***Fair value hierarchy**

The following table illustrates the fair value measurement hierarchy of the Group's land and buildings:

	Fair value measurement as at 31 December 2013 using			Total HK\$'000
	Quoted prices in active markets (Level 1) HK\$'000	Significant observable inputs (Level 2) HK\$'000	Significant unobservable inputs (Level 3) HK\$'000	
<b>Recurring fair value measurement for:</b>				
Commercial properties	–	–	80,600	80,600
Residential property	–	–	224,169	224,169
Car parking spaces	–	–	4,357	4,357

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3.

Reconciliation of fair value measurements categorised within Level 3 of the fair value hierarchy:

	Residential property HK\$'000	Commercial properties HK\$'000	Car parking spaces HK\$'000
Carrying amount at 1 January 2013	170,980	61,680	4,650
Net gain/(loss) from a fair value adjustment recognised in other comprehensive income	53,280	20,150	(200)
Depreciation provided during the year	(4,699)	(1,230)	(93)
Exchange realignment	4,608	–	–
Carrying amount at 31 December 2013	224,169	80,600	4,357



## Notes to Financial Statements

31 December 2013

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

Below is a summary of the valuation techniques used and the key inputs to the valuation of land and buildings:

	<b>Valuation techniques</b>	<b>Significant unobservable inputs</b>	<b>Range (weighted average)</b>
	Market approach	Adjustment on market unit price (per s.q.m)	-25% to -40%
Residential property	Income approach	Adjustment on market rental (per s.q.m. and per month) Capitalisation rate	-25% to -40% 1.52% to 1.56%
Commercial properties	Market approach	Adjustment on market unit price (per s.q.m)	-2% to 11%
Car parking spaces	Market approach	Adjustment on market unit price (per s.q.m)	-10% to 0%

Under the market approach, fair value is estimated based on the unit prices of comparable properties with certain adjustments made to reflect the differences in location, neighborhood, environment, facilities, etc.. Comparable properties of similar size, character and location are analysed and carefully weighted against all the respective advantages and disadvantages of each property in order to arrive at a fair comparison of capital values. Physical, location and economical characteristics are important criteria to be analysed when comparing such comparables against the subject properties.

The adjustment on market unit prices is determined by making reference to the differences of the subject properties against the comparables in terms of time, building facilities, floor, view, size, age and the listing nature of the comparables.

A significant increase/(decrease) in the unit prices of comparable in isolation would result in a significant increase/(decrease) in the fair value of the land and buildings. A significant increase/(decrease) in the adjustment to the unit price would result in a significant decrease/(increase) in the fair value of the land and buildings.

Under the income approach, fair value is estimated by capitalising the adjusted market rental income at an adjusted market capitalisation rate. Market rental and market capitalising rate is determined by making reference to market listing price and rental of comparable properties.

## Notes to Financial Statements

31 December 2013

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

The adjustment on market rental is determined by making reference to the differences of the subject property against the comparables in terms of building facilities, size, age and the listing nature of the comparables. The adjustment on market capitalising rate is determined by reference to the class of comparable properties and the land and buildings.

A significant increase/(decrease) in market rental in isolation would result in a significant increase/(decrease) in the fair value of the land and buildings. A significant increase/(decrease) in the adjustment to the market rental would result in a significant decrease/(increase) in the fair value of the land and buildings. A significant increase/(decrease) in the capitalisation rate in isolation would result in a significant decrease/(increase) in the fair value of the land and buildings. A significant increase/(decrease) in the adjustment to the capitalisation rate in isolation would result in a significant decrease/(increase) in the fair value of the land and buildings.

### 14. INVESTMENT PROPERTIES

	Group	
	2013	2012
	HK\$'000	HK\$'000
Carrying amount at 1 January	55,430	48,355
Net gain from a fair value adjustment (note 5)	14,862	7,075
Carrying amount at 31 December	70,292	55,430

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

The Group's investment properties consist of certain commercial, residential properties and car parking spaces in Hong Kong. The directors of the Company have determined that the investment properties consist of three classes of asset, i.e., commercial, residential and car parking spaces based on the nature, characteristics and risks of each property. The Group's investment properties were revalued on 31 December 2013 based on valuations performed by LCH (Asia-Pacific) Surveyors Limited, independent professionally qualified valuers, at HK\$70,292,000. Each year, the Group's management decide to appoint which external valuer to be responsible for the external valuations of the Group's investment properties. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. The Group's management have discussions with the valuer on the valuation assumptions and valuation results when the valuation is performed for annual financial reporting.

## Notes to Financial Statements

31 December 2013

### 14. INVESTMENT PROPERTIES *(continued)*

The investment properties are leased to third parties under operating leases, further summary details of which are included in note 31(a) to the financial statements.

At 31 December 2013, certain of the Group's investment properties with a carrying value of approximately HK\$68,839,000 (2012: HK\$53,880,000) were pledged to secure general banking facilities granted to the Group (note 25).

Further particulars of the Group's investment properties are included on pages 130 to 131 of the annual report.

#### Fair value hierarchy

The following table illustrates the fair value measurement hierarchy of the Group's investment properties:

	Fair value measurement as at 31 December 2013 using			Total HK\$'000
	Quoted prices in active markets (Level 1) HK\$'000	Significant observable inputs (Level 2) HK\$'000	Significant unobservable inputs (Level 3) HK\$'000	
<b>Recurring fair value measurement for:</b>				
Commercial properties	–	–	54,089	54,089
Residential properties	–	–	14,290	14,290
Car parking spaces	–	–	1,913	1,913

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3.

