FOUNDER HOLDINGS LIMITED
方正控股有限公司

(Incorporated in Bermuda with limited liability)

Stock Code: 00418

2017
Annual Report

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive directors

Mr Cheung Shuen Lung *(Chairman)*
Mr Shao Xing *(President)*
Ms Zuo Jin
Mr Hu Bin
Mr Cui Yun Tao
Ms Liao Hang

Independent non-executive directors

Mr Li Fat Chung
Ms Wong Lam Kit Yee
Mr Chan Chung Kik, Lewis

COMMITTEES

Audit Committee

Mr Li Fat Chung *(Chairman)*
Ms Wong Lam Kit Yee
Mr Chan Chung Kik, Lewis

Remuneration Committee

Mr Li Fat Chung *(Chairman)*
Mr Cheung Shuen Lung
Ms Wong Lam Kit Yee

Nomination Committee

Mr Cheung Shuen Lung *(Chairman)*
Ms Wong Lam Kit Yee
Mr Chan Chung Kik, Lewis

COMPANY SECRETARY

Ms Tang Yuk Bo, Yvonne

AUTHORISED REPRESENTATIVES

Mr Cheung Shuen Lung
Mr Shao Xing

AUDITORS

Ernst & Young
Certified Public Accountants

LEGAL ADVISERS

Freshfields Bruckhaus Deringer LLP

PRINCIPAL BANKERS

Bank of Beijing
China Merchants Bank
DBS Bank (China) Limited
DBS Bank (Hong Kong) 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 IN HONG KONG

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

SHARE REGISTRARS AND TRANSFER OFFICE

Principal registrar

MUFG Fund Services (Bermuda) Limited
The Belvedere Building
69 Pitts Bay Road
Pembroke HM08
Bermuda

Hong Kong branch share registrar and transfer office

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

LISTING INFORMATION

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

COMPANY WEBSITE

www.irasia.com/listco/hk/founder

FINANCIAL HIGHLIGHTS

	2017 HK$'million	2016 HK$'million	+/(-) Change
FINANCIAL PERFORMANCE			
Revenue	**993**	1,035	(4.0%)
Gross profit margin (%)	**44.2%**	40.9%	
Profit attributable to owners of the parent	**89**	40	123.8%
Net profit margin (%)	**9.0%**	3.9%	
KEY FINANCIAL INDICATORS			
Cash and cash equivalents	**509**	605	(15.8%)
Net current assets	**690**	593	16.4%
Total assets	**1,824**	1,583	15.2%
Total liabilities	**686**	610	12.4%
Interest-bearing bank borrowings	**161**	149	8.1%
Equity attributable to owners of the parent	**1,139**	973	17.1%
Current ratio (times)	**2.11**	2.07	
Gearing ratio	**0.14**	0.15	
Basic earnings per share (HK cents)	**7.5**	3.4	

PERFORMANCE

The Group reported a profit attributable to equity holders of the parent for the year ended 31 December 2017 of approximately HK$89.8 million (year ended 31 December 2016: HK$40.2 million). The Group's turnover for the current year decreased by 4.0% to approximately HK$993.5 million (year ended 31 December 2016: HK$1,035.4 million) due to decrease in sales of information products. Gross profit for the current year increased by 3.5% to HK$438.8 million compared with last year's HK$423.9 million. Gross profit ratio increased from 40.9% for the last year to 44.2% for the current year as a result of increase in proportion of sales of software and technical services with higher gross profit margin.

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

a. an increase in the gross profit by 3.5% to HK$438.8 million (year ended 31 December 2016: HK$423.9 million) as a result of increase in proportion of sales of software and technical services;

b. an increase in other income and gains by 64.1% to HK$124.4 million (year ended 31 December 2016: HK$75.8 million) arising from (i) increase in other interest income; (ii) increase in fair value gains on investment properties; and (iii) gain on disposal of intellectual properties; and

c. an increase in total selling and distribution expenses, administrative expense and other expenses, net by 4.0% to HK$465.7 million (year ended 31 December 2016: HK$447.9 million) as a result of expansion of research and development team for the development of new software products.

Basic and diluted earnings per share attributable to equity holders of the parent for the year was HK7.5 cents (year ended 31 December 2016: HK3.4 cents).

OPERATING REVIEW AND PROSPECTS

Operating Review

Font Library Business

Against the backdrop of the government's vigorous promotion of the cultural market and digital creative industry, the font library, as a culture carrier, has been receiving wider recognition, and the increasing demand for personalized fonts in the design community has created a "font fever" in the market. With a gradual improvement in the copyright environment in China, enterprises and individuals in developed coastal areas have developed a strong awareness of copyright issues, but there are still different opinions regarding the marketing model of fonts in the legal sector and society. Meanwhile, the competition in the industry has intensified with the influx of new font design companies and individual font designers into the font library market.

In 2017, 北京北大方正電子有限公司 (Beijing Founder Electronics Co., Ltd.*) ("Founder Electronics"), the wholly-owned subsidiary of the Company, continued to consolidate its absolute leading position in the font library market by introducing new fonts that leads a new trend in the font industry.

1) Legal aspect: We actively maintain the intellectual property rights of our fonts through legal channels and promote the font copyright through various means to convey the value of fonts.

2) Marketing and promotion aspect: Founder Electronics has stepped up in promoting the positive publicity by establishing cooperation relationships with designers, studios and advertising companies, and introducing its fonts to advertisers through design proposals. It also explored the online store market by enhancing the cooperation and interaction with design websites. Moreover, Founder Electronics further cooperated with software, hardware and game manufacturers to launch more creative display fonts and personalized fonts. With the introduction of the Font Library Community, Founder Electronics was able to enhance its interaction with font lovers, customers and designers, thereby achieving seamless connection among Web-Mobile-PC products. As at 31 December 2017, the registered users of Font Library Community reached 105,000, while the number of the contracts signed in online for the year amounted to 6,429.

3) Font production aspect: In addition to the establishment of its own exquisite font library, Founder Electronics also strengthened its external cooperation to join hands with independent font designers, medium-to-small font library manufacturers and other manufacturers in Hong Kong, Taiwan, Japan and English-speaking countries with a view to introducing new fonts in a faster and more efficient manner. We completed the design of 41 kinds of 120 fonts in 2017.

Printing business

The printing industry has entered into a period of deep adjustment, during which the problem of over-capacity throughout the industry, environmental protection requirements and the rise in paper prices have resulted in a significant decrease in the yield rate of printing corporations. In addition, in light of the saturated CTP market and uncertainties in the digital printing market, equipment manufacturers have switched the focus of their competition to the packaging market.

Despite the adverse market environment, 北京方正印捷數碼技術有限公司 (Beijing Founder EasiPrint Digital Technology Co., Ltd.*) ("Founder EasiPrint"), the wholly-owned subsidiary of the Company, still maintained a moderate business growth with the orders signed in respect of P-series inkjet printers accounted for more than 80% of the overall market in 2017, ranking No. 1 in the industry. Besides, the highly adaptive and cost-effective models launched by Founder EasiPrint have become the market benchmark for the industry. Variable data inkjet printing equipment entered into new markets including drinking water coding, salt coding and printing of clothing tags.

In 2017, Founder EasiPrint focused on investing in and developing the printing on demand ("POD") project with an aim to achieve industry upgrade through the application of inkjet technology. It also replaced bulk-printing with on-demand printing, and made certain improvements in various stages from design, publishing, production, logistics to issuance in the publication industry with the help of internet and software technology to cater for the need of on-demand printing. In 2017, Founder EasiPrint had extensive communication and exchange with domestic and foreign equipment manufacturers, ancillary equipment manufacturers and consumables manufacturers, and reached the intention for cooperation with certain upstream and downstream enterprises. Furthermore, the construction of a POD testing center in Beijing has been completed. The first POD equipment for library printing has been delivered to the center and put into operation.

Media Business

The traditional newspaper and publication industry remained subdued, recording a decline in the overall results with the newspaper advertising revenue in free fall over the last few years. Meanwhile, with the top-down requirements such as the policies emphasizing the development of mainstream media, the comprehensive integration of media in the newspaper industry, the strategy to take mobile media as priority, the breakthrough in terms of reform of collecting, editing and publishing as well as the implementation of the "centralized kitchen (中央廚房)" leading project, and under the government's vigorous promotion of policies in the publishing areas such as "Demonstration of Application Service in the Industrialization of Digital Publication (數字出版產業化應用服務示範工程)", "Promotion of Nationwide Digital Reading (全民數字閱讀推廣工程)" and "Promotion of Digital Publication in respect of Ethnic Group Culture (少數民族文化數字出版促進工程)", the media business has embraced new market opportunities.

Against this backdrop, Founder Electronics actively worked on the structure, analysis and application technologies of large-scale data. The "One Platform and Four Systems" was thus rearranged, including the management platform of large-scale data from the integrated media, command system for news reporting, intelligent management system for decision-making and operation management system. Meanwhile, Founder Electronics actively explored the SaaS service by launching Xinkong Cloud, media platform and media service for large-scale data, extending its services from solutions of software products to data services and SaaS services, with a view to laying a solid foundation for sustainable development in the future.

In respect of sales, Founder Electronics actively sought for the cooperation with leading companies in the media publishing area, exerting all efforts in expanding its market share in the areas of new media, pan-media and pan-publishing. Meanwhile, it maintained its strengths in the establishment of platforms for integrated media in the newspaper industry at the province level as well as at the level of provincial capitals and cities, securing projects from tenders of Liaoning Daily, Chengdu Daily and Guangzhou Daily with values over RMB10 million. In 2017, the newly signed contracts in newspaper business recorded high of nearly the past three years. Founder Electronics maintained its absolute leading market position in the establishment of the financial media platform (Media Central Kitchen).

Internet Information Business

Leveraging on the technologies, data and experience accumulated in the past over 10 years, the internet information business of Founder Electronics kept abreast of the national economic development in key cities and contributed to the economic strategy of "One Belt One Road", which provided support to relevant national authorities in respect of decision-making through the overall solution of "knowledge base" and data analysis capability. Focusing on the understanding of industry features together with results of scientific research carried out by the Institute of Computer Science and Technology of Peking University, the internet information business gradually won the competition of knowledge base, thereby laying a foundation for its business development.

PROSPECTS

To deal with the business growth, the management of the Group will closely monitor changes in the economy and IT market of the People's Republic of China (the "PRC"). 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 of employees. The Group ensures that the payments to its employees are competitive and the employees are rewarded based on their performance 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 maintained a share option scheme in place 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 2017, the number of employees of the Group was approximately 1,278 (31 December 2016: 1,163).

FINANCIAL REVIEW

Liquidity, financial resources and capital commitments

During the 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 2017, the Group had interest-bearing bank borrowings of approximately HK$161.1 million (31 December 2016: HK$149.0 million), of which HK$121.1 million (31 December 2016: HK$106.4 million) were fixed interest bearing and HK$40.0 million (31 December 2016: HK$42.6 million) were floating interest bearing. The bank borrowings were denominated in Hong Kong Dollars ("HKD"), Renminbi ("RMB") and United States Dollars ("U.S. dollars"), and were repayable within one year. The Group's banking facilities were secured by corporate guarantees given by the Company, 北大方正集團有限公司 (Peking University Founder Group Company Limited*) ("Peking Founder") (a substantial shareholder of the Company), PKU Founder Group Finance Co., Ltd. (北大方正集團財務有限公司) (a subsidiary of Peking Founder), certain of the Group's land and buildings, investment properties and bank deposits.

As at 31 December 2017, the Group recorded total assets of HK$1,823.4 million which were financed by liabilities of HK$684.2 million, non-controlling interests of HK$0.2 million and equity of HK$1,139.0 million. The Group's net asset value per share as at 31 December 2017 amounted to HK$0.95 (31 December 2016: HK$0.81). The Group had total cash and bank balances of HK$516.7 million as at 31 December 2017 (31 December 2016: HK$622.2 million). After deducting total bank borrowings of HK$161.1 million (31 December 2016: HK$149.0 million), the Group recorded net cash and bank balances of HK$355.6 million as at 31 December 2017 as compared to HK$473.2 million as at 31 December 2016. 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 2017, the Group's gearing ratio, measured by the ratio of total borrowings to total shareholders' equity, was 0.14 (31 December 2016: 0.15) while the Group's working capital ratio was 2.11 (31 December 2016: 2.07).

As at 31 December 2017, 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 banks as 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 the PRC. 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 the PRC, most of the transactions are denominated in RMB. The conversion of RMB into foreign currencies is subject to the rules and regulations of the foreign exchange controls promulgated by the PRC government. The Group has minimal exposure to exchange rate fluctuation. No financial instrument was used for hedging purposes. The Group will closely monitor the currency exchange risk of RMB in the near term as a result.

Contracts

As at 31 December 2017, the major contracts in hand amounted to approximately HK$394.0 million (31 December 2016: HK$393.0 million), which are all expected to be completed within one year.

Material acquisitions and disposals of subsidiaries, associates and joint ventures

The Group had no material acquisition or disposal of subsidiaries, associates and joint ventures during the year ended 31 December 2017.

Charges on assets

As at 31 December 2017, the Group's land and buildings in Hong Kong of approximately HK$84.7 million and investment properties of approximately HK$108.6 million and bank deposits of approximately HK$14.6 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 2017. However, the Group always seeks for new investment opportunities in the software development and systems integration business to broaden the revenue and profit base of the Group and enhance shareholders' value in long term.

Contingent liabilities

At 31 December 2017, the Group did not have any significant contingent liabilities.

* *For identification purpose only*

CORPORATE GOVERNANCE PRACTICES

The Company is firmly committed to the overall standards of corporate governance and has always recognized the importance of accountability and communication with its 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 2017.

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. Upon being made specific enquiries by the Company, all directors of the Company confirmed that they have complied with the required standards set out in the Model Code throughout the year ended 31 December 2017.

BOARD OF DIRECTORS

The board of directors of the Company (the "Board") comprises six executive directors and three independent non-executive directors. The executive directors are Mr Cheung Shuen Lung (Chairman), Mr Shao Xing (President), Ms Zuo Jin, Mr Hu Bin, Mr Cui Yun Tao and Ms Liao Hang, and the independent non-executive directors are Mr Li Fat Chung, Ms Wong Lam Kit Yee and Mr Chan Chung Kik, Lewis. 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 27 to 28 of this Annual Report.

The Board oversees the Group's strategic development and determines the objectives, strategies and policies of the Group. The Board also monitors and controls the operating and financial performance in pursuit of the Group's strategic objectives. Day-to-day management of the Group's business is delegated to the management of the Company under the supervision of the executive directors. The functions and powers that are so delegated are reviewed periodically to ensure that they remain appropriate. Matters reserved for the Board are the overall strategy of the Group, major acquisitions and disposals, major capital investments, dividend policy, significant changes in accounting policies, material contracts, appointment and retirement of directors, remuneration policy and other major operational and financial matters. It is the responsibility of the Board to determine the appropriate corporate governance practices applicable to the Company's circumstances and to ensure processes and procedures are in place to achieve the Company's corporate governance objectives. The directors of the Company have access to appropriate business documents and information about the Group on a timely basis. All the directors of the Company 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 the directors of the Company. All directors and Board committees have recourse to external legal counsels 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 directors of the Company for liabilities arising out of corporate activities.

The Board held four regular Board meetings at approximately quarterly intervals during the year ended 31 December 2017. 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 CG Code.

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

Name of director	Board meetings attended/ Eligible to attend	Annual General meeting attended/ Eligible to attend
Executive Directors		
Mr Cheung Shuen Lung *(Chairman)*	4/4	1/1
Mr Shao Xing	4/4	0/1
Ms Zuo Jin	4/4	0/1
Mr Hu Bin	4/4	0/1
Mr Cui Yun Tao	4/4	0/1
Ms Liao Hang	4/4	0/1
Independent Non-executive Directors		
Mr Li Fat Chung	3/4	1/1
Ms Wong Lam Kit Yee	3/4	1/1
Mr Chan Chung Kik, Lewis (appointed on 31 March 2017)	3/3	1/1
Mr Fung Man Yin, Sammy (resigned on 31 March 2017)	0/1	0/0

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

Each newly appointed director is provided with necessary induction and information to ensure that he/she has a proper understanding of the Company's operations and businesses as well as his/her responsibilities under the relevant statutes, 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 the 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 year ended 31 December 2017. The individual training record of each director received for the year ended 31 December 2017 is summarised below:

Name of Director	**Briefings and updates on the business, operations and corporate governance matters**	**Attending seminars, workshops or self-study of materials relevant to the business or directors' duties**
Executive Directors		
Mr Cheung Shuen Lung *(Chairman)*	✓	✓
Mr Shao Xing	✓	✓
Ms Zuo Jin	✓	✓
Mr Hu Bin	✓	✓
Mr Cui Yun Tao	✓	✓
Ms Liao Hang	✓	✓
Independent Non-executive Directors		
Mr Li Fat Chung	✓	✓
Ms Wong Lam Kit Yee	✓	✓
Mr Chan Chung Kik, Lewis (appointed on 31 March 2017)	✓	✓
Mr Fung Man Yin, Sammy (resigned on 31 March 2017)	✓	✓

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 in compliance with legal and regulatory requirements, the compliance with 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 Cheung Shuen Lung is the Chairman of the Board. The primary role of the Chairman is to provide leadership for the Board and to ensure that it works effectively in the discharge of its responsibilities. Mr Shao Xing is the President of the Company. The President is responsible for the day-to-day management of the Group's business. Their respective role and responsibilities are set out in writing which have been approved by the Board.