Reconciliation of fair value measurements categorised within Level 3 of the fair value hierarchy:

	Commercial properties HK\$'000	Residential properties HK\$'000	Car parking spaces HK\$'000
Carrying amount at 1 January 2013	40,570	12,840	2,020
Net gain/(loss) from a fair value adjustment recognised in other income and gains in profit or loss	13,519	1,450	(107)
Carrying amount at 31 December 2013	54,089	14,290	1,913

## Notes to Financial Statements

31 December 2013

### 14. INVESTMENT PROPERTIES *(continued)*

Below is a summary of the valuation techniques used and the key inputs to the valuation of investment properties:

	Valuation techniques	Significant unobservable inputs	Range
Commercial properties	Investment approach	Adjustment on market unit price (per s.q.m)	-2% to 11%
		Adopted yield	2.3% to 2.8%
Residential properties	Investment approach	Adjustment on market unit price (per s.q.m)	-9% to 9%
		Adopted yield	1.9% to 3.0%
Car parking spaces	Investment approach	Adjustment on market unit price (per s.q.m)	-2% to -3%
		Adopted yield	2.8% to 4.8%

Under the investment approach, fair value is estimated by capitalising the current rental income and the reversionary value of the properties after tenancies expire by reference to market sales transactions by making relevant adjustments.

The adjustment on market unit price is determined by making reference to the differences of the subject properties against the comparables in terms of time, size, view, floor and floor loading. The yields adopted are determined by reference to the current yields of the subject properties and the market yields published by the Rating and Valuation Department regarding the respective property types.

A significant increase/(decrease) in market unit price in isolation would result in a significant increase/(decrease) in the fair value of the investment properties. A significant increase/(decrease) in the adjustment to the market unit price would result in a significant change in the fair value of the investment properties. A significant increase/(decrease) in the yield in isolation would result in a significant decrease/(increase) in the fair value of the investment properties.

## Notes to Financial Statements

31 December 2013

### 15. INVESTMENTS IN SUBSIDIARIES

	Company	
	2013 HK\$'000	2012 HK\$'000
Unlisted shares, at cost	559,088	559,088

The amount due to a subsidiary included in the Company's non-current liability is unsecured, interest-free and not repayable within one year.

As at 31 December 2013, the particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Founder (Hong Kong) Limited ("Founder HK")	Hong Kong	Ordinary HK\$110,879,989	100	–	Systems integration and investment holding
Founder Electronics**	PRC/Mainland China	Registered HK\$230 million	–	100	Software development and systems integration
北京方正印捷數碼技術 有限公司 (Beijing Founder EasiPrint Digital Technology Co., Ltd.®) ("Founder EasiPrint")**	PRC/Mainland China	Registered RMB10 million	–	100	Software development and systems integration
北京方正數字印刷技術 有限公司 (Beijing Founder Digital Printing Technology Co., Ltd.®)**	PRC/Mainland China	Registered RMB5 million	–	100	Software development and systems Integration

## Notes to Financial Statements

31 December 2013

### 15. INVESTMENTS IN SUBSIDIARIES *(continued)*

As at 31 December 2013, the particulars of the principal subsidiaries are as follows: *(continued)*

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 Electronics (HK) Limited	Hong Kong	Ordinary HK\$2	–	100	Systems integration
Sparkling Idea Limited*	British Virgin Islands/ Hong Kong	Ordinary US\$1	–	100	Investment holding
Royal Bright Limited	Hong Kong	Ordinary HK\$2	–	100	Property holding
Royal Leader Limited	Hong Kong	Ordinary HK\$2	–	100	Property holding
Royal Power Limited	Hong Kong	Ordinary HK\$2	–	100	Property holding
Sharp Century Limited	Hong Kong	Ordinary HK\$2	–	100	Property holding
PUC Founder (M) Sdn. Bhd.*	Malaysia	Ordinary RM500,000	–	100	Investment holding

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

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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.

## Notes to Financial Statements

31 December 2013

### 16. INVESTMENTS IN ASSOCIATES

	Group	
	2013 HK\$'000	2012 HK\$'000
Share of net assets	6,800	17,958
Due from associates	31	37
	<b>6,831</b>	17,995

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

In the opinion of the directors, none of the Group's associates principally affected the results for the year or formed a substantial portion of the net assets of the Group.

On 31 December 2013, PUC Founder (MSC) Berhad ("PUC Founder (MSC)"), a then associate of the Group listed on ACE Market of Bursa Malaysia Securities Berhad, issued 750,000,000 new shares to a new investor. Accordingly, the percentage of equity interest in PUC Founder (MSC) owned by the Group was diluted from 28.36% to 3.19%. In addition, the composition of the board of directors of PUC Founder (MSC) was restructured after the issuance of the new shares. As a result, the directors of the Company considered that the Group could no longer exercise significant influence over PUC Founder (MSC). The investment in PUC Founder (MSC) was reclassified as available-for-sale investments (note 17). A gain on deemed disposal of approximately HK\$4,530,000 was recognised in other income in the consolidated statement of profit or loss during the year. The gain was the difference between the fair value of the retained 3.19% equity interest of PUC Founder (MSC) and the carrying amount of PUC Founder (MSC) at the date when significant influence was lost, plus the currency translation differences associated in PUC Founder (MSC) previously recognised in other comprehensive income.

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

The following table illustrates the aggregate financial information of the Group's associates that are not individually material:

	2013 HK\$'000	2012 HK\$'000
Share of the associates' profit for the year	1,561	1,371
Share of the associates' other comprehensive income/(loss)	(794)	138
Share of the associates' total comprehensive income	767	1,509
Aggregate carrying amount of the Group's investments in the associates	<b>6,831</b>	17,995

## Notes to Financial Statements

31 December 2013

**17. AVAILABLE-FOR-SALE INVESTMENTS**

	Group	
	2013 HK\$'000	2012 HK\$'000
Listed equity investments, at fair value:		
Malaysia	15,860	–

During the year, the gross gain in respect of the Group's available-for-sale investments recognised in other comprehensive income amounted to nil (2012: Nil).

**18. CAPITALISED SOFTWARE COSTS**

	Group 2013 HK\$'000
<b>31 December 2013</b>	
Cost at 31 December 2012 and 1 January 2013, net of accumulated depreciation	2,917
Addition	5,896
Amortisation provided during the year	(1,245)
Exchange realignment	64
At 31 December 2013	7,632
At 31 December 2013:	
Cost	9,011
Accumulated amortisation	(1,379)
Net carrying amount	7,632



## Notes to Financial Statements

31 December 2013

### 18. CAPITALISED SOFTWARE COSTS *(continued)*

	Group 2012 HK\$'000
<b>31 December 2012</b>	
Addition	2,997
Amortisation provided during the year	(113)
Exchange realignment	33
	<hr/>
At 31 December 2012	2,917
	<hr/>
At 31 December 2012:	
Cost	3,032
Accumulated amortisation	(115)
	<hr/>
Net carrying amount	2,917
	<hr/>

During the years ended 31 December 2013 and 2012, capitalised software costs were related to development expenditure on printing software.

### 19. INVENTORIES

	Group	
	2013 HK\$'000	2012 HK\$'000
Trading stocks	<b>49,979</b>	40,976

## Notes to Financial Statements

31 December 2013

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

	Group	
	2013 HK\$'000	2012 HK\$'000
Gross amount due from contract customers	11,496	17,061
Gross amount due to contract customers	(9,882)	(9,639)
	<b>1,614</b>	7,422
Contract costs incurred plus recognised profits less recognised losses to date	70,921	163,196
Less: Progress billings	(69,307)	(155,774)
	<b>1,614</b>	7,422

### 21. TRADE AND BILLS RECEIVABLES

	Group	
	2013 HK\$'000	2012 HK\$'000
Trade and bills receivables	246,112	472,671
Impairment	(28,025)	(25,328)
	<b>218,087</b>	447,343

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. Trade and bills receivables are settled in accordance with the terms of the respective contracts. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade and bills receivable balances. Trade and bills receivables are non-interest-bearing.

## Notes to Financial Statements

31 December 2013

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

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

	Group	
	2013 HK\$'000	2012 HK\$'000
Within 6 months	187,485	403,131
7 to 12 months	9,956	19,905
13 to 24 months	20,646	24,307
	<b>218,087</b>	<b>447,343</b>

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

	Group	
	2013 HK\$'000	2012 HK\$'000
At 1 January	25,328	18,827
Impairment losses recognised (note 6)	6,036	6,257
Amount written off as uncollectible	(3,963)	–
Exchange realignment	624	244
At 31 December	<b>28,025</b>	<b>25,328</b>

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of approximately HK\$5,288,000 (2012: HK\$2,432,000) with a carrying amount before provision of approximately HK\$5,288,000 (2012: HK\$2,432,000). The individually impaired trade receivables relate to customers that were in financial difficulties and the full amount of the receivables is expected to be irrecoverable.

## Notes to Financial Statements

31 December 2013

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

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

	Group	
	2013	2012
	HK\$'000	HK\$'000
Neither past due nor impaired	42,712	41,300
Less than 6 months past due	100,655	307,696
7 to 12 months past due	–	752
13 to 24 months past due	–	11,577
	<b>143,367</b>	<b>361,325</b>

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

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

Included in the Group's trade and bills receivables are amounts due from subsidiaries of Peking Founder of approximately HK\$497,000 (2012: HK\$1,980,000) and from a subsidiary of Peking University Resources (Holdings) Company Limited ("PKU Resources") (formally known as EC-Founder (Holdings) Company Limited) of approximately HK\$6,938,000 (2012: HK\$14,725,000), which are repayable on similar credit terms to those offered by the related companies to their major customers.

## Notes to Financial Statements

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### 22. FINANCE LEASE RECEIVABLES

	2013 HK\$'000	2012 HK\$'000
Current finance lease receivables	1,946	1,625
Non-current finance lease receivables	7,216	8,168
	<b>9,162</b>	<b>9,793</b>

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

As at 31 December 2013, the total minimum lease payment receivables under the finance lease and their present values were as follows:

	Minimum lease payments		Present value of minimum lease payments	
	2013 HK\$'000	2012 HK\$'000	2013 HK\$'000	2012 HK\$'000
Amounts receivable:				
Not later than one year	2,046	1,992	1,946	1,625
Later than one year and not later than five years	7,380	7,968	7,216	7,187
Above five years	-	996	-	981
	<b>9,426</b>	10,956	<b>9,162</b>	9,793
Less: unearned finance income	<b>(264)</b>	(1,163)		
Total net finance lease receivables	<b>9,162</b>	9,793		

The average effective interest rate contracted is approximately 1.2% per annum.

## Notes to Financial Statements

31 December 2013

**23. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS**

Note	Group		Company	
	2013 HK\$'000	2012 HK\$'000	2013 HK\$'000	2012 HK\$'000
Cash and bank balances	531,166	290,355	1,410	730
Time deposits	42,141	151,606	–	–
	<b>573,307</b>	441,961	<b>1,410</b>	730
Less: Pledged time deposits	25 (11,859)	(12,006)	–	–
Cash and cash equivalents	<b>561,448</b>	429,955	<b>1,410</b>	730

At the end of the reporting period, the cash and cash equivalents of the Group denominated in RMB amounted to approximately HK\$374,095,000 (2012: HK\$256,771,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between seven days and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

As at 31 December 2012, included in the Group's cash and cash equivalents were time deposits and cash and bank balances of approximately HK\$54,966,000 and HK\$686,000, respectively, placed in PKU Founder Group Finance Co., Ltd. ("Founder Finance"), a financial institution approved by the People's Bank of China (the "PBOC"). Founder Finance is a subsidiary of Peking Founder. The interest rates for these deposits were the prevailing saving rates offered by the PBOC.

## Notes to Financial Statements

31 December 2013

### 24. TRADE AND BILLS PAYABLES

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

	Group	
	2013	2012
	HK\$'000	HK\$'000
Within 6 months	91,684	164,242
7 to 12 months	3,207	7,936
13 to 24 months	3,112	5,690
Over 24 months	8,591	8,032
	<b>106,594</b>	185,900

Included in the Group's trade and bills payables are amounts due to subsidiaries of Peking Founder of approximately HK\$1,260,000 (2012: HK\$5,101,000) and to a subsidiary of PKU Resources of nil (2012: HK\$873,000), which are repayable on similar credit terms to those offered by the related companies to their major customers.