NON-EXECUTIVE DIRECTORS

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

All of 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 this 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/her associates is involved in deciding his/her own remuneration.

In 2017, 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. The Remuneration Committee adopts the model of making recommendations to the Board on the remuneration packages of individual executive directors and senior management. Information relating to the remuneration of each director for 2017 is set out in Note 8 to the Company's 2017 Financial Statements.

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

Name of member		**Meetings attended/Eligible to attend**
Mr Li Fat Chung *(Chairman)*	*(Independent non-executive director)*	1/1
Mr Cheung Shuen Lung	*(Executive director)*	1/1
Ms Wong Lam Kit Yee	*(Independent non-executive director)*	1/1

NOMINATION OF DIRECTORS

The Nomination Committee of the Board was established in 2012 with specific written terms of reference which deal clearly with its authorities and duties. The role and function of the Nomination Committee include determining the policy for the nomination of directors, setting out the nomination procedures and the process and criteria adopted to select and recommend candidates for directorship. Only the most suitable candidates who are experienced and competent and able to fulfill the fiduciary duties and duties of skill, care and diligence would be recommended to the Board for selection. Appointments are first considered by the Nomination Committee and recommendation of the Nomination Committee are then put to the Board for decision. 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, the diversity of the Board has been considered from a number of aspects 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 of the Board.

In 2017, 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 Cheung Shuen Lung *(Chairman)*	*(Executive director)*	1/1
Ms Wong Lam Kit Yee	*(Independent non-executive director)*	1/1
Mr Chan Chung Kik, Lewis	*(Independent non-executive director)*	1/1
Mr Fung Man Yin, Sammy	*(Independent non-executive director)*	0/0

AUDIT COMMITTEE

The Audit Committee of the Board has been established in 1998 in compliance with rule 3.21 of the Listing Rules with specific written terms of reference which deal clearly with its authorities and duties. Its terms of reference amended and adopted by the Board in February 2016, can be found on the Company's website (www.irasia.com/listco/hk/founder) and The Stock Exchange of Hong Kong Limited's website (www.hkexnews.hk). 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 Chan Chung Kik, Lewis. All the committee members possess appropriate professional accounting and financial qualifications.

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

In 2017, the Audit Committee met three times. During the meetings, the Audit Committee reviewed the reports from the independent auditors regarding their audit on annual financial statements, review on interim financial results, discussed the internal control of the Group, and met with the independent auditors.

The attendance report of the members of the Audit Committee at the meetings are as follows:

Name of member		**Meetings attended/Eligible to attend**
Mr Li Fat Chung *(Chairman)*	*(Independent non-executive director)*	3/3
Ms Wong Lam Kit Yee	*(Independent non-executive director)*	3/3
Mr Chan Chung Kik, Lewis	*(Independent non-executive director)*	2/2
Mr Fung Man Yin, Sammy	*(Independent non-executive director)*	0/1

RISK MANAGEMENT AND INTERNAL CONTROL

The Board has the ultimate responsibility to maintain appropriate and effective risk management and internal control systems 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 risk management and internal control systems and reporting to the Board.

The Group's risk management and internal control systems comprise 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 Board also clarifies that the system is purported to manage, but not eliminate, the risk of failure to fulfill business objectives, and can only provide reasonable but not absolute assurance against material misstatement or loss.

During the year, the internal audit department has carried out an overview on the effectiveness of the risk management and internal control systems of the Group. Based on the risk-based approach, the internal audit department continuously review and monitor the sufficiency of the risk control measures of every business unit of the Group and to examine if relevant measures have been implemented. The procedures involve assuring the existence of related risks in the first place, then assessing the levels to which the potential risks are attributed based on the following two risk factors, i.e., the level of significance of the risk and the possibility of occurrence. No material internal control aspects of any significant problems were noted. With reference to the assessment of the internal audit department, both the Audit Committee and the Board conducted review of the risk management and internal control systems maintained by the Group including the financial, operational and compliance controls and risk management functions for the year ended 31 December 2017 and were satisfied that the risk management and internal control systems of the Group had functioned effectively and was adequate during the year.

INSIDE INFORMATION DISCLOSURE POLICY

An Inside Information Policy was adopted by the Company which sets out guidelines to the Directors, officers and all relevant employees of the Group to ensure inside information (as defined in the Listing Rules) (the "Inside Information") of the Group would be disseminated to the public in equal and timely manner in accordance with applicable laws and regulations. The Company also established Group Internal Notification Policies and Procedures for setting out guidelines for identification and notification of Inside Information and notifiable transactions (as defined in the Listing Rules). A whistleblowing policy was also adopted by the Group.

AUDITORS' REMUNERATION

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

	HK$'000
Statutory audit services	2,460
Non-audit services:	
Agreed-upon procedures on interim results	390
Agreed-upon procedures on continuing connected transactions	40
Compliance and tax advisory services	87
	517
Total	2,977

DIRECTORS' AND AUDITORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for the preparation of the financial statements of the Group for the year ended 31 December 2017 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 Auditor's Report on pages 37 to 41 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 trainings which are in compliance with Rule 3.29 of the Listing Rules for the year ended 31 December 2017.

COMMUNICATION WITH SHAREHOLDERS

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

The Company's Annual General Meeting (the "AGM") is one of the principal channels of communication with its shareholders. It provides an opportunity for shareholders to ask questions about the Company's performance. Separate resolutions will be proposed for each substantially separate issue at the AGM. Board members, including the Chairmen of the Board and Board committees and Board committee members, and the Company's external auditor attended the 2017 AGM and were available to answer questions from shareholders.

Under the Listing Rules, all resolutions proposed at shareholders' meetings must be voted by poll except where the chairman of a general meeting, in good faith and in compliance with the Listing Rules, decides to allow resolutions to be voted on by the shareholders on a show of hands. Details of the poll procedures will be explained during the proceedings of shareholders' meetings. The poll voting results will be released and posted on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.irasia.com/listco/hk/founder).

To provide effective communication, the Company maintains a website at www.irasia.com/listco/hk/founder. All the financial information and other disclosures including, inter alia, annual reports, interim reports, announcements, circulars, notices and Articles are available on the Company's website.

Shareholders may direct their questions about their shareholdings to the Company's Registrar, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong or contact the Customer Service Hotline of the Company's Registrar at (852) 2862 8555. Shareholders may send their enquiries to the Board or the Company Secretary in written form to the head office and principal place of business in Hong Kong of the Company.

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.

I. ENVIRONMENTAL PROTECTION

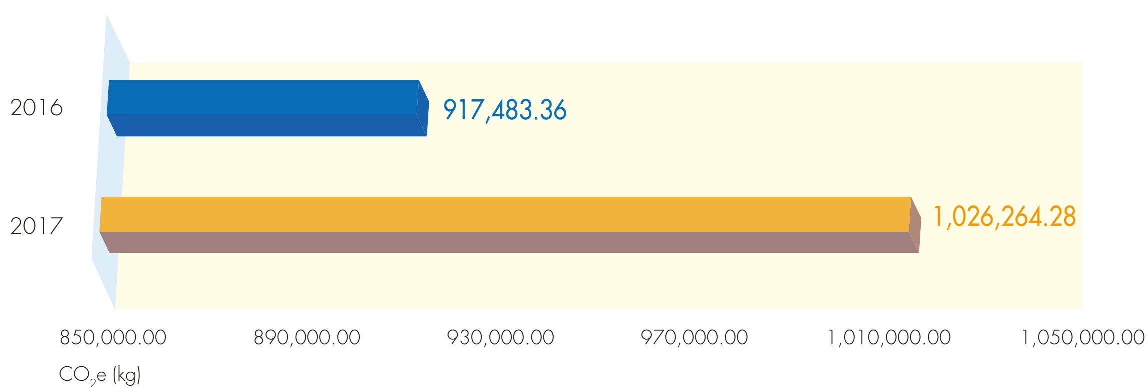
The Group is committed to providing leading information processing technology, products, solutions and value-added services to customers, thereby enabling customers to experience an IT life in the era of the mobile Internet via different devices without limitation to time and space. Apart from continuously enhancing business quality and providing value-added services to customers, the Group also recognises the importance of greater environmental stewardship and sustainable development of the community in order to ensure the holistic and harmonious development of our business alongside the environment and communities in which we operate. Throughout the past years, the Group has been actively fulfilling its corporate social responsibilities. It has a proven record in utilizing technology and combining comprehensive staff training with its well-established system to actively reduce its overall impact on the environment from various aspects. Furthermore, we respect the rights and interests of our employees, actively participate in public services and earnestly honor our corporate citizenship.

1. Carbon emission

The Group comprehensively enhanced its corporate image to both the environment and the community and actively responded to the challenges and impact of climate changes on the global economy. Starting from 2017, the Group disclosed its carbon emission every year and integrated energy conservation and emission reduction into its long-term plan, pursuant to which it has formulated corresponding carbon reduction measures to lower the impact of its total emission of greenhouse gases on the community and the environment. At Beijing Founder Electronics Co., Ltd. ("Founder Electronics"), the wholly-owned subsidiary of the Company, carbon emission was mainly resulted energy consumption and its core media business, which was supported by purchased electricity and involved electricity used in computers, printing systems, lighting systems and information technology (IT) systems as well as exhaust gas from commercial vehicles. As the major source of power generation in Beijing was coal burning, Founder Electronics has focused its work in relation to energy conservation and emission reduction on saving electricity and reducing consumption of resources with an aim to reducing the greenhouse gases generated from coal burning.

The energy consumption and total emission of greenhouse gases generated from purchased electricity for the year of Founder Electronics are as follows:

TOTAL EMISSION OF GREENHOUSE GASES



2. Resource utilisation

The Group worked diligently to enhance the utilization rate of various materials and resources, including energy, water and paper, and gave its best effort to enhance the reproduction rate and recycle rate of resources and reduce the amount of waste produced so as to consistently implement its environmental protection concepts at all operational levels and production processes. Founder Electronics always exercises stringent control over its production process to ensure that no hazardous waste or non-hazardous waste will be generated from the company's operation. By doing so, it has reduced waste from source of production, eased the pressure of waste handling of the community and enhanced the environmental standards of the company. Given its leading position in the printing industry and in terms of modern media technology, Founder Electronics actively undertook its environmental mission and launched the innovative "Founder All-in-one Solution". The solution integrates printing and digital network and applies intelligent printing to the whole production process, including automatic review, analysis and categorization of orders as well as automatic allocation of necessary materials and assessment of the amount of consumables needed for the orders. The accurate data on actual volume of production and demand would enable more precise control over utilization and input of materials and thus realize printing on demand, resulting in significant decrease in both consumption of materials and unnecessary paper and improvement in production efficiency. In addition, the high end digital inkjet printing technology developed by Founder Electronics can maximize the utilization rate of ink and reduce the amount of unnecessary unrecyclable waste with the use of recyclable toner cartridge and ink cartridge. Looking forward, Founder Electronics will put in consistent efforts in development and innovation, improve its production process, enhance productivity with an aim to truly realise green production.

The Group focused on reducing various pollutants and proactively reduced the volume of waste generated and enhanced the utilization efficiency of resources through various methods, for instance:

- Reduce unnecessary lighting energy consumption; maximize the use of daylight and turn off the light that are not being used; use lighting with high energy efficiencies (e.g. T5 fluorescent light and LED);

- Establish policies on better use of air conditioning resources with the lowest temperature of air conditioner being set at 25.5℃; use split air conditioner with energy efficiency label;

- Promote paperless office by using a working system that replaces paper records with electronic system to reduce circulation of real paper. Staff will be reminded to print documents on both sides;

- In terms of enhancement of utilization efficiency of water resources, the Company will lower the water pressure to the lowest possible level;

- Provide various recycling facilities and select waste handling companies with recycling qualification to recycle obsolete computer equipment; and

- In terms of procurement of office supplies, the pre-assessment system will be implemented to avoid excessive inventory of materials and waste of resources. Also, priorities will be given to suppliers that provide environmentally-friendly products.

2. Resource utilisation *(continued)*

Starting from this year, the Group will disclose its utilization of other resources to the public, the specific details of which were as follows:

- The total water consumption of the headquarter office was 195,152 litre in 2017;
- The amount of paper used by the headquarter office decreased by 5.40% as compared with last year;
- Fuel consumption by the Group's self-owned vehicles reduced by 27.1% as compared with last year.

II. QUALITY OF WORKING ENVIRONMENT

1. Working environment

The Group has been actively devoting significant resources with a view to providing a safe and comfortable working environment for its staff and creating a healthy, positive, harmonious and efficient corporate culture that support its staff at different locations to achieve their potential and hence create more values for the Group on a continuous basis. The office building rented by Founder Electronics in Beijing has an area of approximately 13,274 sqm. The building was divided into different sections according to departmental functions, which include sales department, research and development department, functional departments and public areas, complemented by pantries and staff rest areas, offering a spacious and comfortable working environment for 1,256 staff. Moreover, Founder Electronics offered first-class accommodation for its staff. The dormitory was equipped with thoughtful facilities that take care of all aspects of lives of our staff, making every effort to show its care for the staff and providing them with comfortable, home-like dormitory equipment. In 2017, Founder Electronics newly added the laundry room and Hive Box express service for staff staying at youth apartment. The laundry room can satisfy the demand for washing and drying of clothes of our staff staying at the apartment, while Hive Box express counter can satisfy their demand for self-service and safe services for sending and receiving express delivery. Founder Electronics ceaselessly enhanced the overall living standard of the dormitory, which has in turn enhanced staff morale and their sense of belonging to the company.

2. Health and Safety

Founder Electronics always regards staff interests as the foundation of long-term corporate development and cared for physical and mental wellness as well as safety of its staff. We understand that the staff would be devoted to the Group's business in their best conditions and continuously create values for the Group only if they have physical fitness and up-beat spirit. Throughout these years, the Group has made strenuous efforts in maintaining occupational safety and caring for its staff. Previously, we have engaged professionals of Chinese medicine to organize a salon, during which the professionals made diagnosis for our staff and gave professional advice on healthcare to help keeping our staff healthy. In addition, the Group has complied with local safety regulations, striving to place safety in the first place at every operational level. The Group organises fire drills on a regular basis, through which the staff may gain knowledge regarding fire safety and enhance their safety awareness. In the future, Founder Electronics will continue to adhere to the core people-oriented principle to care for its staff from various aspects and organize different activities to enhance the wellness and safety awareness of its staff.

3. Development and Trainings

The Group always treats its staff as the most important asset and most valuable resource of the Group. They are also the fundamental drivers that promote continuous development of the Group and take the Group to new heights. The Group strived to provide diversified trainings for its staff at different levels, so that its staff can gain a variety of professional knowledge and continue to develop their abilities, explore potentials and enhance professional skills. In this regard, the Group launched a series of training programs, covering staff at all levels from new employees to senior management. Apart from public courses organised by the Human Resources Department at no cost, the Group also provided diversified professional trainings targeting different business areas. In 2017, training activities organized by Founder Electronics attracted approximately 1,300 participants in total. These activities have contributed to better connection to the corporate culture and system and enhanced comprehensive capability of our staff.

Founder Electronics actively organized various activities targeting different types of business for its staff with a view to providing them with the most thoughtful and effective staff training programs. In order to help new staff to better adapt to the Company's rules, system, corporate culture and strategies, Founder Electronics organized the "Founder Electronics Successful Start for New Staff (方正電子新員工橙起航)". It also organized "Pass on the Flame – Founder Electronics 2017 Performance Coaching Promotion Campaign (薪火相傳—方正電子2017績效輔導推廣專案)" and "2017 Internal Training for Soft Skills (2017軟考內訓)" to facilitate better coordination among staff at different levels, enhance staff communication and exchange and show them ways to provide feedback on performance coaching, and enhance their knowledge on information system and project management. Also, in order to continuously enhance the organizational experience of the management, the Group has strengthened its work in relation to establishing role model cadre, thereby leading its staff to enhance the Group's results on an ongoing basis. Founder Electronics has organized various targeted manager nurturing projects as follows:

- "Success School – 2017 Internal Trainers Nurturing Project (橙•塾–2017內訓師培養專案)", a project designed for internal experts of the Company to help better integrate the organizational experience of the experts and consolidate our organization wisdom, at the same time strengthening work in relation to internal knowledge management of the Company;

3. Development and Trainings *(continued)*

- "Elite Success Camp – Founder Electronics 2017 Training Camp for New Managers (精橙營—方正電子2017新經理訓練營)", a training activity organized for newly promoted managers with a view to facilitating fast and smooth transition of roles and enhancing their leadership;

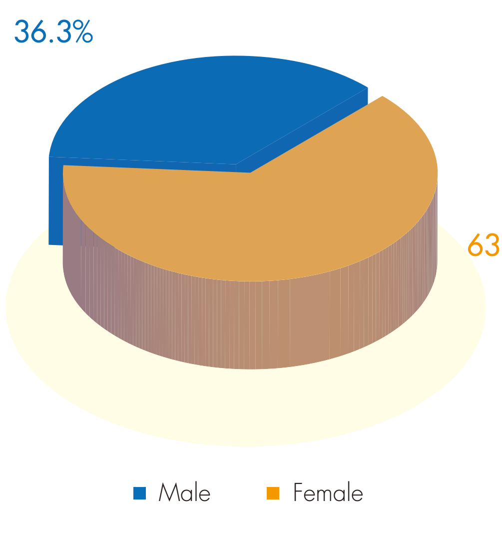
- "2017 Product Manager Training (2017產品經理培訓)", an activity organized to promote and speed up the product process and enhance the business standards.