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

## Notes to Financial Statements

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## 25. INTEREST-BEARING BANK BORROWINGS

Group	2013			2012		
	Effective interest rate (%)	Maturity	HK\$'000	Effective interest rate (%)	Maturity	HK\$'000
<b>Current</b>						
Bank overdrafts – secured	2.32-2.35	On demand	4,045	–	–	–
Bank loans – unsecured	1.74-6.30	2014	111,673	1.76-5.88	2013	37,560
Bank loans – secured	3.18-3.35	On demand	40,000	3.35-3.36	2013	21,900
Trust receipt loans – secured	1.75-3.21	2014	75,296	1.76-3.15	2013	170,347
			<u>231,014</u>			<u>229,807</u>

Analysed into:

Bank loans repayable:

Within one year or on demand

Group	
2013 HK\$'000	2012 HK\$'000
<u>231,014</u>	<u>229,807</u>



## Notes to Financial Statements

31 December 2013

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

Notes:

- (a) The unsecured bank loans of approximately HK\$110,173,000 (2012: HK\$34,860,000) were guaranteed by Peking Founder. The unsecured bank loan of approximately HK\$1,500,000 (2012: HK\$2,700,000) was guaranteed by the Company and the Government of the Hong Kong Special Administrative Region under the SME Loan Guarantee Scheme.
- (b) The Group's trade finance facilities, secured bank loans and overdrafts at the end of the reporting period were secured by:
  - (i) charges over certain of the Group's investment properties which had an aggregate carrying value at the end of the reporting period of approximately HK\$68,839,000 (2012: HK\$53,880,000);
  - (ii) charges over certain of the Group's land and buildings which had an aggregate carrying value at the end of the reporting period of approximately HK\$80,600,000 (2012: HK\$61,680,000);
  - (iii) the pledge of certain of the Group's time deposits amounting to approximately HK\$11,859,000 (2012: HK\$12,006,000); and
  - (iv) the guarantees by the Company and the Government of the Hong Kong Special Administrative Region under the SME Loan Guarantee Scheme.
- (c) The Group's bank borrowings with carrying amounts of HK\$45,545,000 (2012: HK\$24,600,000), HK\$73,381,000 (2012: HK\$170,347,000), HK\$1,915,000 (2012: Nil) and HK\$110,173,000 (2012: HK\$34,860,000) were denominated in Hong Kong dollars, United States dollars, Great Britain Sterling Pound and RMB, respectively.
- (d) The carrying amounts of the Group's borrowings approximate to their fair values.

## Notes to Financial Statements

31 December 2013

**26. DEFERRED TAX****Deferred tax liabilities****Group**

	Fair value adjustment on deemed disposal of associate HK\$'000	Revaluation of properties HK\$'000	Total HK\$'000
At 1 January 2012	–	10,110	10,110
Deferred tax debited to equity during the year	–	13,211	13,211
Exchange realignment	–	156	156
Gross deferred tax liabilities at 31 December 2012 and 1 January 2013	–	<b>23,477</b>	<b>23,477</b>
Deferred tax charged to the statement of profit or loss (note 10)	<b>1,133</b>	–	<b>1,133</b>
Deferred tax debited to equity during the year	–	<b>7,339</b>	<b>7,339</b>
Exchange realignment	<b>(50)</b>	<b>641</b>	<b>591</b>
Gross deferred tax liabilities at 31 December 2013	<b>1,083</b>	<b>31,457</b>	<b>32,540</b>

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

	Group	
	2013 HK\$'000	2012 HK\$'000
Depreciation allowances in excess of related depreciation	<b>(26,704)</b>	(18,889)
Tax losses	<b>325,732</b>	307,337
Impairment of trade receivables	<b>3,675</b>	2,212
	<b>302,703</b>	290,660

## Notes to Financial Statements

31 December 2013

### 26. DEFERRED TAX *(continued)*

The Group has tax losses arising in Hong Kong of approximately HK\$296,571,000 (2012: HK\$290,184,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. The Group also has tax losses arising in Mainland China of HK\$29,161,000 (2012: HK\$17,153,000) that will expire in one to five years for offsetting against future taxable profits. Deferred tax assets have not been recognised in respect of these losses and other deductible temporary differences as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

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

At 31 December 2013, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totaled approximately HK\$250,997,000 at 31 December 2013 (2012: HK\$170,397,000).

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

### 27. SHARE CAPITAL

	2013 HK\$'000	2012 HK\$'000
Authorised:		
2,100,000,000 (2012: 2,100,000,000) ordinary shares of HK\$0.10 each	210,000	210,000
Issued and fully paid:		
1,159,851,853 (2012: 1,130,299,893) ordinary shares of HK\$0.10 each	115,985	113,030

## Notes to Financial Statements

31 December 2013

### 27. SHARE CAPITAL *(continued)*

Note: During the year, the movement in share capital was due to the subscription rights attaching to 29,551,960 share options were exercised at the subscription price of HK\$0.296 per share (note 28), resulting in the issue of 29,551,960 shares of HK\$0.10 each for a total cash consideration, before expenses, of HK\$8,747,380. An amount of HK\$2,516,000 was transferred from the employee share-based compensation reserve to the share premium account upon the exercise of the share options.

### 28. SHARE OPTION SCHEME

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

The purpose of the Scheme is to recognise and acknowledge the contributions or potential contributions made or to be made by the participants to the Group, to motivate the participants to optimise their performance and efficiency for the benefit of the Group, and to maintain or attract business relationships with participants whose contributions are or may be beneficial to the growth of the Group. Eligible participants of the Scheme include (i) any part-time or full-time employee or officer of any member of the Group or of any substantial shareholder of the Company or of any associated company of the Company; (ii) any substantial shareholder of the Company; (iii) the chief executive or director (executive, non-executive or independent non-executive) of any member of the Group or of any substantial shareholder of the Company or of any associated company of the Company; and (iv) any supplier, agent, customer, partner or business associate of, or adviser or consultant to any member of the Group. The Scheme became effective on 24 May 2002 and has expired on 23 May 2012, after 10 years from the effective date, and no further options has been granted since the expiry date. However, the options granted under the Scheme continue to be valid and exercisable in accordance with the terms of issue and in all other respects, its provisions shall remain in full force and effect.

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.

## Notes to Financial Statements

31 December 2013

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

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

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

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

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

	2013		2012	
	Weighted average exercise price HK\$ per share	Number of options '000	Weighted average exercise price HK\$ per share	Number of options '000
At 1 January	0.296	73,880	0.296	73,880
Exercised during the year	0.296	(29,552)	-	-
At 31 December	0.296	44,328	0.296	73,880

On 17 November 2011, a total of 73,879,900 share options were granted to certain directors and employees of the Group in respect of their services to the Group (the "2011 Options"). The 2011 Options have an exercise price of HK\$0.296 per share. The closing price of the Company's share at the date of grant was HK\$0.295 per share.

The weighted average share price at the date of exercise for share options exercised during the year was HK\$0.44 per share (2012: No share options were exercised).

## Notes to Financial Statements

31 December 2013

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

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

#### 2013

Number of options '000	Exercise price <i>(Note 1)</i> HK\$ per share	Exercise period <i>(Note 2)</i>
44,328	0.296	17.11.2013 to 16.11.2014

#### 2012

Number of options '000	Exercise price <i>(Note 1)</i> HK\$ per share	Exercise period <i>(Note 2)</i>
73,880	0.296	17.11.2012 to 16.11.2014

#### Notes:

1. The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.
2. The 2011 Options are exercisable in the following two tranches:
  - (i) First 40% of the 2011 Options are exercisable from 17 November 2012 to 16 November 2013; and
  - (ii) The remaining 60% of the 2011 Options are exercisable from 17 November 2013 to 16 November 2014.

The fair value of the 2011 Options at the date of grant was HK\$8,009,000 (HK\$0.11 each) of which the Group recognised a share option expense of HK\$2,397,000 (2012: HK\$4,941,000) during the year ended 31 December 2013.

At the end of the reporting period, the Company had 44,327,940 share options outstanding under the Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 44,327,940 additional ordinary shares of the Company and additional share capital of approximately HK\$4,433,000 and share premium of approximately HK\$8,688,000 (before issue expenses).

At the date of approval of these financial statements, the Company had 35,462,340 share options outstanding under the Scheme, which represented approximately 3.0% of the Company's shares in issue as at that date.

## Notes to Financial Statements

31 December 2013

### 29. RESERVES

#### (a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 33 and 34 of the financial statements.

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

In 2012, the capital reserve of the Group arose from the increase in the non-distributable reserve of an associate.

In accordance with the relevant PRC regulations, each of the Group's PRC subsidiaries is required to transfer not less than 10% of its profit after tax, as determined in accordance with PRC accounting standards and regulations, to the general reserve until such reserve reaches 50% of its registered capital. The quantum of the annual transfer is subject to the approval of the board of directors of each PRC subsidiary in accordance with its articles of association. During the year, certain of the Group's PRC subsidiaries transferred HK\$9,078,000, which represented 10% of their profit after tax as determined in accordance with the PRC accounting standards, to the general reserve.

## Notes to Financial Statements

31 December 2013

**29. RESERVES** (continued)**(b) Company**

	Share premium account HK\$'000	Contributed surplus HK\$'000	Employee share-based compensation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2012	32,470	448,209	657	(241,135)	240,201
Total comprehensive loss for the year	–	–	–	(5,751)	(5,751)
Equity-settled share option arrangements	–	–	4,941	–	4,941
At 31 December 2012	<b>32,470</b>	<b>448,209</b>	<b>5,598</b>	<b>(246,886)</b>	<b>239,391</b>
Total comprehensive loss for the year	–	–	–	(4,416)	(4,416)
Issue of shares	<b>8,308</b>	–	(2,516)	–	<b>5,792</b>
Equity-settled share option arrangements	–	–	<b>2,397</b>	–	<b>2,397</b>
At 31 December 2013	<b>40,778</b>	<b>448,209</b>	<b>5,479</b>	<b>(251,302)</b>	<b>243,164</b>

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

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



## Notes to Financial Statements

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### 30. CONTINGENT LIABILITIES

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

	Company	
	2013 HK\$'000	2012 HK\$'000
Guarantees given to banks in connection with facilities granted to subsidiaries	416,850	364,860

As at 31 December 2013, the banking facilities granted to the subsidiaries subject to guarantees given to the banks by the Company were utilised to the extent of approximately HK\$237,118,000 (2012: HK\$201,389,000).

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

### 31. OPERATING LEASE ARRANGEMENTS

#### (a) As lessor

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

At 31 December 2013, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2013 HK\$'000	2012 HK\$'000
Within one year	1,764	1,671
In the second to fifth years, inclusive	951	1,839
	2,715	3,510

## Notes to Financial Statements

31 December 2013

### 31. OPERATING LEASE ARRANGEMENTS *(continued)*

#### (a) As lessor *(continued)*

The Group leases certain of its machinery and equipment under operating lease arrangements, with lease negotiated for terms of three to five years.