4. Labour Standards

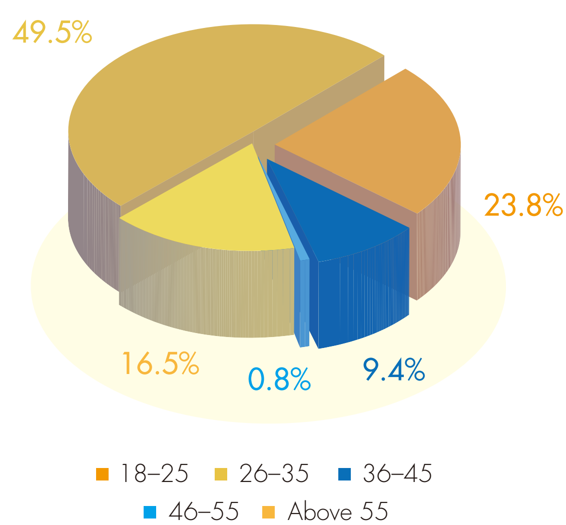
The Group strived to provide equal and diversified employment opportunities for its staff and strictly complied with the principle of fairness and anti-discrimination. Founder Electronics respected the concept of gender equality. Staff were provided with the same benefits and their remuneration are determined with the same method whether for new recruitment, promotion or determining level of remuneration. Promotion was based on personal competence instead of other factors such as gender and age. Furthermore, Founder Electronics included its commitment to fairness and equity to its staff in the Company's rules, so that all employees are treated equally and all kinds of discrimination are strictly forbidden. We also encouraged mutual respect among staff members in a view to creating a harmonious and friendly working environment. Moreover, the Group reviewed its employment terms on a regular basis and issued the "Management Rules for Attendance and Holiday (考勤及假期管理制度)", which has effectively avoid the problem of prolonged working hours or forced labour and safeguarded the rest time of its staff by imposing stipulated number of working hours. As for regulation of new staff, Founder Electronics has established a requirement for minimum academic qualification for employment to avoid child labour in an effective manner.

A detailed classification of our staff by gender and age groups is set out as below:

EMPLOYEE BY GENDER



EMPLOYEE BY AGE GROUPS



5. Staff welfare

The Company provides its staff with statutory benefits in strict compliance with the provisions of the Labour Law in the People's Republic of China, the scope of which covers social insurance, provident fund, commercial insurance, unemployment, maternity and work injury, etc. Among which, Founder Life has undertaken the commercial insurance with an annual cap of RMB20,000, with a view to providing staff with better health protection and more caring and comprehensive medical benefits. Apart from this, Founder Electronics also provides various additional benefits to its staff members.

In 2017, in celebration of the Mid-Autumn Festival, Founder Electronics organised the "Sports Day for the Mid-Autumn Festival and the National Day (中秋國慶歡樂運動會)", which attracted more than 300 employees. Such event not only aimed at sending employees our best wishes, but also showed care for their physical and mental health, with a view to improving their physical health through sports and training activities. Besides, Founder Electronics also organised various celebration activities at Christmas, the New Year Eve and the Chinese New Year, with a view to giving the staff a taste of festive atmosphere in joy and happiness, so as to strengthen the interaction between the staff, improve the morale and enhance team bonding and vitality.

III. OPERATING PRACTICE

1. Supply chain management

The Group attaches great importance to business quality, thereby adhering to the principle of fairness, justice and openness in terms of selection of suppliers. To this end, Founder Electronics has formulated the "Supplier Introduction Rules", with a view to selecting appropriate suppliers in strict compliance with the rules and regulations. The procedures for introduction of suppliers involve control by various departments of the Company, including the product department, procurement department, R&D center, etc. In response to the changes in the business environment and needs for business development, the Company exercises caution in introducing new suppliers while reviewing the existing structure of supply on a regular basis in order to enhance the ability of supply channels by choosing the best in terms of quality, price and commercial conditions. The Group will arrange on-site visits to the manufacturers regularly in light of its attention to the testing and verification on product quality. In addition, a stringent standard for selection of suppliers with qualifications is in place and the specific requirements are as follows:

- Basic qualification requirement: Suppliers shall provide respective records of their qualifications, including the certificate of Unified Social Credit Number, identity card of legal person, basic information and financial statements of suppliers, etc. If the supplier is a channel provider, it is also required to provide the qualification document proving that it is duly authorised by the manufacturers;

- Focus of Review: Founder Electronics will perform due diligence on basic information of suppliers and evaluate if their operating condition is excellent from the corporate financial statements to estimate its performance ability;

- Requirements on commercial conditions: Founder Electronics will enter into supplier contracts/agreements and non-corruption agreement with the suppliers who can satisfy the qualification requirements. The agreements will specify the terms upon mutual agreement, such as the payment condition, delivery date and after-sale terms and will be subject to approval by the legal, operation, procurement and financial departments;

- Qualifications of Environmental Assessment: For suppliers engaging in processing, Founder Electronics maintains strict requirement on the qualifications of environmental assessment of manufacturers, otherwise it will refuse such cooperation;

- Specific description: Founder Electronics exercises caution to a certain extent in introducing new suppliers and the differences of commercial conditions between suppliers newly introduced and the existing ones must be specified.

Founder Electronics will conduct regular assessment on the suppliers that they are cooperating with. If the supplier fails the assessment, Founder Electronics will take action to terminate the cooperation immediately.

2. Product responsibility

Founder Electronics is always committed to research and development of innovative products, with a view to providing customers with leading information processing technology, products, solutions and value-added services with high efficiency and quality through enhancement in service quality of business and advanced technologies. In March 2017, the K300S Variable Data Jet Printing System of Founder Jieying (方正桀鷹K300S可變資料噴印系統) was launched at the 24th Labelling Exhibition of Southern China (華南標籤展), which satisfied new demands of customers in printing numerous variable data, customised label printing and security label printing. During the year, the Group was awarded the "2016–2017 Innovative Technology in Digital Publishing (2016–2017年度數字出版創新技術)", demonstrating the Group's determination in providing customers with innovative experience by continuously developing new technologies as a technology frontier.

The Group is in strict compliance with the stringent requirements laid down by the national and local regulatory authorities on customer services and products. Founder Electronics, adhering to the principle of being customer-oriented, has developed a stringent system on controlling product quality in addition to the legal requirements, checking every process in respect of products and services to ensure steady and reliable quality of products, so as to provide the best customer service experience.

3. Anti-corruption

The Group firmly opposes corruption, favoritism and irregularities. To eliminate corruption and deceit and uphold the principle of impartiality and integrity, Founder Electronics has formulated a series of standards and regulations to eliminate such acts in every business from the source. Staff is prohibited from accepting advantages from suppliers, customers, colleagues and others when performing duties. The Group is also committed to promoting the style of honesty and justice throughout Founder Electronics, requiring staff to comply with the ethical standards and develop business adhering to the highest standard of integrity, so as to enhance the overall integrity of the Group.

IV. PUBLIC SERVICE

The Company is always committed to serving and contributing to the society by proactively participating in various public services. As a leading enterprise in the modern printing and media technology in China, Founder Electronics has made strenuous efforts in understanding the needs of society, proactively sharing the results of technological innovation and research and development of the Company with the society. It also enhanced the cultural development of the society by organising activities involving social education, cultural diffusion and internet, so as to promote social civilisation.

Founder Electronics has held "New Media Creative Competition for Chinese University Students (中國大學生新媒體創意大賽)" for several times since 2013 and established a "Practical Teaching and Learning Base" in joint efforts with schools and social enterprises, proactively promoting innovative media culture through practical teaching in universities, so as to promote the progress of forming a link for media industry in China for cultural heritage. Such efforts also aimed at arousing the interests of the new generation in media industry through competitions, with a view to enhancing the quality of media culture and cultivating more talents for the industry.

IV. PUBLIC SERVICE *(continued)*

Founder Electronics is committed to promoting the philosophy of humanity and technology. It has served the society by promoting genuine fonts through offering of the authorised genuine fonts free of charge for advertising and promotion of public service, taking initiative in assuming its social responsibility of being the world's largest manufacturer of Chinese font library. For instance, it offered files of authorised genuine fonts free of charge or with discounts to public service activities, public service organisations and special enterprises receiving government's aid. In the recent two years, Founder Electronics successively offered files of authorised genuine fonts free of charge to more than 30 institutions, including Lu Xun Cultural Foundation, The Nature Conservancy, Beijing Chunhui Children Aid Foundation (北京春暉博愛兒童救助公益基金會), Sichuan Haihui Poverty Alleviation Service Center, Sichuan Longqiao Moonbear Rescue Centre (四川龍橋黑熊救護中心) and Dabei Temple (大悲寺) in Haicheng, Liaoning. Since 22 April 2014, Founder Electronics has also offered files of authorised genuine fonts free of charge to design schools across China, including Central Academy of Fine Arts and Academy of Arts & Design, Tsinghua University, contributing to the education industry in nurturing talents.

IV. PUBLIC SERVICE *(continued)*

Founder Electronics' achievements in performing its corporate social responsibilities in China were also well-recognised by the general public.

Founder font library, the font library business of Founder Electronics, was awarded the "2017 Chinese Enterprises Striving for Excellence Award (2017年度中國臻善企業獎)" by jiemian.com (界面新聞) under Shanghai United Media Group, which recognised Founder Electronics' efforts in actively assuming the social responsibility in addition to its development. As the world's largest provider of Chinese font library, Founder Electronics was honoured to be the only enterprise awarded in the cultural and creative industry. In recent years, Founder Electronics has actively promoted industry development and cultural exchange by "taking fonts as the media", with a view to giving ancient Chinese characters vitality in a digitalised world today.

Founder Electronics has always been caring for the society, hoping to build a better society with favourable environment for future development of enterprises. To this end, Founder Electronics will take lead in participating in public service activities to contribute to the society together with its employees. Looking ahead, Founder Electronics will build on the past and prepare for the future by actively planning various social activities and devoting itself to the long-term development of public service.

EXECUTIVE DIRECTORS

Mr Cheung Shuen Lung, aged 61, is an executive director and chairman of the Company since December 2016. He is also the executive director and chairman of Peking University Resources (Holdings) Company Limited ("PKU Resources") (stock code: 00618), a company listed on the main board of The Stock Exchange of Hong Kong Limited ("Main Board"). Peking University Founder Group Company Limited* (北大方正集團有限公司) ("Peking Founder") is the substantial shareholder of the Company and PKU Resources. He is the director of Peking Founder and is one of the founders of Peking Founder. He is also a director of a number of subsidiaries of the Company. He is a research fellow of the Enterprise Research Institute at Peking University and is an MBA alumni trainer of Peking University Guanghua School of Management. Mr Cheung is famed for his prestige and has extensive experience in the information technology industry in the People's Republic of China (the "PRC").

Mr Shao Xing, aged 53, is the president and executive director of the Company since July 2016. He joined the Group in April 2016 and has extensive experience in the operation of software development and systems integration business. He is the director of a number of subsidiaries of the Company. He is the vice president of Peking University Founder Information Industry Group Co., Ltd.* ("PKU Founder Information") (北大方正信息產業集團有限公司), the subsidiary of Peking Founder and substantial shareholder of the Company. He received his bachelor's degree in electrical engineering industrial automation and master degree in biomedical engineering and instrument at Zhejiang University in the PRC. He is also a senior engineer in the PRC. He is responsible for long-term strategic development of the Group.

Ms Zuo Jin, aged 44, is an executive director of the Company since March 2014 and the vice president and chief financial officer of PKU Founder Information. She is the director of Founder Technology Group Corporation ("Founder Technology") (方正科技集團股份有限公司) (stock code: 600601), a company in which 11.65% of equity interest is held by PKU Founder Information, and listed on the Shanghai Stock Exchange. She is the director of associated companies of Peking Founder and a number of 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.

Mr Hu Bin, aged 39, is an executive director of the Company since December 2016. He is the general manager of assets management department of Peking Founder. He is a director of (i) China Hi-Tech Group Co., Ltd. ("China Hi-Tech") (中國高科集團股份有限公司) (stock code: 600730), a company in which 20.03% of equity interest is held by Peking Founder; (ii) Founder Securities Co., Ltd. ("Founder Securities") (方正證券股份有限公司) (stock code: 601901), a company in which 27.75% of equity interest is held by Peking Founder; and (iii) Founder Technology. The shares of China Hi-Tech, Founder Securities and Founder Technology are listed on the Shanghai Stock Exchange. He is also a director of associated companies of Peking Founder and a subsidiary of the Company. Mr Hu received his bachelor's degree in accounting at Beijing University of Technology in the PRC. He is a Certified Public Accountant in the PRC, member of the Association of Chartered Certified Accountants in the United Kingdom and CFA charterholder. Prior to joining Peking Founder in 2016, he was a senior manager of an international firm of Certified Public Accountants. Mr Hu has extensive knowledge and experience in financial management.

Mr Cui Yun Tao, aged 39, is an executive director of the Company since December 2016. He is the general manager of financial management department of Peking Founder. He is also a director of associated companies of Peking Founder and a subsidiary of the Company. Mr Cui received his bachelor's degree in accounting at Wuhan University of Technology in the PRC. He obtained a postgraduate diploma of capital and financial management in Central University of Finance and Economics and senior accountant qualification certificate in the PRC. Mr Cui has extensive experience in corporate finance, economics and management.

* *For identification purpose only*

Ms Liao Hang, aged 39, is an executive director of the Company since December 2016. She is the general manager of legal department of Peking Founder. She is the executive director of PKU Resources since March 2017. She is also a director of Founder Securities. She is the director of a subsidiary of the Company. Ms Liao received her bachelor's degree in trading economy and economic law and master degree in economic law at Minzu University of China in the PRC. She obtained legal professional qualification certificate in the PRC and has extensive experience in legal professional experience.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr Li Fat Chung, aged 57, is an independent non-executive director of the Company since December 1999. He is also the independent non-executive director of PKU Resources. 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 Institute of Chartered Accountants in England and Wales, 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 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 54, is an independent non-executive director of the Company since September 2004. She is also the independent non-executive director of PKU Resources. 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 Chan Chung Kik, Lewis, aged 45, is an independent non-executive director of the Company since March 2017. He is the chief financial officer and joint company secretaries of Denox Environmental & Technology Holdings Limited (stock code: 1452), a company listed on Main Board. He is an independent non-executive director of (i) Shandong Xinhua Pharmaceutical Company Limited (山東新華製藥股份有限公司), a company listed on the Main Board (stock code: 719) and the Shenzhen Stock Exchange (stock code: 000756); (ii) HongGuang Lighting Holdings Company Limited (stock code: 8343), a company listed on the GEM of The Stock Exchange of Hong Kong Limited; (iii) PKU Resources since March 2017; and (iv) Wing Chi Holdings Limited (stock code: 6080), a company listed on the Main Board, since September 2017. Mr. Chan obtained a bachelor degree of commerce in accounting from the University of Canberra in Australia in September 1997. He is currently a fellow of the Hong Kong Institute of Certified Public Accountants and a member of CPA Australia. He has extensive experience in auditing, accounting and corporate finance.

The directors present their report and the audited financial statements for the year ended 31 December 2017.

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 1 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 2017 and the Group's financial position at that date are set out in the financial statements on pages 42 to 119.

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

BUSINESS REVIEW

A review of the business of the Group during the year and a discussion on the Group's future business development, possible risks and uncertainties that the Group may be facing are set out in the sections headed "Management Discussion and Analysis" on pages 4 to 8 of the annual report.

The financial risk management objectives and policies of the Group are set out in note 36 to the financial statements.

An analysis of the Group's performance during the year using financial key performance indicators is set out in the sections headed "Management Discussion and Analysis" on pages 4 to 8 and "Financial Highlights" on page 3 of the annual report.

Discussion on the Group's environment policies, relationships with its employees, customers, suppliers and other key stakeholders and compliance with relevant laws and regulations which have a significant impact on the Group are set out in the section headed "Environmental, Social and Governance Report" on pages 16 to 26 of the annual report.

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 122. This summary does not form part of the audited financial statements.

SHARE CAPITAL

There were no movements in the Company's share capital during the year.

PRE-EMPTIVE RIGHTS

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

MANAGEMENT CONTRACT

No contracts in respect of the management or administration of the whole or any substantial part of the business of the Company were entered into or subsisted during the year.

DISTRIBUTABLE RESERVES

At 31 December 2017, the Company's reserves available for distribution amounted to approximately HK$186,517,000. In addition, the Company's share premium account, in the amount of approximately HK$53,597,000, 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 35% of the total purchase for the year and purchase from the largest included therein amounted to 11%.

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 interests in the Group's five largest suppliers and customers.

DIRECTORS

The directors of the Company during the year were:

Executive directors:

Mr Cheung Shuen Lung
Mr Shao Xing
Ms Zuo Jin
Mr Hu Bin
Mr Cui Yun Tao
Ms Liao Hang

Independent non-executive directors:

Mr Li Fat Chung
Ms Wong Lam Kit Yee
Mr Chan Chung Kik, Lewis (Appointed on 31 March 2017)
Mr Fung Man Yin, Sammy (Resigned on 31 March 2017)

In accordance with the bye-laws of the Company, Mr Cheung Shuen Lung, Mr Shao Xing and Ms Wong Lam Kit Yee will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

The Company has received annual confirmations of independence from each of its independent non-executive directors, and as at the date of this report still considers them to be independent.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 27 to 28 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, responsibilities within the Group.

PERMITTED INDEMNITY PROVISION

A permitted indemnity provision for the benefit of the directors is currently in force and was in force throughout the financial year. The Company has taken out and maintained appropriate insurance cover in respect of potential legal actions against its directors and officers.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

No director nor a connected entity of a director had a material interest, either directly or indirectly, in any transactions, arrangements or contracts of significance to the business of the Group to which any of the Company's subsidiaries was a party during the year.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURE

At 31 December 2017, the interests and short positions of the directors in the share capital, underlying shares and debenture 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 Shao Xing	Directly beneficially owned	5,071,556	0.42

Save as disclosed above, as at 31 December 2017, 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.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 31 December 2017, so far it is known to the directors of the Company, 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	30.60
北大方正集團有限公司 (Peking University Founder Group Company Limited*) ("Peking Founder")	2	Through a controlled corporation	367,179,610	30.60
北大方正信息產業集團有限公司 (Peking University Founder Information Industry Group Co., Ltd.*) ("PKU Founder Information")		Directly beneficially owned	367,179,610	30.60

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 PKU Founder Information.

Save as disclosed above, so far it is known to the directors of the Company, as at 31 December 2017, no person 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.

* *For identification purpose only*

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").

(a) On 31 December 2015, Beijing Founder Electronics Co., Ltd. ("Founder Electronics"), 北京方正印捷數碼技術有限公司 (Beijing Founder EasiPrint Digital Technology Co., Ltd.) ("Founder EasiPrint") and 北京方正數字印刷技術有限公司 (Beijing Founder Digital Printing Technology Co., Ltd.) ("Founder Digital Printing") renewed the lease agreements and management agreements with the subsidiary of Peking Founder to lease the premises in Beijing from 1 January 2016 to 31 December 2017, for the aggregate of annual rental and management fees of RMB7,900,000 and RMB4,135,000 (equivalent to approximately HK$9,202,000 and HK$4,816,000) for the year 2016 and RMB8,931,000 and RMB4,135,000 (equivalent to approximately HK$10,403,000 and HK$4,816,000) for the year 2017. Further details of the transaction were set out in the announcement of the Company dated 31 December 2015.

On 8 August 2016, Founder Electronics entered into a new lease agreement and management agreement with the subsidiary of Peking Founder to lease certain premises in Beijing, for the period from 8 August 2016 to 31 December 2017, for the aggregate of rental and management fees of RMB364,000 and RMB131,000 (equivalent to approximately HK$424,000 and HK$153,000) for the period from 8 August 2016 to 31 December 2016 and RMB847,000 and RMB293,000 (equivalent to approximately HK$983,000 and HK$340,000) for the year 2017. Further details of the transaction were set out in the announcement of the Company dated 8 August 2016.

During the year, rental and management fees of approximately HK$15,655,000 (2016: HK$14,595,000) were paid by Founder Electronics, Founder EasiPrint and Founder Digital Printing to the subsidiary of Peking Founder. The directors consider that the rental and management fees were paid in accordance with the terms of the lease agreement.

On 28 December 2017, Founder Electronics, Founder EasiPrint and Founder Digital Printing renewed the lease agreements and management agreements with the subsidiary of Peking Founder to lease the premises in Beijing from 1 January 2018 to 31 December 2019, for the aggregate of rental and management fees of RMB8,931,000 and RMB4,620,000 (equivalent to approximately HK$10,557,000 and HK$5,460,000) for the year of 2018 and 2019. Further details of the transaction were set out in the announcement of the Company dated 28 December 2017.

(b) On 30 December 2014, the Company entered into a master agreement with Peking Founder for the purchase of information products and research and development services from Peking Founder and its subsidiaries (collectively "Peking Founder Group") for a term of three years from 1 January 2015 to 31 December 2017. Further details of the transaction were set out in the announcement of the Company dated 30 December 2014.

During the year, products and services of approximately HK$377,000 (2016: HK$5,841,000) were purchased from Peking Founder Group. The directors consider that the purchases of products and services were made in accordance with the master agreements.

On 3 November 2017, the Company and Peking Founder entered into a master purchase agreement to extend the term for the period from 1 January 2018 to 31 December 2020. Further details of the transaction were set out in the announcement of the Company dated 3 November 2017.

(c) On 16 June 2016, the Company entered into a master agreement with Peking Founder for the sales of information products, hardware and software development services and system integration services to Peking Founder Group for the period from 20 July 2016 to 31 December 2018. Further details of the transaction were set out in the announcement of the Company dated 16 June 2016.

During the year, sales of information products, hardware and software development services and system integration services of approximately HK$5,260,000 (2016: HK$6,928,000) were made to Peking Founder Group. The directors consider that the sales of information products and system integration services and commission fee were made in accordance with the master agreement.

(d) On 28 July 2014, the Company renewed an entrusted loan master agreement entered into with Peking Founder, pursuant to which the Group would provide short term loans through a financial institution to Peking Founder Group for the three years ended 31 December 2016. Such loans will be unsecured and interest-bearing at the prevailing benchmark Renminbi lending rate for a loan period of six months offered by the PBOC plus 15%. Further details of the transaction were set out in the announcement of the Company dated 28 July 2014.

On 25 October 2016, the Company renewed an entrusted loan master agreement with Peking Founder, pursuant to which the Group would provide short term loans through a financial institution to Peking Founder Group for the three years ending 31 December 2019. Such loans will be unsecured and interest-bearing at the prevailing benchmark Renminbi lending rate for a loan period of six months offered by the PBOC plus 15%. Further details of the transaction were set out in the announcement of the Company dated 25 October 2016.

For the year ended 31 December 2016, entrusted loans in the amounts of RMB260,000,000 (equivalent to approximately HK$291,200,000), RMB140,000,000 (equivalent to approximately HK$156,800,000) and RMB80,000,000 (equivalent to approximately HK$89,600,000) were provided to Peking Founder, PKU Founder Information and a subsidiary of Peking Founder, respectively. The entrusted loans are unsecured and bear interest at rates ranging from 6.0% to 6.31% per annum. The entrusted loans were settled by 15 July 2016 as to the amount of RMB40,000,000 (equivalent to approximately HK$44,800,000), 16 November 2016 as to the amount of RMB130,000,000 (equivalent to approximately HK$145,600,000) and 15 December 2016 as to the amount of RMB80,000,000 (equivalent to approximately HK$89,600,000). The entrusted loans of RMB230,000,000 (equivalent to approximately HK$257,600,000) and the related interest receivable of RMB1,254,000 (equivalent to approximately HK$1,405,000) remained undue and were included in prepayments, deposits and other receivables as at 31 December 2016 and were fully settled by 20 February 2017.

For the year ended 31 December 2017, entrusted loans in the amounts of RMB590,000,000 (equivalent to approximately HK$704,460,000) and RMB200,000,000 (equivalent to approximately HK$238,800,000) were provided to PKU Founder Information and 北大資源集團有限公司 (PKU Resources Group Co., Ltd.*), respectively. The entrusted loans are unsecured and bear interest at rates ranging from 6.3% to 7.0% per annum. The entrusted loans were settled by 27 July 2017 as to the amount of RMB50,000,000 (equivalent to approximately HK$59,700,000), 18 August 2017 as to the amount of RMB200,000,000 (equivalent to approximately HK$238,800,000), 27 October 2017 as to the amount of RMB120,000,000 (equivalent to approximately HK$143,280,000) and 31 October 2017 as to the amount of RMB50,000,000 (equivalent to approximately HK$59,700,000). The entrusted loans of RMB370,000,000 (equivalent to approximately HK$441,780,000) and the related interest receivable of RMB830,000 (equivalent to approximately HK$991,000) remained undue and were included in prepayments, deposits and other receivables as at 31 December 2017. Subsequent to the end of the reporting period, the entrusted loans of RMB370,000,000 (equivalent to approximately HK$441,780,000) and interest receivables of RMB830,000 (equivalent to approximately HK$991,000) were settled by PKU Founder information.

During the year, interest income earned by the Group from Peking Founder Group amounted to HK$21,442,000 (2016: HK$10,732,000). The directors consider that the provision of entrusted loans and the receipt of interest income from Peking Founder Group were made in accordance with the entrusted loan master agreement.

* *For identification purpose only*

Continuing connected transactions

The independent non-executive directors of the Company have reviewed the continuing connected transactions as set out above 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.56 of the Listing Rules. A copy of the auditors' letter has been provided by the Company to the Stock Exchange.

SUFFICIENCY OF PUBLIC FLOAT

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

AUDITORS

Ernst & Young will retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting. The Company has not changed its auditor in the preceding three years.

ON BEHALF OF THE BOARD

Cheung Shuen Lung
Chairman

Hong Kong
23 March 2018

INDEPENDENT AUDITOR'S REPORT

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

安永會計師事務所
香港中環添美道1號
中信大廈22樓

Tel 電話: +852 2846 9888
Fax 傳真: +852 2868 4432
ey.com

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

OPINION

We have audited the consolidated financial statements of Founder Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 42 to 119, which comprise the consolidated statement of financial position as at 31 December 2017, 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 notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

EY 安永

Key audit matter	How our audit addressed the key audit matter
Valuation of land and buildings and investment properties The Group measures its land and buildings and investment properties at fair value. As at 31 December 2017, the carrying amounts of these assets amounted to HK$339,660,000 and HK$117,879,000, respectively, which in aggregate represented 25% of the Group's total assets. The fair value measurement of these properties is subjective and requires management to make significant estimates. To assist with their determination of the fair value, management engaged external property valuation appraisers to perform the valuations. The valuations are based on various assumptions, such as estimated rental revenues, discount rates, market knowledge and historical transactions. Relevant disclosures are included in notes 3, 12 and 13 to the consolidated financial statements.	Our audit procedures included evaluating the quality, objectivity, independence and expertise of the external property valuation appraisers, and assessing the accuracy of the property-related data used for the valuations. In addition, we assessed the underlying assumptions through comparison with available external data. We also involved our internal valuation specialists to assist us in assessing the valuation model and the parameters used. We then focused on the adequacy of the disclosures of the valuation of the land and buildings and investment properties in the financial statements.
Impairment of trade receivables As at 31 December 2017, the carrying amount of trade receivables before provision for impairment amounted to HK$159,280,000, which was included in the amount of trade and bills receivables before provision for impairment of HK$196,186,000. Management is required to assess whether a provision for impairment is needed in respect of those trade receivables that might not be fully collectable. The determination as to whether a trade receivable is collectable involves management judgements. Management considers specific factors including the ageing of the balance, historical payment patterns, existence of disputes, and any other available information concerning the creditworthiness of the counterparties. As at 31 December 2017, the impairment provision recorded for trade receivables was HK$34,802,000. Relevant disclosures are included in notes 3 and 19 to the consolidated financial statements.	We assessed management's processes and controls relating to the monitoring of trade receivables to identify collection risks. We understood management's assessment on the recoverability and tested the ageing analysis of trade receivables. We also tested the receipts of cash after the year end and checked, on a sample basis, the underlying documentation supporting the recoverability of the outstanding balances. We then assessed the methodology used by management for the Group's provisioning policy and evaluated the adequacy of the provision.

Key audit matter	**How our audit addressed the key audit matter**
Percentage of completion of systems integration contracts The Group derives a significant portion of its revenue from contracts that are accounted for by applying the percentage-of-completion ("POC") method. The POC method involves the use of significant management's judgements and estimates, including estimates of the progress towards completion and remaining costs to completion. Relevant disclosures are included in notes 3 and 5 to the consolidated financial statements.	 Our audit procedures included evaluating management's controls relating to revenue recognition, including the determination of total budgets, the percentage of completion and the timing of revenue recognition. In addition, we assessed management's process of identifying contract losses and evaluated the management's assumptions and estimates in relation to the revenue recognition through inquiry, reviewing material contracts and assessing the progress towards completion.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

In preparing the consolidated financial statements, the directors of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. 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.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

EY 安永

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Ng Siu Ki Ricky.

Ernst & Young
Certified Public Accountants
Hong Kong

23 March 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

YEAR ENDED 31 DECEMBER 2017

	NOTES	2017 HK$'000	2016 HK$'000
REVENUE	5	**993,493**	1,035,410
Cost of sales		**(554,710)**	(611,551)
Gross profit		**438,783**	423,859
Other income and gains	5	**124,431**	75,810
Selling and distribution expenses		**(232,624)**	(246,751)
Administrative expenses		**(92,987)**	(92,113)
Other expenses, net		**(140,039)**	(109,050)
Finance costs	7	**(6,571)**	(7,570)
Share of profits/(losses) of associates		**233**	(29)
PROFIT BEFORE TAX	6	**91,226**	44,156
Income tax	10	**(1,397)**	(3,976)
PROFIT FOR THE YEAR		**89,829**	40,180
Attributable to:			
Owners of the parent		**89,836**	40,235
Non-controlling interests		**(7)**	(55)
		89,829	40,180
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	11		
Basic and diluted		**HK7.5 cents**	HK3.4 cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

YEAR ENDED 31 DECEMBER 2017

	2017 HK$'000	2016 HK$'000
PROFIT FOR THE YEAR	**89,829**	40,180
OTHER COMPREHENSIVE INCOME/(LOSS)		
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:		
Changes in fair value of available-for-sale investment, net of tax	**15,834**	–
Share of other comprehensive income of associates	**310**	105
Exchange differences on translation of foreign operations	**44,026**	(32,977)
Net other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods	**60,170**	(32,872)
Other comprehensive income/(loss) not to be reclassified to profit or loss in subsequent periods:		
Revaluation adjustment of land and buildings, net of tax	**16,216**	(15,601)
Net other comprehensive income/(loss) not to be reclassified to profit or loss in subsequent periods	**16,216**	(15,601)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX	**76,386**	(48,473)
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR	**166,215**	(8,293)
Attributable to:		
Owners of the parent	**166,210**	(8,227)
Non-controlling interests	**5**	(66)
	166,215	(8,293)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 DECEMBER 2017

	NOTES	2017 HK$'000	2016 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	12	**359,419**	316,910
Investment properties	13	**117,879**	102,684
Investments in associates	14	**3,430**	5,155
Available-for-sale investments	15	**19,718**	3,467
Intangible assets	16	**–**	4,084
Deferred tax assets	26	**2,268**	1,975
Pledged deposits	21	**7,201**	3,649
Total non-current assets		**509,915**	437,924
CURRENT ASSETS			
Inventories	17	**103,810**	61,103
Gross amount due from contract customers	18	**17,744**	11,704
Trade and bills receivables	19	**161,384**	133,666
Prepayments, deposits and other receivables	20	**511,569**	319,516
Equity investments at fair value through profit or loss	22	**2,287**	591
Pledged deposits	21	**7,396**	13,638
Cash and cash equivalents	21	**509,277**	604,905
Total current assets		**1,313,467**	1,145,123
CURRENT LIABILITIES			
Trade and bills payables	23	**78,615**	54,464
Gross amount due to contract customers	18	**19,247**	21,696
Other payables and accruals	24	**358,791**	322,301
Interest-bearing bank borrowings	25	**161,119**	149,011
Tax payable		**5,443**	4,408
Total current liabilities		**623,215**	551,880
NET CURRENT ASSETS		**690,252**	593,243
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,200,167**	1,031,167
NON-CURRENT LIABILITIES			
Deferred tax liabilities	26	**61,033**	58,248
Net assets		**1,139,134**	972,919

	NOTES	2017 HK$'000	2016 HK$'000
EQUITY			
Equity attributable to owners of the parent			
Issued capital	27	**119,975**	119,975
Reserves	29	**1,018,975**	852,765
		1,138,950	972,740
Non-controlling interests		**184**	179
Total equity		**1,139,134**	972,919

Cheung Shuen Lung
Director

Shao Xing
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

YEAR ENDED 31 DECEMBER 2017

	Attributable to owners of the parent									
	Issued capital HK$'000	Share premium account HK$'000	Contributed surplus HK$'000	Land and buildings revaluation reserve HK$'000	Exchange fluctuation reserve HK$'000	General reserve HK$'000	Accumulated losses HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2016	119,975	53,597	867,910	293,997	10,102	56,542	(421,156)	980,967	245	981,212
Profit for the year	–	–	–	–	–	–	40,235	40,235	(55)	40,180
Other comprehensive income/ (loss) for the year:										
Revaluation adjustment of land and buildings, net of tax	–	–	–	(15,601)	–	–	–	(15,601)	–	(15,601)
Share of other comprehensive income of associates	–	–	–	–	101	4	–	105	–	105
Exchange differences on translation of foreign operations	–	–	–	–	(32,966)	–	–	(32,966)	(11)	(32,977)
Total comprehensive income/ (loss) for the year	–	–	–	(15,601)	(32,865)	4	40,235	(8,227)	(66)	(8,293)
Transfer to general reserve	–	–	–	–	–	5,039	(5,039)	–	–	–
At 31 December 2016	119,975	53,597*	867,910*	278,396*	(22,763)*	61,585*	(385,960)*	972,740	179	972,919