At 31 December 2013, the Group had total future minimum lease receivables under non-cancellable operating leases as follows:

	Group	
	2013 HK\$'000	2012 HK\$'000
Within one year	1,074	–
In the second to fifth years, inclusive	3,070	–
	<b>4,144</b>	–

#### (b) As lessee

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

At 31 December 2013, the Group had total future minimum lease payments under the non-cancellable operating leases falling due as follows:

	Group	
	2013 HK\$'000	2012 HK\$'000
Within one year	21,812	20,947
In the second to fifth years, inclusive	2,691	19,106
	<b>24,503</b>	40,053

## Notes to Financial Statements

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### 32. RELATED PARTY TRANSACTIONS

#### (I) Transactions with related parties

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

	Notes	Group	
		2013 HK\$'000	2012 HK\$'000
Management fee income received from PKU Resources and its subsidiary	(i)	1,209	1,058
Management fee income received from a company, in which a 11.65% (2011: 11.65%) equity interest was held by Peking Founder	(i)	–	170
Service fee paid to Peking University Founder Information Industry Group Co., Ltd. ("PKU Founder Information"), a substantial shareholder of the Company	(ii)	2,892	–
Banking facilities guarantees given by Peking Founder	(iii)	191,850	44,235

Notes:

- (i) These transactions were conducted on the basis of rates agreed between the Group and the related companies.
- (ii) The sharing of administrative services fee between the Group and PKU Founder Information was conducted on a cost basis.
- (iii) The banking facilities guarantees were given to PRC banks for credit facilities granted to subsidiaries of the Company and utilised to the extent of approximately HK\$113,613,000 at 31 December 2013 (2012: HK\$44,235,000).
- (b) On 1 November 2011, Founder Electronics and Founder EasiPrint entered into lease agreements and management agreements with a subsidiary of Peking Founder to lease certain premises in Beijing, the PRC, for a term of three years from 1 January 2012 to 31 December 2014, for the aggregate of annual rental and management fees of RMB6,900,000 and RMB4,845,000 (equivalent to approximately HK\$8,713,000 and HK\$6,118,000).

## Notes to Financial Statements

31 December 2013

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

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

##### (b) *(continued)*

On 1 March 2013, Founder EasiPrint entered into a supplemental agreement with the subsidiary of Peking Founder to revise the annual rental and management fee for the period from 1 March 2013 to 31 December 2014. The aggregate amounts of annual rental and management fee were revised to RMB6,463,000 and RMB4,593,000 (equivalent to approximately HK\$8,161,000 and HK\$5,800,000).

During the year, rental and management fees of approximately HK\$14,106,000 (2012: HK\$14,451,000) were paid by Founder Electronics and Founder EasiPrint to a subsidiary of Peking Founder. The directors consider that the rental and management fees were paid in accordance with the terms of the lease agreement.

- (c) On 29 August 2011, the Company entered into a master agreement with PKU Resources to govern the purchase of information products from PKU Resources and its subsidiaries (collectively "PKU Resources Group") for a term of three years from 1 January 2011 to 31 December 2013.

On 9 December 2013, the Company renewed the master agreement with PKU Resources, pursuant to which the Group would purchase information products from PKU Resources Group, for the three years ending 31 December 2016. Further details of the transaction were set out in the announcement of the Company dated 9 December 2013.

During the year, information products in the amount of approximately HK\$1,503,000 (2012: HK\$6,664,000) were purchased from PKU Resources Group. The directors consider that the purchase of information products were made in accordance with the master agreement.

- (d) On 29 August 2011, the Company entered into a HP Master Agreement with PKU Resources to govern the sales of HP products to PKU Resources Group for a term of three years from 1 January 2011 to 31 December 2013.

During the year, sales of HP products of approximately HK\$108,677,000 (2012: HK\$131,787,000) were made to PKU Resources Group and commission fee of approximately HK\$326,000 (2012: HK\$395,000) was received from PKU Resources Group. The directors consider that the sales of HP products and commission fee were made in accordance with the HP Master Agreement.

- (e) On 1 November 2011, the Company entered into a master agreement with Peking Founder for the purchase of information products and research and development services from Peking Founder Group for a term of three years from 1 January 2012 to 31 December 2014.

During the year, products and services of approximately HK\$3,317,000 (2012: HK\$2,063,000) were purchased from Peking Founder Group. The directors consider that the purchase of products and services were made in accordance with the master agreements.

## Notes to Financial Statements

31 December 2013

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

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

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

On 14 December 2012, the Company entered into a new master agreement with Peking Founder for the sales of information products to Peking Founder Group for a term of three years from 1 January 2013 to 31 December 2015.

During the year, sales of information products of approximately HK\$19,370,000 (2012: HK\$132,907,000) were made to Peking Founder Group and commission fee of approximately HK\$58,000 (2012: HK\$399,000) was received from Peking Founder Group. The directors consider that the sales of information products and commission fee were made in accordance with the master agreement.

- (g) On 1 November 2011, the Company renewed an entrusted loan master agreement entered with Peking Founder on 15 July 2009, pursuant to which the Group would provide short term loans through a financial institution to Peking Founder Group for the three years ending 31 December 2014. Such loans will be unsecured and interest-bearing at the prevailing benchmark Renminbi lending rate for loan period of six months offered by the PBOC plus 15%.

For the year ended 31 December 2012, entrusted loans in the amount of RMB200,000,000 (equivalent to approximately HK\$249,000,000) were provided to Peking Founder Group. The entrusted loans were unsecured and bore interest at rates ranging from 6.44% to 7.02% per annum, and were settled by 7 July 2012 as to the amount of RMB100,000,000 (equivalent to approximately HK\$124,500,000). The entrusted loan of RMB100,000,000 (equivalent to approximately HK\$124,500,000) and the related interest receivable of HK\$3,653,000 remained undue and were included in prepayments, deposits and other receivables as at 31 December 2012, and were fully settled by 18 January 2013.

For the year ended 31 December 2013, entrusted loans in the amount of RMB330,000,000 (equivalent to approximately HK\$422,070,000) were provided to Peking Founder Group. The entrusted loans were unsecured and bore interest at rate 6.44% per annum, and were settled by 27 August 2013 as to the amount of RMB100,000,000 (equivalent to approximately HK\$127,900,000) and 21 December 2013 as to the amount of RMB50,000,000 (equivalent to approximately HK\$63,950,000). The entrusted loans of RMB180,000,000 (equivalent to approximately HK\$230,220,000) and the related interest receivable of RMB3,235,000 (equivalent to approximately HK\$4,137,000) remained undue and were included in prepayments, deposits and other receivables as at 31 December 2013. Subsequent to the end of the reporting period, the entrusted loans of RMB140,000,000 (equivalent to approximately HK\$179,060,000) and interest receivables of RMB3,156,000 (equivalent to approximately HK\$4,036,000) were settled by Peking Founder Group.