YEAR ENDED 31 DECEMBER 2017

	Attributable to owners of the parent										
	Issued capital HK$'000	Share premium account HK$'000	Contributed surplus HK$'000	Land and buildings revaluation reserve HK$'000	Available-for-sale investment revaluation reserve HK$'000	Exchange fluctuation reserve HK$'000	General reserve HK$'000	Accumulated losses HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2017	119,975	53,597	867,910	278,396	–	(22,763)	61,585	(385,960)	972,740	179	972,919
Profit for the year	–	–	–	–	–	–	–	89,836	89,836	(7)	89,829
Other comprehensive income for the year:											
Changes in fair value of available-for-sale investments, net of tax	–	–	–	–	15,834	–	–	–	15,834	–	15,834
Revaluation adjustment of land and buildings, net of tax	–	–	–	16,216	–	–	–	–	16,216	–	16,216
Share of other comprehensive income of associates	–	–	–	–	–	310	–	–	310	–	310
Exchange differences on translation of foreign operations	–	–	–	–	–	44,014	–	–	44,014	12	44,026
Total comprehensive income for the year	–	–	–	16,216	15,834	44,324	–	89,836	166,210	5	166,215
Transfer of revaluation reserve of land and buildings to accumulated losses	–	–	–	(31,275)	–	–	–	31,275	–	–	–
Transfer to general reserve	–	–	–	–	–	–	6,691	(6,691)	–	–	–
At 31 December 2017	119,975	53,597*	867,910*	263,337	15,834*	21,561	68,276	(271,540)	1,138,950	184	1,139,134

* These reserve accounts comprise the consolidated reserves of HK$1,018,975,000 (2016: HK$852,765,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED 31 DECEMBER 2017

	NOTES	2017 HK$'000	2016 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**91,226**	44,156
Adjustments for:			
Finance costs	7	**6,571**	7,570
Share of (profits)/losses of associates		**(233)**	29
Interest income	5	**(24,668)**	(13,581)
Fair value gains on investment properties	5	**(14,115)**	(3,399)
Gain on disposal of items of property, plant and equipment	5	**(3,086)**	(77)
Gain on disposal of intangible assets	5	**(6,636)**	–
Gain on disposal of an associate	5	**(224)**	–
Fair value (gains)/losses on equity investments at fair value through profit or loss	5	**(1,544)**	355
Depreciation	6	**15,202**	15,695
Amortisation of intangible assets	6	**2,158**	5,421
Impairment of trade receivables, net	6	**827**	118
Impairment of other receivables	6	**1,643**	7,526
Provision for obsolete inventories	6	**3,092**	–
Impairment of available-for-sale investments	6	**–**	3,155
		70,213	66,968
(Increase)/decrease in inventories		**(45,633)**	16,178
(Increase)/decrease in gross amount due from contract customers		**(6,040)**	15,438
(Increase)/decrease in trade and bills receivables		**(30,387)**	22,309
(Increase)/decrease in prepayments, deposits and other receivables		**(8,746)**	37,338
Decrease in gross amount due to contract customers		**(2,449)**	(6,942)
Increase/(decrease) in trade and bills payables		**24,151**	(11,694)
Increase/(decrease) in other payables and accruals		**36,490**	(60,336)
Exchange differences		**7,896**	(5,791)
Cash generated from operations		**45,495**	73,468
Interest received		**3,226**	2,849
Interest paid		**(6,571)**	(7,570)
Hong Kong profits tax (paid)/refunded		**(460)**	276
Corporate income tax paid in Mainland of the People's Republic of China ("Mainland China" or the "PRC")		**(5,837)**	(7,263)
Net cash flows from operating activities		**35,853**	61,760

YEAR ENDED 31 DECEMBER 2017

	NOTES	2017 HK$'000	2016 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**21,856**	11,119
Dividend received from an associate		**–**	68
Purchases of items of property, plant and equipment		**(21,519)**	(3,345)
Purchases of equity investments at fair value through profit or loss		**–**	(55)
Disposal of equity investments at fair value through profit or loss		**–**	36
Additions of investment properties	13	**(644)**	–
Proceeds from disposal of items of properties, plant and equipment		**1,021**	114
Proceeds from disposal of intangible assets		**8,671**	–
Proceeds from disposal of investments in associates		**470**	–
Proceeds from capital deduction of an associate		**2,022**	–
(Increase)/decrease in non-pledged time deposits with original maturity of more than three months when acquired		**(31,717)**	140,071
Advances of entrusted loans to related companies		**(943,260)**	(537,600)
Repayment of entrusted loans from related companies		**759,080**	480,600
Decrease in pledged deposits		**2,690**	6,649
Net cash flows (used in)/from investing activities		**(201,330)**	97,657
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans		**132,821**	111,079
Repayment of bank loans		**(125,104)**	(112,609)
Decrease in trust receipt loans		**(2,637)**	(3,867)
Net cash flows from/(used in) financing activities		**5,080**	(5,397)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(160,397)**	154,020
Cash and cash equivalents at beginning of year		**602,960**	470,857
Effect of foreign exchange rate changes, net		**33,052**	(21,917)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**475,615**	602,960
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	21	**410,805**	523,205
Non-pledged time deposits		**98,472**	81,700
Cash and cash equivalents as stated in the consolidated statement of financial position		**509,277**	604,905
Non-pledged time deposits with original maturity of more than three months when acquired		**(33,662)**	(1,945)
Cash and cash equivalents as stated in the consolidated statement of cash flows		**475,615**	602,960

1. CORPORATE AND GROUP INFORMATION

Founder Holdings Limited (the "Company") is a limited liability company incorporated in Bermuda. The registered office of the Company is located at Canon's Court, 22 Victoria Street, Hamilton, HM 12, Bermuda. The head office and principal place of business of the Company is 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, systems integration and distribution of information products.

Information about subsidiaries

Particulars of the Company's principal subsidiaries are as follows:

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Founder (Hong Kong) Limited ("Founder HK")	Hong Kong	Ordinary HK$977,974,378	100	–	Information products distribution and investment holding
Beijing Founder Electronics Co., Ltd. ("Founder Electronics") #*	PRC/ Mainland China	Registered HK$230 million	–	100	Software development, systems integration and information products distribution
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 RMB50 million	–	100	Software development and information products distribution
北京方正數字印刷技術有限公司 (Beijing Founder Digital Printing Technology Co., Ltd.@) ("Founder Digital Printing") ^*	PRC/ Mainland China	Registered RMB5 million	–	100	Information products distribution
Founder Electronics (HK) Limited	Hong Kong	Ordinary HK$2	–	100	Information products distribution
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

1. CORPORATE AND GROUP INFORMATION *(continued)*

Information about subsidiaries *(continued)*

Particulars of the Company's principal subsidiaries are as follows: *(continued)*

@ For identification purposes only

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

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

^ Registered as limited liability companies under PRC law

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

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 the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties, land and buildings classified as property, plant and equipment, available-for-sale investments and equity investments at fair value through profit or loss 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 2017. 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 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.

2.1 BASIS OF PREPARATION *(continued)*

Basis of consolidation *(continued)*

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

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

Amendments to HKAS 7	*Disclosure Initiative*
Amendments to HKAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*
Amendments to HKFRS 12 included in *Annual Improvements to HKFRSs 2014–2016 Cycle*	*Disclosure of Interests in Other Entities: Clarification of the Scope of HKFRS 12*

The nature and the impact of the amendments are described below:

(a) Amendments to HKAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

(b) Amendments to HKAS 12 clarify that an entity, when assessing whether taxable profits will be available against which it can utilise a deductible temporary difference, needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. The amendments have had no impact on the financial position or performance of the Group as the Group has no deductible temporary differences or assets that are in the scope of the amendments.

(c) Amendments to HKFRS 12 clarify that the disclosure requirements in HKFRS 12, other than those disclosure requirements in paragraphs B10 to B16 of HKFRS 12, apply to an entity's interest in a subsidiary, a joint venture or an associate, or a portion of its interest in a joint venture or an associate that is classified as held for sale or included in a disposal group classified as held for sale. The amendments have had no impact on the Group's financial statements as the Group did not have any disposal group held for sale as at 31 December 2017.

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.

Amendments to HKFRS 2	*Classification and Measurement of Share-based Payment Transactions*[1]
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*[1]
HKFRS 9	*Financial Instruments*[1]
Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*[2]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
HKFRS 15	*Revenue from Contracts with Customers*[1]
Amendments to HKFRS 15	*Clarifications to HKFRS 15 Revenue from Contracts with Customers*[1]
HKFRS 16	*Leases*[2]
HKFRS 17	*Insurance Contracts*[3]
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*[2]
Amendments to HKAS 40	*Transfers of Investment Property*
HK(IFRIC)-Int 22	*Foreign Currency Transactions and Advance Consideration*[1]
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*[2]
Annual Improvements 2014–2016 Cycle	Amendments to HKFRS 1 and HKAS 28[1]
Annual Improvements 2015–2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23[2]

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for annual periods beginning on or after 1 January 2019
3 Effective for annual periods beginning on or after 1 January 2021
4 No mandatory effective date yet determined but available for adoption

Whilst management has performed a detailed assessment of the estimated impacts of these standards, that assessment is based on the information currently available to the Group. The actual impacts upon adoption could be different to those below, depending on additional reasonable and supportable information being made available to the Group at the time of applying the standards. Further information about those HKFRSs that are expected to be applicable to the Group is described below:

In September 2014, the HKICPA issued the final version of HKFRS 9, bringing together all phases of the financial instruments project to replace HKAS 39 and all previous versions of HKFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group will adopt HKFRS 9 from 1 January 2018. During 2017, the Group has performed a detailed assessment of the impact of the adoption of HKFRS 9. The amendments are not expected to have any significant impact on the Group's financial statements. The expected impacts relate to the classification and measurement and the impairment requirements and are summarised as follows:

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

(a) Classification and measurement

The Group does not expect that the adoption of HKFRS 9 will have a significant impact on the classification and measurement of its financial assets. It expects to continue measuring at fair value all financial assets currently held at fair value. Equity investments currently held as available for sale will be measured at fair value through other comprehensive income as the investments are intended to be held for the foreseeable future and the Group expects to apply the option to present fair value changes in other comprehensive income. Gains and losses recorded in other comprehensive income for the equity investments cannot be recycled to profit or loss when the investments are derecognised.

(b) Impairment

HKFRS 9 requires an impairment on debt instruments recorded at amortised cost or at fair value through other comprehensive income, lease receivables, loan commitments and financial guarantee contracts that are not accounted for at fair value through profit or loss under HKFRS 9, to be recorded based on an expected credit loss model either on a twelve-month basis or a lifetime basis. The Group will apply the simplified approach and record lifetime expected losses that are estimated based on the present values of all cash shortfalls over the remaining life of all of its trade receivables. Furthermore, the Group will apply the general approach and record twelve-month expected credit losses that are estimated based on the possible default events on its other receivables within the next twelve months. The Group does not expect that the adoption of HKFRS 9 will have a significant impact on the impairment of its financial assets.

Amendments to HKFRS 10 and HKAS 28 (2011) address an inconsistency between the requirements in HKFRS 10 and in HKAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to HKFRS 10 and HKAS 28 (2011) was removed by the HKICPA in January 2016 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for adoption now.

HKFRS 15, issued in July 2014, establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under HKFRSs. Either a full retrospective application or a modified retrospective adoption is required on the initial application of the standard. In June 2016, the HKICPA issued amendments to HKFRS 15 to address the implementation issues on identifying performance obligations, application guidance on principal versus agent and licences of intellectual property, and transition. The amendments are also intended to help ensure a more consistent application when entities adopt HKFRS 15 and decrease the cost and complexity of applying the standard. The Group plans to adopt the transitional provisions in HKFRS 15 to recognise the cumulative effect of initial adoption as an adjustment to the opening balance of accumulated loss at 1 January 2018. In addition, the Group plans to apply the new requirements only to contracts that are not completed before 1 January 2018. The Group expects that the transitional adjustment to be made on 1 January 2018 upon initial adoption of HKFRS 15 will not be material. However, the expected changes in accounting policies, as further explained below, will have a material impact on the Group's financial statements from 2018 onwards. During 2017, the Group has performed a detailed assessment on the impact of the adoption of HKFRS 15.

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

The Group's principal activities consist of the sale of software development, systems integration and distribution of information products. The expected impacts arising from the adoption of HKFRS 15 on the Group are summarised as follows:

(a) Financing component of accounting receivables

The Group offers exquisite and high quality Founder Font library copyrights for customers. Currently, when the Font library copyright becomes effective, the Group recognises the entire contract amount into revenue as no additional cost will incur in subsequent periods. Upon the adoption of HKFRS 15, when determining the revenue amount, the Group will adjust the contract sum after taking into consideration of the effects of the time value of money, as there is an implicit financing benefit provided to the customer with a contract with long payment term. The revenue from contracts with long payment terms will be recognised at a point when control of the asset is transferred to the customer, generally upon delivery of the copyrights, and considering the time value of money, the significant financing component will be recognised as deferred revenue and to be amortised over the contract period and the corresponding adjustment amount is yet to be finalised.

(b) Presentation and disclosure

The presentation and disclosure requirements in HKFRS 15 are more detailed than those under the current HKAS 18. The presentation requirements represent a significant change from current practice and will significantly increase the volume of disclosures required in the Group's financial statements. Many of the disclosure requirements in HKFRS 15 are new and the Group has assessed that the impact of some of these disclosure requirements will be significant. As required by HKFRS 15, the Group will disaggregate revenue recognised from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors.

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

(b) Presentation and disclosure *(continued)*

HKFRS 16, issued in May 2016, replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases – Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e. the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in HKAS 40, or relates to a class of property, plant and equipment to which the revaluation model is applied. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under HKFRS 16 is substantially unchanged from the accounting under HKAS 17. Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between operating leases and finance leases. HKFRS 16 requires lessees and lessors to make more extensive disclosures than under HKAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group expects to adopt HKFRS 16 from 1 January 2019. The Group is currently assessing the impact of HKFRS 16 upon adoption and is considering whether it will choose to take advantage of the practical expedients available and which transition approach and reliefs will be adopted. As disclosed in note 32(b) to the financial statements, at 31 December 2017, the Group had future minimum lease payments under non-cancellable operating leases in aggregate of approximately HK$24,520,000. Upon adoption of HKFRS 16, certain amounts included therein may need to be recognised as new right-of-use assets and lease liabilities. Further analysis, however, will be needed to determine the amount of new rights of use assets and lease liabilities to be recognised, including, but not limited to, any amounts relating to leases of low-value assets and short term leases, other practical expedients and reliefs chosen, and new leases entered into before the date of adoption.

HKFRS 17, issued in May 2017, replaces HKFRS 4, which was brought in as an interim standard in 2004. HKFRS 4 has given companies dispensation to carry on accounting for insurance contracts using national accounting standards, resulting in a multitude of different approaches. As a consequence, it is difficult for investors to compare and contrast the financial performance of otherwise similar companies. HKFRS 17 solves the comparison problems created by HKFRS 4 by requiring all insurance contracts to be accounted for in a consistent manner, benefiting both investors and insurance companies. Insurance obligations will be accounted for using current values – instead of historical cost. The information will be updated regularly, providing more useful information to users of financial statements.

Amendments to HKFRS 28, issued in October 2017, clarify that companies account for long-term interests in an associate or joint venture, to which the equity method is not applied, using HKFRS 9. In applying HKFRS 9, the entity does not take account of any adjustments to the carrying amount of long-term interests that arise from applying this standard.

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

(b) Presentation and disclosure *(continued)*

HK(IFRIC)-Int 22, issued in June 2017, provides guidance on how to determine the date of the transaction when applying HKAS 21 to the situation where an entity receives or pays advance consideration in a foreign currency and recognises a non-monetary asset or liability. The interpretation clarifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset (such as a prepayment) or non-monetary liability (such as deferred income) arising from the payment or receipt of the advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the entity must determine the transaction date for each payment or receipt of the advance consideration. Entities may apply the interpretation on a full retrospective basis or on a prospective basis, either from the beginning of the reporting period in which the entity first applies the interpretation or the beginning of the prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation. The Group expects to adopt the interpretation prospectively from 1 January 2018. The interpretation is not expected to have any significant impact on the Group's financial statements.

HK(IFRIC)-Int 23, issued in July 2017, addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of HKAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. The interpretation is to be applied retrospectively, either fully retrospectively without the use of hindsight or retrospectively with the cumulative effect of application as an adjustment to the opening equity at the date of initial application, without the restatement of comparative information. The Group expects to adopt the interpretation from 1 January 2019. The interpretation is not expected to have any significant impact on the Group's financial statements.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments in associates and joint ventures *(continued)*

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 statement of 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.

Fair value measurement

The Group measures its land and buildings, investment properties, equity investments at fair value through profit or loss and available-for-sale investments 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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Fair value measurement *(continued)*

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.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, gross amount due from contract customers, and financial assets), 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, 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.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Related parties *(continued)*

(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);

(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); and

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

Property, plant and equipment and depreciation

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

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the 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 a 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 losses as a movement in reserves.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

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

Land and buildings	Over the lease terms
Leasehold improvements	20% or over the lease terms, whichever is shorter
Furniture, fixtures and office equipment	20% to $33^1/_3$%
Machinery and equipment	$16^2/_3$% to 20%
Motor vehicles	10% to 30%

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

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the 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.

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.

For a transfer from investment properties to owner-occupied properties or inventories, the deemed cost of a property for subsequent accounting is its fair value at the date of change in use. If a property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under "Property, plant and equipment and depreciation" up to the date of change in use, and any difference at that date between the carrying amount and the fair value of the property is accounted for as a revaluation in accordance with the policy stated under "Property, plant and equipment and depreciation" above.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

Patents and licences

Purchased patents and patents application rights are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of three years.

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.

Operating 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.

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.

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:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by HKAS 39.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with positive net changes in fair value presented as other income and gains and negative net changes in fair value presented as other expenses in the statement of profit or loss. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" below.

Financial assets designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in HKAS 39 are satisfied.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated as at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the statement of profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets *(continued)*

Subsequent measurement *(continued)*

Loans and receivables

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

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.

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.

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 using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets *(continued)*

Financial assets carried at amortised cost *(continued)*

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

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.

The determination of what is "significant" or "prolonged" requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

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.

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.

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.

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. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the statement of profit or loss.

Provisions for product warranties granted by the Group on certain products are recognised based on sales volume and past experience of the level of repairs and returns, discounted to their present values as appropriate.

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

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

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

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

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

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

- in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax *(continued)*

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

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

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

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" below;

(c) from the rendering of services, in the period in which the services are rendered;

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 using the percentage of completion method, measured by reference to the percentage of work completed to date to the estimated total work 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 a gross 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 a gross amount due to contract customers.

Employee benefits

Pension schemes

The Group operates defined contribution Mandatory Provident Fund retirement benefit schemes (the "MPF Scheme") under the Mandatory Provident Fund Scheme Ordinance for those employees in Hong Kong 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 MPF Schemes. The assets of the schemes are held separately from those of the Group in an independently administered fund.

The Group's employer mandatory contributions vest fully with the employees when contributed into the MPF 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 MPF Scheme. When an employee leaves the MPF 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.

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 certain 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.

Borrowing costs

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting.

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 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).

The functional currencies of certain subsidiaries and associates not operating in Hong Kong 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 Hong Kong dollars 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 subsidiaries not operating in Hong Kong are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of subsidiaries not operating in Hong Kong which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Judgements

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

Operating lease commitments – Group as lessor

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

Classification between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group. Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately or leased out separately under a finance lease, the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

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 the estimated loss arising from the inability of its customers to make the required payments. The Group makes its estimates based on the age of the balance, historical payment patterns, existence of disputes, and any other available information concerning the creditworthiness of the counterparties. If the financial condition of its customers was to deteriorate so that the actual impairment loss might be higher than expected, the Group would be required to revise the basis of making the allowance and its future results would be affected. Further details are given in note 19 to the financial statements.

Provision for obsolete inventories

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

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

Estimation uncertainty *(continued)*

Percentage of completion of systems integration contracts

The Group recognises revenue and costs according to the stage of completion of individual contracts. The stage of completion is estimated by reference to the proportion of work completed to date to the estimated total work of the relevant contract. 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 both contract revenue and contract costs for each contract as the contract progresses.

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 the land and buildings revaluation reserve, respectively. Further details, including the key assumptions used for fair value measurement and a sensitivity analysis, are given in notes 12 and 13 to the financial statements.

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Indefinite life intangible assets are tested for impairment annually and at other times when such an indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

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 2017 was approximately HK$379,128,000 (2016: HK$379,349,000). Further details are included in note 26 to the financial statements.

4. OPERATING SEGMENT INFORMATION

During the year, for management purposes, the Group combined its four reportable segments namely, (i) software development, systems integration and information products distribution for media business segment, (ii) information products distribution for non-media business segment, (iii) corporate segment, and (iv) "others" segment, into one reportable segment, which is the software development, systems integration and information products distribution.

Geographical information

(a) Revenue from external customers

	2017 HK$'000	2016 HK$'000
Mainland China	982,089	990,601
Hong Kong	10,673	44,046
Others	731	763
	993,493	1,035,410

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

(b) Non-current assets

	2017 HK$'000	2016 HK$'000
Mainland China	274,852	252,626
Hong Kong	202,363	171,716
Others	3,513	4,491
	480,728	428,833

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

Information about major customers

During the year, there was no revenue derived from transactions with a single external customer which individually accounted for 10% or more of the Group's revenue (2016: Nil).

5. REVENUE, OTHER INCOME AND GAINS

Revenue 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:

	NOTE	2017 HK$'000	2016 HK$'000
Revenue			
Software development, systems integration and information products distribution		989,462	1,031,244
Rental income		4,031	4,166
		993,493	1,035,410
Other income			
Bank interest income		3,226	2,849
Other interest income		21,442	10,732
Government grants *(note)*		54,716	54,462
Others		11,328	4,291
		90,712	72,334
Gains			
Fair value gains on investment properties	13	14,115	3,399
Foreign exchange differences, net		8,114	–
Fair value gains on equity investments at fair value through profit or loss		1,544	–
Gain on disposal of items of property, plant and equipment		3,086	77
Gain on disposal of intangible assets		6,636	–
Gain on disposal of an associate		224	–
		33,719	3,476
		124,431	75,810

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

6. PROFIT BEFORE TAX

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

	NOTES	2017 HK$'000	2016 HK$'000
Auditor's remuneration		**2,460**	2,400
Cost of inventories sold**		**387,742**	454,047
Cost of services provided**		**81,542**	77,260
Depreciation	*12*	**15,202**	15,695
Amortisation of patents and acquired software*	*16*	**1,011**	3,063
Minimum lease payments under operating leases		**14,651**	15,677
Impairment of trade receivables, net*	*19*	**827**	118
Impairment of other receivables*	*20*	**1,643**	7,526
Impairment of available-for-sale investments*	*15*	**–**	3,155
Provision for obsolete inventories**		**3,092**	5,248
Research and development costs:			
Current year expenditure*		**133,605**	89,560
Amortisation of capitalised software costs*	*16*	**1,147**	2,358
		134,752	91,918
Employee benefit expense (including directors' and chief executive's remuneration – *note 8*):			
Wages and salaries		**291,342**	270,842
Pension scheme contributions***		**31,701**	22,003
Termination benefits		**–**	12,990
		323,043	305,835
Foreign exchange differences, net		**(8,114)**	5,833
Direct operating expenses (including repair and maintenance) arising on rental-earning investment properties		**800**	763
Fair value losses on equity investments at fair value through profit or loss		**–**	355

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

** These items are included in "Cost of sales" in the consolidated statement of profit or loss.

*** At 31 December 2017, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (2016: Nil).

7. FINANCE COSTS

An analysis of finance costs is as follows:

	2017 HK$'000	2016 HK$'000
Interest on bank borrowings	**6,571**	7,570

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2017 HK$'000	2016 HK$'000
Fees	**402**	402
Other emoluments:		
Salaries, allowances and benefits in kind	**2,420**	1,754
Performance related bonuses*	**1,478**	1,538
Pension scheme contributions	**68**	73
	3,966	3,365
	4,368	3,767

* Certain executive directors of the Company are entitled to bonus payments which are determined with reference to the performance of the Group's operations.

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION *(continued)*

(a) Independent non-executive directors

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

	2017 HK$'000	2016 HK$'000
Mr Li Fat Chung	138	138
Ms Wong Lam Kit Yee	132	132
Mr Chan Chung Kik, Lewis[1]	99	–
Mr Fung Man Yin, Sammy[2]	33	132
	402	402

1 Appointed on 31 March 2017
2 Resigned on 31 March 2017

There were no other emoluments payable to the independent non-executive directors during the year (2016: Nil).

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION *(continued)*

(b) Executive directors

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Performance related bonuses HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
2017					
Mr Cheung Shuen Lung	**–**	**1,385**	**–**	**68**	**1,453**
Mr Shao Xing[#3]	**–**	**1,035**	**1,478**	**–**	**2,513**
Ms Zuo Jin	**–**	**–**	**–**	**–**	**–**
Mr Cui Yun Tao[4]	**–**	**–**	**–**	**–**	**–**
Mr Hu Bin[4]	**–**	**–**	**–**	**–**	**–**
Ms Liao Hang[4]	**–**	**–**	**–**	**–**	**–**
	–	**2,420**	**1,478**	**68**	**3,966**
2016					
Mr Cheung Shuen Lung	–	72	–	4	76
Professor Xiao Jian Guo[5]	–	–	–	–	–
Professor Yang Bin[6]	–	1,015	1,118	55	2,188
Ms Luo Yan[1]	–	174	–	14	188
Mr Shao Xing[#3]	–	493	420	–	913
Ms Zuo Jin	–	–	–	–	–
Mr Liu Jian[2]	–	–	–	–	–
Ms Sun Min[2]	–	–	–	–	–
Mr Cui Yun Tao[4]	–	–	–	–	–
Mr Hu Bin[4]	–	–	–	–	–
Ms Liao Hang[4]	–	–	–	–	–
Ms Liu Yu Xiao[5]	–	–	–	–	–
Mr Fang Zhong Hua[5]	–	–	–	–	–
Ms Yi Mei[5]	–	–	–	–	–
	–	1,754	1,538	73	3,365

\# Mr Shao Xing is also the chief executive of the Group

1 Appointed on 1 March 2016 and resigned on 6 June 2016

2 Appointed on 1 March 2016 and resigned on 12 December 2016

3 Appointed on 6 June 2016

4 Appointed on 12 December 2016

5 Resigned on 1 March 2016

6 Resigned on 12 December 2016

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two (2016: one) directors and the chief executive, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining three (2016: four) highest paid employees who are neither a director nor chief executive of the Company:

	2017 HK$'000	2016 HK$'000
Salaries, allowances and benefits in kind	**2,556**	3,625
Performance related bonuses	**2,231**	1,468
Pension scheme contributions	**174**	180
	4,961	5,273

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

	Number of employees	
	2017	2016
HK$1,000,001 to HK$1,500,000	**–**	4
HK$1,500,001 to HK$2,000,000	**3**	–
	3	4

10. INCOME TAX

	2017 HK$'000	2016 HK$'000
Current – Hong Kong		
Charge for the year	**1,944**	363
Current – Mainland China		
Charge for the year	**3,525**	5,487
Underprovision in prior years	**1,863**	1,108
Deferred *(note 26)*	**(5,935)**	(2,982)
Total tax charge for the year	**1,397**	3,976

Hong Kong profits tax has been provided at the rate of 16.5% (2016: 16.5%) on the estimated assessable profits arising in Hong Kong during the year.

10. INCOME TAX *(continued)*

Taxes on profits assessable in Mainland China have been calculated at the applicable PRC corporate income tax ("CIT") rate. Certain subsidiaries of the Group are entitled to preferential tax treatments of reduction in the CIT rate to 10% or 15%.

The share of tax attributable to associates amounting to HK$73,000 (2016: HK$8,000) is included in "Share of profits/(losses) of associates" in the consolidated statement of profit or loss.

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:

	2017		2016	
	HK$'000	**%**	HK$'000	%
Profit before tax	**91,226**		44,156	
Tax at the statutory tax rate	**20,579**	**22.6**	11,429	25.9
Lower tax rate for specific provinces or enacted by local authority	**(9,750)**	**(10.7)**	(6,930)	(15.7)
Adjustment in respect of current tax of previous periods	**1,863**	**2.0**	1,108	2.5
Effect on changes in tax rates	**(2,028)**	**(2.2)**	(999)	(2.3)
Profits and losses attributable to associates	**(40)**	**–**	8	–
Income not subject to tax	**(5,341)**	**(5.9)**	(893)	(2.0)
Expenses not deductible for tax	**1,450**	**1.6**	2,664	6.0
Research and development super deduction	**(4,732)**	**(5.2)**	(3,601)	(8.2)
Tax losses utilised from previous periods	**(2,536)**	**(2.8)**	–	–
Tax losses not recognised	**1,932**	**2.1**	1,190	2.7
Tax charge at the Group's effective rate	**1,397**	**1.5**	3,976	9.0

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

The calculation of the basic earnings per share amount 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 1,199,746,993 (2016: 1,199,746,993) in issue during the year.

The Group had no potentially dilutive ordinary shares in issue during the years ended 31 December 2017 and 2016.

12. PROPERTY, PLANT AND EQUIPMENT

	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
31 December 2017						
At 31 December 2016 and at 1 January 2017:						
Cost or valuation	306,364	11,733	42,029	13,020	8,977	382,123
Accumulated depreciation and impairment	–	(11,561)	(38,066)	(9,991)	(5,595)	(65,213)
Net carrying amount	306,364	172	3,963	3,029	3,382	316,910
At 1 January 2017, net of accumulated depreciation	306,364	172	3,963	3,029	3,382	316,910
Additions	6,839	110	4,311	10,259	–	21,519
Disposals	–	–	–	(687)	–	(687)
Transfers to inventories	–	–	–	(166)	–	(166)
Surplus on revaluation	21,048	–	–	–	–	21,048
Depreciation provided during the year *(note 6)*	(9,658)	(65)	(3,334)	(1,170)	(975)	(15,202)
Exchange realignment	15,067	–	292	488	150	15,997
At 31 December 2017, net of accumulated depreciation and impairment	339,660	217	5,232	11,753	2,557	359,419
At 31 December 2017:						
Cost or valuation	339,660	12,184	47,189	18,961	8,772	426,766
Accumulated depreciation and impairment	–	(11,967)	(41,957)	(7,208)	(6,215)	(67,347)
Net carrying amount	339,660	217	5,232	11,753	2,557	359,419

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

	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
31 December 2016						
At 1 January 2016:						
Cost or valuation	315,423	12,009	44,252	13,187	11,510	396,381
Accumulated depreciation and impairment	–	(11,639)	(39,653)	(8,523)	(7,005)	(66,820)
Net carrying amount	315,423	370	4,599	4,664	4,505	329,561
At 1 January 2016, net of accumulated depreciation	315,423	370	4,599	4,664	4,505	329,561
Additions	–	–	3,345	–	–	3,345
Disposals	–	–	(37)	–	–	(37)
Surplus on revaluation	11,993	–	–	–	–	11,993
Depreciation provided during the year *(note 6)*	(9,352)	(196)	(3,715)	(1,453)	(979)	(15,695)
Exchange realignment	(11,700)	(2)	(229)	(182)	(144)	(12,257)
At 31 December 2016, net of accumulated depreciation and impairment	306,364	172	3,963	3,029	3,382	316,910
At 31 December 2016:						
Cost or valuation	306,364	11,733	42,029	13,020	8,977	382,123
Accumulated depreciation and impairment	–	(11,561)	(38,066)	(9,991)	(5,595)	(65,213)
Net carrying amount	306,364	172	3,963	3,029	3,382	316,910

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

The Group's land and buildings consist of certain residential properties and one commercial property in the PRC and 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., commercial properties, residential properties and car parking spaces, based on the nature, characteristics and risks of each property. The Group's land and buildings were revalued on 31 December 2017 based on valuations performed by LCH (Asia-Pacific) Surveyors Limited, independent professionally qualified valuers, at HK$339,660,000. Each year, the Group's management decides 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 has 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 amount would have been approximately HK$26,618,000 (2016: HK$26,829,000).

At 31 December 2017, certain of the Group's land and buildings with a net carrying amount of approximately HK$84,669,000 (2016: HK$69,048,000) in Hong Kong were pledged to secure general banking facilities granted to the Group (note 25).

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 2017 using			
Recurring fair value measurement for:	Quoted prices in active markets (Level 1) HK$'000	Significant observable inputs (Level 2) HK$'000	Significant unobservable inputs (Level 3) HK$'000	Total HK$'000
Commercial properties	–	–	84,685	84,685
Residential properties	–	–	248,615	248,615
Car parking spaces	–	–	6,360	6,360
	–	–	339,660	339,660

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

Fair value hierarchy *(continued)*

	Fair value measurement as at 31 December 2016 using			
Recurring fair value measurement for:	Quoted prices in active markets (Level 1) HK$'000	Significant observable inputs (Level 2) HK$'000	Significant unobservable inputs (Level 3) HK$'000	Total HK$'000
Commercial properties	–	–	69,641	69,641
Residential properties	–	–	231,278	231,278
Car parking spaces	–	–	5,445	5,445
	–	–	306,364	306,364

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 (2016: Nil).