## Notes to Financial Statements

31 December 2013

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

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

(g) *(continued)*

During the year, interest income earned by the Group from Peking Founder Group amounted to HK\$10,730,000 (2012: HK\$8,223,000). The directors consider that the provision of entrusted loans to and the receipt of interest income from Peking Founder Group was made in accordance with the Entrusted Loan Master Agreement.

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

As at 31 December 2013, the Group made deposits of nil (2012: HK\$55,652,000) in Founder Finance. During the year ended 31 December 2013, the Group earned interest income of approximately HK\$793,000 (2012: HK\$1,169,000). The interest rates on the deposits offered by Founder Finance were the prevailing interest rates offered by the PBOC. The directors consider that the deposit service was provided in accordance with the financial service agreement.

(i) On 7 December 2012, the Company entered into a Master Sales Agreement with PKU Resources, pursuant to which the Group would provide PKU Resources Group with the information products developed by the Group, the systems integration products and the related services on a non-exclusive basis, from the date of the agreement to 31 December 2014.

The Group did not provide any information products, systems integration products or related services to PKU Resources Group during the reporting periods.

(j) On 18 March 2013, Peking Founder and Founder Electronics entered into the Intellectual Properties Transfer Agreement with China Digital Video to transfer their title and interest in certain patents, patent application rights, trademarks and the software to China Digital Video. On the same date, Peking Founder, Founder Electronics, Peking University entered into the Patents License Agreement with China Digital Video to grant certain exclusive rights to use the patents and patent application rights for the entire validity period to China Digital Video. Further details of the transactions were set out in the announcement of the Company dated 18 March 2013 and the circular of the Company dated 16 April 2013.

## Notes to Financial Statements

31 December 2013

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

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

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

#### (II) Outstanding balances with related parties

- (a) As at 31 December 2013, other than the entrusted loan receivables from Peking Founder Group as disclosed in note 31(I)(g) to the financial statements, balances due from Peking Founder Group included in prepayments, deposits and other receivables were approximately HK\$9,558,000 (2012: HK\$17,493,000) and balances due to Peking Founder Group included in other payables and accruals were approximately HK\$25,905,000 (2012: HK\$31,011,000). These balances are unsecured, interest-free and have no fixed terms of repayment.
- (b) The balances due from PKU Resources Group included in prepayments, deposits and other receivables as at 31 December 2013 were approximately HK\$192,000 (2012: HK\$4,207,000). The balances are unsecured, interest-free and have no fixed terms of repayment.
- (c) Details of the Group's amounts due from its associates as at the end of the reporting period are included in note 16 to the financial statements.
- (d) Details of the Group's trade balances with its associates and related companies as at the end of the reporting period are disclosed in notes 21 and 24 to the financial statements.

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

	2013 HK\$'000	2012 HK\$'000
Short term employee benefits	4,051	5,260
Equity-settled share option expenses	1,020	2,470
Post-employment benefits	–	3
Total compensation paid to key management personnel	<b>5,071</b>	<b>7,733</b>

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

## Notes to Financial Statements

31 December 2013

### 33. 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 – 2013

#### Financial assets

	Loans and receivables HK\$'000	Available- for-sale finance assets HK\$'000	Total HK\$'000
Due from associates	31	–	31
Available-for-sale investments	–	15,860	15,860
Trade and bills receivables	218,087	–	218,087
Financial assets included in prepayments, deposits and other receivables	266,621	–	266,621
Finance lease receivables	9,162	–	9,162
Pledged deposits	11,859	–	11,859
Cash and cash equivalents	561,448	–	561,448
	<b>1,067,208</b>	<b>15,860</b>	<b>1,083,068</b>

#### Financial liabilities-Financial liabilities at amortised cost

	HK\$'000
Trade and bills payables	106,594
Financial liabilities included in other payables and accruals	89,701
Interest-bearing bank borrowings	231,014
	<b>427,309</b>



## Notes to Financial Statements

31 December 2013

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

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

Group – 2012

#### Financial assets – Loans and receivables

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

#### Financial liabilities – Financial liabilities at amortised cost

	HK\$'000
Trade and bills payables	185,900
Financial liabilities included in other payables and accruals	101,215
Interest-bearing bank borrowings	229,807
	<u>516,922</u>

## Notes to Financial Statements

31 December 2013

**33. FINANCIAL INSTRUMENTS BY CATEGORY** (continued)

	Company	
	2013 HK\$'000	2012 HK\$'000
<b>Financial assets – Loans and receivables</b>		
Cash and cash equivalents	1,410	730
<b>Financial liabilities – Financial liabilities at amortised cost</b>		
Due to a subsidiary	201,710	207,695
Financial liabilities included in other payables and accruals	214	–
	<b>201,924</b>	<b>207,695</b>

**34. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS**

The carrying amounts and fair values of the Group's and the Company's financial instruments other than those with carrying amounts that reasonably approximate to fair value are as follows:

**Group**

	Carrying amounts		Fair values	
	2013 HK\$'000	2012 HK\$'000	2013 HK\$'000	2012 HK\$'000
<b>Financial assets</b>				
Available-for-sale investments	15,860	–	15,860	–
Finance lease receivables	9,162	9,793	9,162	9,793
	<b>25,022</b>	<b>9,793</b>	<b>25,022</b>	<b>9,793</b>
<b>Financial liabilities</b>				
Interest-bearing bank borrowings	231,014	229,807	231,014	229,807
	<b>231,014</b>	<b>229,807</b>	<b>231,014</b>	<b>229,807</b>

## Notes to Financial Statements

31 December 2013

### 34. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS *(continued)*

Management has assessed that 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 associates and amounts due to a subsidiary, approximate to their carrying amounts largely due to the short term maturities of these instruments.

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 finance lease receivables and interest-bearing bank borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for interest-bearing bank borrowings as at 31 December 2013 was assessed to be insignificant.

The fair values of listed available-for-sale investments are based on quoted market prices.

#### Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

#### *Assets measured at fair value:*

#### Group

#### As at 31 December 2013

	Fair value measurement using			Total HK\$'000
	Quoted prices in active markets (Level 1) HK\$'000	Significant observable inputs (Level 2) HK\$'000	Significant unobservable inputs (Level 3) HK\$'000	
Available-for-sale investments:				
Equity investments	15,860	–	–	15,860
	15,860	–	–	15,860

## Notes to Financial Statements

31 December 2013

**34. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS** *(continued)***Fair value hierarchy** *(continued)***Assets measured at fair value:** *(continued)*

The Group did not have any financial liabilities measured at fair value as at 31 December 2013. The Group did not have any financial assets and liabilities measured at fair value as at 31 December 2012.

The Company did not have any financial assets and liabilities at fair value as at 31 December 2013 and 31 December 2012.

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (2012: Nil).

**Assets for which fair values are disclosed:****Group****As at 31 December 2013**

	Fair value measurement using			Total HK\$'000
	Quoted prices in active markets (Level 1) HK\$'000	Significant observable inputs (Level 2) HK\$'000	Significant unobservable inputs (Level 3) HK\$'000	
Finance lease receivables	–	9,162	–	9,162

**As at 31 December 2012**

	Fair value measurement using			Total HK\$'000
	Quoted prices in active markets (Level 1) HK\$'000	Significant observable inputs (Level 2) HK\$'000	Significant unobservable inputs (Level 3) HK\$'000	
Finance lease receivables	–	9,793	–	9,793

## Notes to Financial Statements

31 December 2013

### 34. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS *(continued)*

*Liabilities for which fair values are disclosed:*

Group

As at 31 December 2013

	Fair value measurement using			Total HK\$'000
	Quoted prices in active markets (Level 1) HK\$'000	Significant observable inputs (Level 2) HK\$'000	Significant unobservable inputs (Level 3) HK\$'000	
Interest-bearing bank borrowings	–	231,014	–	231,014

As at 31 December 2012

	Fair value measurement using			Total HK\$'000
	Quoted prices in active markets (Level 1) HK\$'000	Significant observable inputs (Level 2) HK\$'000	Significant unobservable inputs (Level 3) HK\$'000	
Interest-bearing bank borrowings	–	229,807	–	229,807

The Company did not have any financial assets or liabilities disclosed at fair value as at 31 December 2013 and 31 December 2012.

## Notes to Financial Statements

31 December 2013

### 35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

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

#### Credit risk

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

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, other receivables and amounts due from associates, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments. The Company is also exposed to credit risk through the granting of financial guarantees, further details of which are disclosed in note 30 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 21 to the financial statements.

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

## Notes to Financial Statements

31 December 2013

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

#### Interest rate risk

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

At 31 December 2013, approximately HK\$159,211,000 (2012: HK\$229,807,000) of the Group's interest-bearing borrowings bore interest at floating rates. The Group believes that the exposure to the risk of changes in market interest rate is minimal.

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

	<b>Group</b>	
	<b>Increase/ (decrease) in basis points</b>	<b>Increase/ (decrease) in profit before tax HK\$'000</b>
2013		
Hong Kong dollar	100	(456)
United States dollar	100	(734)
RMB	100	(384)
Hong Kong dollar	(100)	456
United States dollar	(100)	734
RMB	(100)	384
2012		
Hong Kong dollar	100	(246)
United States dollar	100	(1,703)
RMB	100	(349)
Hong Kong dollar	(100)	246
United States dollar	(100)	1,703
RMB	(100)	349

## Notes to Financial Statements

31 December 2013

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

#### Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., trade and bills receivables) and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts and bank loans. In addition, banking facilities have been put in place for contingency purposes.

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

	2013 Within 1 year or on demand HK\$'000
Trade and bills payables	106,594
Financial liabilities included in other payables and accruals	89,701
Interest-bearing bank borrowings	235,143
	<b>431,438</b>
	2012 Within 1 year or on demand HK\$'000
Trade and bills payables	185,900
Financial liabilities included in other payables and accruals	101,215
Interest-bearing bank borrowings	232,771
	<b>519,886</b>



## Notes to Financial Statements

31 December 2013

### 35. 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

	2013		Total HK\$'000
	Within 1 year HK\$'000	Over 1 year HK\$'000	
Due to a subsidiary	–	201,710	201,710
Financial liabilities included in other payables and accruals	214	–	214
Guarantees given to banks in connection with facilities granted to subsidiaries	237,118	–	237,118
	<b>237,332</b>	<b>201,710</b>	<b>439,042</b>

  

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

#### Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2013 and 31 December 2012.

## Notes to Financial Statements

31 December 2013

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

#### Capital management *(continued)*

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

	Group	
	2013	2012
	HK\$'000	HK\$'000
Interest-bearing bank borrowings	231,014	229,807
Total equity attributable to owners of the parent	949,886	774,091
Debt to equity ratio	24%	30%

### 36. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 26 March 2014.

## Particulars of Investment Properties

31 December 2013

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

## Particulars of Investment Properties

31 December 2013

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

## Five Year Financial Summary

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

### RESULTS

	Year ended 31 December				
	2013 HK\$'000	2012 HK\$'000	2011 HK\$'000	2010 HK\$'000	2009 HK\$'000
REVENUE	1,291,015	2,130,753	1,647,234	2,240,732	1,912,093
PROFIT FOR THE YEAR	86,487	44,411	49,934	62,944	23,366
Attributable to:					
Owners of the parent	86,241	44,523	49,913	62,823	23,155
Non-controlling interests	246	(112)	21	121	211
	86,487	44,411	49,934	62,944	23,366

### ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	As at 31 December				
	2013 HK\$'000	2012 HK\$'000	2011 HK\$'000	2010 HK\$'000	2009 HK\$'000
TOTAL ASSETS	1,609,332	1,505,836	1,341,682	1,288,093	1,376,031
TOTAL LIABILITIES	(659,061)	(731,613)	(677,134)	(698,827)	(887,215)
NON-CONTROLLING INTERESTS	(385)	(132)	(909)	(852)	(707)
	949,886	774,091	663,639	588,414	488,109