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 2016	76,107	234,254	5,062
Net gain/(loss) from a fair value adjustment recognised in other comprehensive income	(4,031)	15,483	541
Depreciation provided during the year	(2,384)	(6,810)	(158)
Exchange realignment	(51)	(11,649)	–
Carrying amount at 31 December 2016 and 1 January 2017	**69,641**	**231,278**	**5,445**
Net gain from a fair value adjustment recognised in other comprehensive income	**10,417**	**9,540**	**1,091**
Additions	**6,839**	**–**	**–**
Depreciation provided during the year	**(2,251)**	**(7,231)**	**(176)**
Exchange realignment	**39**	**15,028**	**–**
Carrying amount at 31 December 2017	**84,685**	**248,615**	**6,360**

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

Fair value hierarchy *(continued)*

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

	Valuation techniques	Significant unobservable inputs	Range or weighted average 2017	2016
Commercial properties	Market approach	Adjustment on market unit price (per s.q.m.)	**-47.7% to 12%**	-30% to 9.8%
Residential properties	Market approach	Adjustment on market unit price (per s.q.m.)	**-55% to 0%**	-50% to -38.3%
	Income approach	Adjustment on market rental (per s.q.m. and per month)	**1% to 1%**	-50% to -38.3%
		Capitalisation rate	**1.2% to 1.3%**	0.86% to 0.9%
Car parking spaces	Market approach	Adjustment on market unit price (per s.q.m.)	**-10% to 13%**	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, neighbourhood, environment, facilities, etc. Comparable properties of similar size, character and location are analysed and carefully weighed against all the respective advantages and disadvantages of each property in order to arrive at a fair comparison of capital values. Physical, locational and economical characteristics are important criteria to be analysed when comparing such comparable properties against the subject properties.

The adjustment on the market unit price is determined by referring to the differences of the subject properties against the comparable properties in terms of time, building facilities, floor, view, size, loading and the listing nature of the comparable properties.

A significant increase/(decrease) in the unit price of comparable properties in isolation would result in a significant increase/(decrease) in the fair value of the land and buildings. A significant increase/(decrease) in a positive adjustment or a significant decrease/(increase) in a negative adjustment on the unit price would result in a significant increase/(decrease) 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 the market capitalisation rate are determined by making reference to market listing prices and rentals of comparable properties.

The adjustment on market rental is determined by referring to the differences of the subject property against the comparable properties in terms of building facilities, size, floor and the listing nature of the comparable properties. The adjustment on the market capitalisation rate is determined by referring to the class of comparable properties.

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

Fair value hierarchy *(continued)*

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 a positive adjustment or a significant decrease/(increase) in a negative adjustment on market rental would result in a significant increase/(decrease) 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.

13. INVESTMENT PROPERTIES

	2017 **HK$'000**	2016 HK$'000
Carrying amount at 1 January	**102,684**	99,648
Net gain from a fair value adjustment *(note 5)*	**14,115**	3,399
Additions	**644**	–
Exchange realignment	**436**	(363)
Carrying amount at 31 December	**117,879**	102,684

The Group's investment properties consist of certain commercial properties, residential properties and car parking spaces in Hong Kong and one commercial property in the PRC. 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 2017 based on valuations performed by LCH (Asia-Pacific) Surveyors Limited, independent professionally qualified valuers, at HK$117,879,000. Each year, the Group's management decides 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 has discussions with the valuer on the valuation assumptions and valuation results when the valuation is performed for annual financial reporting.

The investment properties are leased to third parties under operating leases, further summary details of which are included in note 32(a) to the financial statements.

At 31 December 2017, certain of the Group's investment properties with a carrying value of approximately HK$108,584,000 (2016: HK$94,500,000) 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 120 to 121 of the annual report.

13. INVESTMENT PROPERTIES *(continued)*

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 2017 using			
Recurring fair value measurement for:	**Quoted prices in active markets (Level 1) HK$'000**	**Significant observable inputs (Level 2) HK$'000**	**Significant unobservable inputs (Level 3) HK$'000**	**Total HK$'000**
Commercial properties	**–**	**–**	**94,569**	**94,569**
Residential properties	**–**	**–**	**20,330**	**20,330**
Car parking spaces	**–**	**–**	**2,980**	**2,980**
	–	**–**	**117,879**	**117,879**

	Fair value measurement as at 31 December 2016 using			
Recurring fair value measurement for:	Quoted prices in active markets (Level 1) HK$'000	Significant observable inputs (Level 2) HK$'000	Significant unobservable inputs (Level 3) HK$'000	Total HK$'000
Commercial properties	–	–	82,486	82,486
Residential properties	–	–	17,790	17,790
Car parking spaces	–	–	2,408	2,408
	–	–	102,684	102,684

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 (2016: Nil).

13. INVESTMENT PROPERTIES *(continued)*

Fair value hierarchy *(continued)*

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 2016	81,040	16,230	2,378
Net gain from a fair value adjustment recognised in other income and gains in profit or loss	1,809	1,560	30
Exchange realignment	(363)	–	–
Carrying amount at 31 December 2016 and 1 January 2017	**82,486**	**17,790**	**2,408**
Net gain from a fair value adjustment recognised in other income and gains in profit or loss	**11,003**	**2,540**	**572**
Additions	**644**	**–**	**–**
Exchange realignment	**436**	**–**	**–**
Carrying amount at 31 December 2017	**94,569**	**20,330**	**2,980**

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 2017	Range 2016
Commercial properties	Investment approach	Adjustment on market unit price (per s.q.m.)	**-36% to 25%**	-35.5% to 8.8%
		Adopted yield	**2.8% to 5.9%**	3.2% to 7%
Residential properties	Investment approach	Adjustment on market unit price (per s.q.m.)	**-13% to 11%**	0.7% to 13.5%
		Adopted yield	**2% to 2.5%**	2.6% to 3.1%
Car parking spaces	Investment approach	Adjustment on market unit price (per s.q.m.)	**0%**	0%
		Adopted yield	**2.5% to 2.8%**	3% to 4%

13. INVESTMENT PROPERTIES *(continued)*

Fair value hierarchy *(continued)*

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

The adjustment on the market unit price is determined by referring to the differences of the subject properties against the comparable properties in terms of time, size, view, floor and floor loading. The yields adopted are determined by referring 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 the 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 a positive adjustment or a significant decrease/(increase) in a negative adjustment on the market unit price would result in a significant increase/(decrease) 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.

14. INVESTMENTS IN ASSOCIATES

	2017 **HK$'000**	2016 HK$'000
Share of net assets	**3,399**	5,124
Due from associates	**31**	31
	3,430	5,155

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.

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

14. INVESTMENTS IN ASSOCIATES *(continued)*

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

	2017 **HK$'000**	2016 HK$'000
Share of the associates' profits/(losses) for the year	**233**	(29)
Share of the associates' other comprehensive income	**310**	105
Share of the associates' total comprehensive income	**543**	76
Aggregate carrying amount of the Group's investments in the associates	**3,430**	5,155

15. AVAILABLE-FOR-SALE INVESTMENTS

	2017 **HK$'000**	2016 HK$'000
Listed equity investments, at fair value	**19,718**	3,467

The above investments consist of investments in equity securities which were designated as available-for-sale financial assets and have no fixed maturity dates or coupon rates.

During the year of 2017, the gross gain in respect of the Group's available-for-sale investments recognised in other comprehensive income amounted to HK$15,834,000.

During the year of 2016, there was a significant decline in the market value of the listed equity investments. The directors considered that such a decline indicates that the listed equity investments have been impaired and an impairment loss of HK$3,155,000 had been recognised in the statement of profit or loss for the year of 2016.

16. INTANGIBLE ASSETS

	NOTE	Patents and acquired software HK$'000	Development expenditure on media software HK$'000	Total HK$'000
31 December 2017				
Cost at 1 January 2017, net of accumulated amortisation and impairment		**2,970**	**1,114**	**4,084**
Disposal of intangible assets		**(2,035)**	**–**	**(2,035)**
Amortisation provided during the year	6	**(1,011)**	**(1,147)**	**(2,158)**
Exchange realignment		**76**	**33**	**109**
At 31 December 2017		**–**	**–**	**–**
At 31 December 2017:				
Cost		**2,388**	**10,783**	**13,171**
Accumulated amortisation and impairment		**(2,388)**	**(10,783)**	**(13,171)**
Net carrying amount		**–**	**–**	**–**
31 December 2016				
At 1 January 2016:				
Cost		11,670	10,657	22,327
Accumulated amortisation		(5,437)	(7,095)	(12,532)
Net carrying amount		6,233	3,562	9,795
Cost at 1 January 2016, net of accumulated amortisation		6,233	3,562	9,795
Amortisation provided during the year	6	(3,063)	(2,358)	(5,421)
Exchange realignment		(252)	(258)	(510)
At 31 December 2016		6,233	3,562	9,795
At 31 December 2016:				
Cost		11,077	10,115	21,192
Accumulated amortisation and impairment		(8,107)	(9,001)	(17,108)
Net carrying amount		2,970	1,114	4,084

17. INVENTORIES

	2017 HK$'000	2016 HK$'000
Trading stocks	103,810	61,103

18. GROSS AMOUNTS DUE FROM/TO CONTRACT CUSTOMERS

	2017 HK$'000	2016 HK$'000
Gross amount due from contract customers	17,744	11,704
Gross amount due to contract customers	(19,247)	(21,696)
	(1,503)	(9,992)
Contract costs incurred plus recognised profits less recognised losses to date	242,581	224,379
Less: Progress billings	(244,084)	(234,371)
	(1,503)	(9,992)

Included in the Group's amounts due from/to contract customers are amounts due from a subsidiary of Peking University Founder Group Company Limited* (北大方正集團有限公司) ("Peking Founder"), a substantial shareholder of the Company, of approximately HK$4,133,000 (2016: HK$1,580,000) and HK$1,106,000 (2016: HK$80,000), respectively.

* *For identification purposes only*

19. TRADE AND BILLS RECEIVABLES

	2017 HK$'000	2016 HK$'000
Trade and bills receivables	196,186	174,260
Impairment	(34,802)	(40,594)
	161,384	133,666

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

An ageing 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:

	2017 HK$'000	2016 HK$'000
Within 6 months	134,936	106,662
7 to 12 months	8,590	8,684
13 to 24 months	7,552	8,653
Over 24 months	10,306	9,667
	161,384	133,666

19. TRADE AND BILLS RECEIVABLES *(continued)*

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

	2017 **HK$'000**	2016 HK$'000
At 1 January	**40,594**	41,940
Impairment losses recognised *(note 6)*	**827**	118
Impairment losses written off	**(8,461)**	–
Exchange realignment	**1,842**	(1,464)
At 31 December	**34,802**	40,594

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of approximately HK$3,956,000 (2016: HK$4,913,000) with a carrying amount before provision of approximately HK$14,262,000 (2016: HK$14,580,000).

The individually impaired trade receivables relate to customers that were in default.

The ageing analysis of the trade and bills receivables that are neither individually nor collectively considered to be impaired is as follows:

	2017 **HK$'000**	2016 HK$'000
Neither past due nor impaired	**47,301**	46,238
Less than 6 months past due	**50,769**	26,132
	98,070	72,370

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 HK$12,495,000 (2016: HK$14,535,000), which are repayable on credit terms similar to those offered to the major customers of the Group.

20. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2017 **HK$'000**	2016 HK$'000
Prepayments	**26,571**	29,556
Deposits and other receivables	**61,895**	55,228
Entrusted loans	**441,780**	257,600
Deposits and other receivables	**530,246**	342,384
Impairment	**(18,677)**	(22,868)
	511,569	319,516

The movements in provision for impairment of other receivables during the year are as follows:

	2017 **HK$'000**	2016 HK$'000
At 1 January	**22,868**	16,448
Impairment losses recognised *(note 6)*	**1,643**	7,526
Amount written off as uncollectible	**(7,402)**	–
Exchange realignment	**1,568**	(1,106)
At 31 December	**18,677**	22,868

Included in the above provision for the impairment of other receivables as at 31 December 2017 is a full provision of HK$5,456,000 (2016: HK$4,982,000) relating to debtors that were in default and the outstanding receivables are not expected to be recovered. The Group does not hold any collateral or other credit enhancements over these balances.

21. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	2017 HK$'000	2016 HK$'000
Cash and bank balances	410,805	523,205
Time deposits with original maturity of three months or less when acquired	68,733	83,178
	479,538	606,383
Time deposits with original maturity of over three months when acquired	44,336	15,809
Less: Pledged time deposits		
Pledged for long term letters of guarantee	(7,201)	(3,649)
Pledged for trade finance facilities and bank loans	(7,396)	(13,638)
Cash and cash equivalents	509,277	604,905

At the end of the reporting period, the cash and cash equivalents of the Group denominated in RMB amounted to approximately HK$366,084,000 (2016: HK$485,815,000). 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 six 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 2017, no time deposits (2016: HK$1,140,000) were 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 savings rates offered by the PBOC.

22. EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2017 **HK$'000**	2016 HK$'000
Listed equity investments, at market value	**2,287**	591

The above equity investments at 31 December 2017 were classified as held for trading and were, upon initial recognition, designated by the Group as financial assets at fair value through profit or loss.

23. TRADE AND BILLS PAYABLES

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

	2017 **HK$'000**	2016 HK$'000
Within 6 months	**36,991**	24,425
7 to 12 months	**11,305**	10,259
13 to 24 months	**16,533**	7,620
Over 24 months	**13,786**	12,160
	78,615	54,464

Included in the Group's trade and bills payables are amounts due to subsidiaries of Peking Founder of approximately HK$1,058,000 (2016: HK$935,000), which are repayable on credit terms similar to those offered by the related companies to their major customers.

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

24. OTHER PAYABLES AND ACCRUALS

	2017 **HK$'000**	2016 HK$'000
Deferred income	**21,888**	11,218
Other payables	**105,723**	85,889
Accruals	**126,691**	132,296
Receipt in advance	**104,489**	92,898
	358,791	322,301

Other payables are non-interest-bearing and have an average term of three months.

25. INTEREST-BEARING BANK BORROWINGS

	2017			2016		
	Effective interest rate (%)	Maturity	HK$'000	Effective interest rate (%)	Maturity	HK$'000
Current						
Bank loans – unsecured	4.61–5.22	2018	121,119	4.57–5.00	2017	106,374
Bank loans – secured	HIBOR+2.8	On demand	40,000	3.69–3.77	On demand	40,000
Trust receipt loans – secured	–	–	–	2.42–2.49	2017	2,637
			161,119			149,011

	2017 HK$'000	2016 HK$'000
Analysed into:		
Bank loans repayable:		
Within one year or on demand	161,119	149,011

Notes:

(a) As at 31 December 2017, the unsecured bank loans of approximately HK$119,997,000 (2016: HK$89,574,000) were guaranteed by Peking Founder, or jointly guaranteed by Peking Founder and Founder Finance, a subsidiary of Peking Founder.

(b) The Group's trade finance facilities, secured bank loans and letters of credit 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$108,584,000 (2016: HK$94,500,000);

(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$84,669,000 (2016: HK$69,048,000); and

(iii) the pledge of certain of the Group's time deposits amounting to approximately HK$14,597,000 (2016: HK$17,287,000).

(c) The Group's bank borrowings with carrying amounts of HK$40,000,000 (2016: HK$40,000,000) and HK$121,119,000 (2016: HK$106,374,000) were denominated in Hong Kong dollars and RMB, respectively. The Group's bank borrowings with a carrying amount HK$2,637,000 was denominated in United States dollars in 2016.

26. DEFERRED TAX

The movements in deferred tax assets and liabilities during the year are as follows:

	Revaluation of properties HK$'000	Temporary difference on depreciation of properties HK$'000	Accelerated amortisation of intangible assets HK$'000	Accrued expenses HK$'000	Losses available for offsetting future taxable profits HK$'000	Total HK$'000
At 1 January 2016	(36,564)	(1,008)	1,142	225	2,968	(33,237)
Deferred tax credited to the statement of profit or loss for the year *(note 10)*	163	1,966	483	221	149	2,982
Deferred tax charged to other comprehensive income during the year	(27,594)	–	–	–	–	(27,594)
Exchange realignment	1,855	(182)	(77)	(20)	–	1,576
At 31 December 2016 and 1 January 2017	(62,140)	776	1,548	426	3,117	(56,273)
Deferred tax credited/(charged) to the statement of profit or loss for the year *(note 10)*	**(61)**	**4,602**	**113**	**45**	**1,236**	**5,935**
Deferred tax charged to other comprehensive income during the year	**(4,832)**	**–**	**–**	**–**	**–**	**(4,832)**
Exchange realignment	**(4,105)**	**374**	**106**	**30**	**–**	**(3,595)**
At 31 December 2017	**(71,138)**	**5,752**	**1,767**	**501**	**4,353**	**(58,765)**

26. DEFERRED TAX *(continued)*

For presentation purposes, certain deferred tax assets and liabilities have been offset in the statement of financial position. The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

	As at 31 December	
	2017	2016
	HK$'000	HK$'000
Net deferred tax assets recognised in the consolidated statement of financial position	**2,268**	1,975
Net deferred tax liabilities recognised in the consolidated statement of financial position	**(61,033)**	(58,248)
	(58,765)	(56,273)

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

	2017	2016
	HK$'000	HK$'000
Tax losses	**302,672**	298,123
Deductible temporary differences	**76,456**	81,226
	379,128	379,349

The Group has tax losses arising in Hong Kong of approximately HK$302,375,000 (2016: HK$297,764,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. As at 31 December 2017, the Group also has tax losses arising in Mainland China of HK$297,000 (2016: HK$359,000) 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.

26. DEFERRED TAX *(continued)*

At 31 December 2017, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately HK$362,635,000 at 31 December 2017 (2016: HK$305,059,000).

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

27. SHARE CAPITAL

Shares

	2017 HK$'000	2016 HK$'000
Authorised: 2,100,000,000 (2016: 2,100,000,000) ordinary shares of HK$0.10 each	**210,000**	210,000
Issued and fully paid: 1,199,746,993 (2016: 1,199,746,993) ordinary shares of HK$0.10 each	**119,975**	119,975

28. 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. Eligible participants of the Scheme include the Company's directors, including independent non-executive directors, senior management, employees of the Group, any substantial shareholders or any companies controlled by a substantial shareholder, any one or entity, who in the sole opinion of the Board, have contributed or will contribute to the Group or any substantial shareholder. The Scheme became effective on 31 May 2016 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period is limited to 1% of the shares of the Company in issue unless (i) a circular is despatched to the shareholders; (ii) the shareholders approve the grant of the share options in excess of the 1% limit referred to in this paragraph; and (iii) the relevant eligible person and his associates shall abstain from voting. The number and terms (including the exercise price) of share options to be granted to such eligible person(s) must be fixed before shareholders' approval.

28. SHARE OPTION SCHEME *(continued)*

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. 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 grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 30 days inclusive of the day on which such offer was made, 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 commences on such date or after the date on which the share option is granted as the board may determine in granting the share options and expires at the close of business on such date as the board may determine in granting the share options but in any event shall not exceed 10 years from the date of grant (which is the date of offer of grant if the offer for the grant of the share option is accepted).

There is no specified minimum period under the Scheme for which a share option must be held or the performance target which must be achieved before a share option can be exercised under the terms of the Scheme.

The exercise price of share options is determinable by the directors, but may not be less than the higher of (i) the Stock Exchange closing price of the Company's shares on the date of offer of the share options; and (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of offer.

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

There were no grant of share options during the years ended 31 December 2017 and 2016, or outstanding options as at 31 December 2017 and 2016.

29. RESERVES

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 46 and 47 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 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$6,691,000 (2016: HK$5,039,000), which represented 10% of their profit after tax as determined in accordance with the PRC accounting standards, to the general reserve.

30. NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Changes in liabilities arising from financing activities

	Interest-bearing bank borrowings HK$'000
At 1 January 2017	149,011
Changes from financing cash flows	5,080
Foreign exchange movement	7,028
At 31 December 2017	161,119

31. CONTINGENT LIABILITIES

At the end of the reporting period, the Group did not have any significant contingent liabilities (2016: Nil).

32. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties (note 13 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 2017, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	2017 HK$'000	2016 HK$'000
Within one year	3,545	2,496
In the second to fifth years, inclusive	3,167	969
	6,712	3,465

32. OPERATING LEASE ARRANGEMENTS *(continued)*

(a) As lessor *(continued)*

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

At 31 December 2017, the Group had total future minimum lease receivables under non-cancellable operating leases as follows:

	2017 **HK$'000**	2016 HK$'000
Within one year	**340**	672
In the second to fifth years, inclusive	**–**	319
	340	991

(b) As lessee

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

At 31 December 2017, the Group had total future minimum lease payments under the non-cancellable operating leases falling due as follows:

	Group	
	2017 **HK$'000**	2016 HK$'000
Within one year	**12,943**	19,941
In the second to fifth years, inclusive	**11,577**	1,228
	24,520	21,169

33. RELATED PARTY TRANSACTIONS

(I) Transactions with related parties

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

	NOTES	2017 HK$'000	2016 HK$'000
Management fee income received from subsidiaries from Peking Founder	*(i)*	**1,846**	1,832
Handling fee income received from a subsidiary of Peking Founder	*(i)*	**70**	120
Interest income from Peking Founder	*(ii)*	**21,444**	10,732
Sales of goods to Peking Founder Group	*(i)*	**5,260**	6,928
Banking facility guarantees given by Peking Founder	*(iii)*	**167,160**	246,400
Banking facility guarantees jointly given by Peking Founder and Founder Finance	*(iv)*	**–**	56,000
Rental and management expense paid to a subsidiary of Peking Founder Group	*(v)*	**15,655**	14,595
Service fee paid to PKU Founder Information, the substantial shareholder of the Company	*(vi)*	**1,131**	1,656
Purchase of goods from Peking Founder	*(i)*	**390**	5,841

Notes:

(i) These transactions were conducted on the terms agreed between the parties involved.

(ii) The interest income was attributable to the entrusted loan agreement with Peking Founder, which was unsecured and interest-bearing at rates ranging from 6.3% to 7.0% per annum (2016: 6.0% to 6.31% per annum).

(iii) The banking facility guarantees of HK$167,160,000 (2016: HK$89,600,000) were given to PRC banks for credit facilities granted to subsidiaries of the Company which were utilised to the extent of approximately HK$119,997,000 at 31 December 2017 (2016: HK$70,128,000).The banking facility guarantees of HK$156,800,000 were given to a PRC bank for credit facilities granted to a subsidiary of the Company, Peking Founder and PKU Founder Information which were utilised to the extent of approximately HK$86,647,000 in 2016.

(iv) The banking facility guarantees were given to a PRC bank for credit facilities granted to a subsidiary of the Company and utilised to the extent of approximately HK$16,800,000 in 2016.

(v) The expenses were attributable to the lease agreement and management agreement with a subsidiary of Peking Founder to lease the premises in Beijing.

(vi) The sharing of the administrative service fee between the Group and PKU Founder Information was conducted on a cost basis.

33. RELATED PARTY TRANSACTIONS *(continued)*

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

(b) On 4 March 2015, the Company, Founder Finance and Peking Founder entered into a financial service agreement, pursuant to which Founder Finance agreed to provide the Group with deposit service. As at 31 December 2017, the Group made no deposits (2016: HK$1,140,000) at Founder Finance. The interest rates on the deposits offered by Founder Finance were the prevailing interest rates offered by the PBOC.

(c) On 28 December 2016, Founder Electronics entered into a technology transfer agreement with PKU Founder Information, pursuant to which PKU Founder Information agreed to acquire, and Founder Electronics agreed to sell, certain intellectual property rights at a consideration of approximately RMB7,630,000 (equivalent to approximately HK$8,671,000). The transfer was completed during the year, and a disposal gain of approximately HK$6,636,000 was recognised in the consolidated statement of profit or loss.

The above related party transactions 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 2017, the outstanding balance of entrusted loans and related interest receivables from Peking Founder Group amounted to approximately HK$441,780,000 (2016: HK$257,600,000), and HK$991,000 (2016: HK$1,405,000), respectively. The entrusted loans are unsecured, bear rates ranging from 6.3% to 7.0% per annum and not repayable within one year. In addition, included in prepayments, deposits and other receivables were balances due from Peking Founder Group of approximately HK$6,415,000 (2016: HK$5,670,000), and included in other payables and accruals were balances due to Peking Founder Group of approximately HK$15,315,000 (2016: HK$1,310,000). These balances are unsecured, interest-free and have no fixed terms of repayment.

(b) Details of the Group's amounts due from its associates as at the end of the reporting period are included in note 14 to the financial statements.

(c) Details of the Group's trade balances with its related companies as at the end of the reporting period are disclosed in notes 19 and 23 to the financial statements.

(III) Compensation of key management personnel of the Group

	2017 HK$'000	2016 HK$'000
Short term employee benefits	**4,300**	3,694
Pension scheme contributions	**68**	73
Total compensation paid to key management personnel	**4,368**	3,767

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

34. 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:

2017

Financial assets

	Fair value through profit or loss – held for trading HK$'000	Loans and receivables HK$'000	Available-for-sale financial assets HK$'000	Total HK$'000
Due from associates	–	31	–	31
Available-for-sale investments	–	–	19,718	19,718
Trade and bills receivables	–	161,384	–	161,384
Financial assets included in prepayments, deposits and other receivables	–	484,998	–	484,998
Equity investments at fair value through profit or loss	2,287	–	–	2,287
Pledged deposits	–	14,597	–	14,597
Cash and cash equivalents	–	509,277	–	509,277
	2,287	1,170,287	19,718	1,192,292

Financial liabilities – financial liabilities at amortised cost

	HK$'000
Trade and bills payables	78,615
Financial liabilities included in other payables and accruals	105,723
Interest-bearing bank borrowings	161,119
	345,457

34. FINANCIAL INSTRUMENTS BY CATEGORY *(continued)*

2016

Financial assets

	Fair value through profit or loss – held for trading HK$'000	Loans and receivables HK$'000	Available-for-sale financial assets HK$'000	Total HK$'000
Due from associates	–	31	–	31
Available-for-sale investments	–	–	3,467	3,467
Trade and bills receivables	–	133,666	–	133,666
Financial assets included in prepayments, deposits and other receivables	–	289,960	–	289,960
Equity investments at fair value through profit or loss	591	–	–	591
Pledged deposits	–	17,287	–	17,287
Cash and cash equivalents	–	604,905	–	604,905
	591	1,045,849	3,467	1,049,907

Financial liabilities – financial liabilities at amortised cost

	HK$'000
Trade and bills payables	54,464
Financial liabilities included in other payables and accruals	85,889
Interest-bearing bank borrowings	149,011
	289,364

35. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

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

	Carrying amounts		Fair values	
	2017 HK$'000	2016 HK$'000	**2017 HK$'000**	2016 HK$'000
Financial assets				
Pledged deposits, non-current portion	**7,201**	3,649	**6,553**	3,649
Equity investments at fair value through profit or loss	**2,287**	591	**2,287**	591
Available-for-sale investments	**19,718**	3,467	**19,718**	3,467
	29,206	7,707	**28,558**	7,707

Management has assessed that the fair values of cash and cash equivalents, the current portion of 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 interest-bearing bank borrowings, 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 value of the non-current portion of the pledged deposits 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 the non-current portion of the pledged deposits as at 31 December 2017 was assessed to be insignificant.

The fair values of listed equity investments at fair value through profit or loss and listed available-for-sale investments are based on quoted market prices.

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

Fair value hierarchy

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

Assets measured at fair value:

As at 31 December 2017

	Fair value measurement using			
	Quoted prices in active markets (Level 1) HK$'000	**Significant observable inputs (Level 2) HK$'000**	**Significant unobservable inputs (Level 3) HK$'000**	**Total HK$'000**
Available-for-sale investments:				
Equity investments	**19,718**	**–**	**–**	**19,718**
Equity investments at fair value through profit or loss	**2,287**	**–**	**–**	**2,287**
	22,005	**–**	**–**	**22,005**

As at 31 December 2016

	Fair value measurement using			
	Quoted prices in active markets (Level 1) HK$'000	Significant observable inputs (Level 2) HK$'000	Significant unobservable inputs (Level 3) HK$'000	Total HK$'000
Available-for-sale investments:				
Equity investments	3,467	–	–	3,467
Equity investments at fair value through profit or loss	591	–	–	591
	4,058	–	–	4,058

The Group did not have any financial liabilities measured at fair value as at 31 December 2017 and 31 December 2016.

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 (2016: Nil).

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

Fair value hierarchy *(continued)*

Assets for which fair values are disclosed:

As at 31 December 2017

	Fair value measurement using			
	Quoted prices in active markets (Level 1) HK$'000	Significant observable inputs (Level 2) HK$'000	Significant unobservable inputs (Level 3) HK$'000	Total HK$'000
Pledged deposits, non-current portion	–	6,553	–	6,553

As at 31 December 2016

	Fair value measurement using			
	Quoted prices in active markets (Level 1) HK$'000	Significant observable inputs (Level 2) HK$'000	Significant unobservable inputs (Level 3) HK$'000	Total HK$'000
Pledged deposits, non-current portion	–	3,649	–	3,649

The Group did not have any financial liabilities for which fair values are disclosed as at 31 December 2017 and 31 December 2016.

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise 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, liquidity risk and equity price 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, pledged deposits, 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.

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 19 to the financial statements.

The Group places its bank balances and pledged 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.

36. 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 2017, approximately HK$40,000,000 (2016: HK$70,204,000) of the Group's interest-bearing borrowings bore interest at floating rates.

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).

	Increase/ (decrease) in basis points	**Increase/ (decrease) in profit before tax** HK$'000
2017		
Hong Kong dollar	**100**	**(400)**
United States dollar	**100**	**–**
RMB	**100**	**–**
Hong Kong dollar	**(100)**	**400**
United States dollar	**(100)**	**–**
RMB	**(100)**	**–**
2016		
Hong Kong dollar	100	(400)
United States dollar	100	(26)
RMB	100	(276)
Hong Kong dollar	(100)	400
United States dollar	(100)	26
RMB	(100)	276

36. 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:

	2017 Within 1 year or on demand HK$'000
Trade and bills payables	**78,615**
Financial liabilities included in other payables and accruals	**105,723**
Interest-bearing bank borrowings	**163,640**
	347,978

	2016 Within 1 year or on demand HK$'000
Trade and bills payables	54,464
Financial liabilities included in other payables and accruals	85,889
Interest-bearing bank borrowings	153,201
	293,554

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

Equity price risk

Equity price risk is the risk that the fair values of equity securities decrease as a result of changes in the value of individual securities. The Group is exposed to equity price risk arising from individual equity investments classified as equity investments at fair value through profit or loss (note 22) and available-for-sale investments (note 15) as at 31 December 2017 and 31 December 2016. The Group's listed investments are listed on the ACE Market of Bursa Malaysia Securities Berhad, New York Stock Exchange and the Taiwan Stock Exchange and are valued at quoted market prices at the end of the reporting period.

The following table demonstrates the sensitivity to every 1% change in the fair values of the Group's principal equity investments, with all other variables held constant and before any impact on tax, based on their carrying amounts at the end of the reporting period. For the purpose of this analysis, for the available-for-sale equity investments, the impact is deemed to be on the available-for-sale investment revaluation reserve and no account is given for factors such as impairment which might impact the statement of profit or loss.

	Carrying amount of equity investments HK$'000	**Increase/ (decrease) in profit before tax** HK$'000	**Increase/ (decrease) in equity** HK$'000
2017			
Investments listed in:			
United States – Held-for-trading	**311**	**3**	**–**
Taiwan – Held-for-trading	**258**	**3**	**–**
Malaysia – Held-for-trading	**1,718**	**17**	**–**
Malaysia – Available-for-sale investments	**19,718**	**–**	**197**
2016			
Investments listed in:			
United States – Held-for-trading	210	2	–
Taiwan – Held-for-trading	148	1	–
Malaysia – Held-for-trading	233	2	–
Malaysia – Available-for-sale investments	3,467	–	35

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

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 2017 and 31 December 2016.

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 end of the reporting periods were as follows:

	2017 **HK$'000**	2016 HK$'000
Interest-bearing bank borrowings	**161,119**	149,011
Total equity attributable to owners of the parent	**1,138,950**	972,740
Debt to equity ratio	**14%**	15%

37. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2017 HK$'000	2016 HK$'000
NON-CURRENT ASSETS		
Investments in subsidiaries	**559,088**	559,088
CURRENT ASSETS		
Prepayments and other receivables	**1,108**	1,508
Cash and cash equivalents	**1,055**	1,023
Total current assets	**2,163**	2,531
CURRENT LIABILITIES		
Other payables and accruals	**2,083**	2,304
NET CURRENT ASSETS	**80**	227
TOTAL ASSETS LESS CURRENT LIABILITIES	**559,168**	559,315
NON-CURRENT LIABILITY		
Due to a subsidiary	**199,079**	195,207
Net assets	**360,089**	364,108
EQUITY		
Issued capital	**119,975**	119,975
Reserves	**240,114**	244,133
Total equity	**360,089**	364,108

37. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(continued)*

A summary of the Company's reserves is as follows:

	Share premium account HK$'000	**Contributed surplus** HK$'000	**Accumulated losses** HK$'000	**Total** HK$'000
At 1 January 2016	53,597	448,209	(255,391)	246,415
Total comprehensive loss for the year	–	–	(2,282)	(2,282)
At 1 January 2017	**53,597**	**448,209**	**(257,673)**	**244,133**
Total comprehensive loss for the year	**–**	**–**	**(4,019)**	**(4,019)**
At 31 December 2017	**53,597**	**448,209**	**(261,692)**	**240,114**

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.

38. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 23 March 2018.

PARTICULARS OF INVESTMENT PROPERTIES

31 DECEMBER 2017

Location	Use	Tenure	Percentage of interest attributable to the Group
Units 1, 2a, 2b, 3a, 3b, 4a, 4b, 5, 7a and 7b 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

31 DECEMBER 2017

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
Units 1-7-1, 8-7-1 No.126 Yuzhou Road Jiulongpo District, Chongqing, China	Office 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				
	2017	2016	2015	2014	2013
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
REVENUE	**993,493**	1,035,410	963,628	1,079,869	1,291,015
PROFIT FOR THE YEAR	**89,829**	40,180	7,262	6,386	86,487
Attributable to:					
Owners of the parent	**89,836**	40,235	7,382	6,381	86,241
Non-controlling interests	**(7)**	(55)	(120)	5	246
	89,829	40,180	7,262	6,386	86,487

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	As at 31 December				
	2017	2016	2015	2014	2013
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
TOTAL ASSETS	**1,823,382**	1,583,047	1,658,491	1,692,087	1,609,332
TOTAL LIABILITIES	**(684,248)**	(610,128)	(677,279)	(730,562)	(659,061)
NON-CONTROLLING INTERESTS	**(184)**	(179)	(245)	(381)	(385)
	1,138,950	972,740	980,967	961,144	949,886