FOUNDER HOLDINGS LIMITED
方正控股有限公司

(Incorporated in Bermuda with limited liability)

Stock Code: 00418

ANNUAL REPORT 2018

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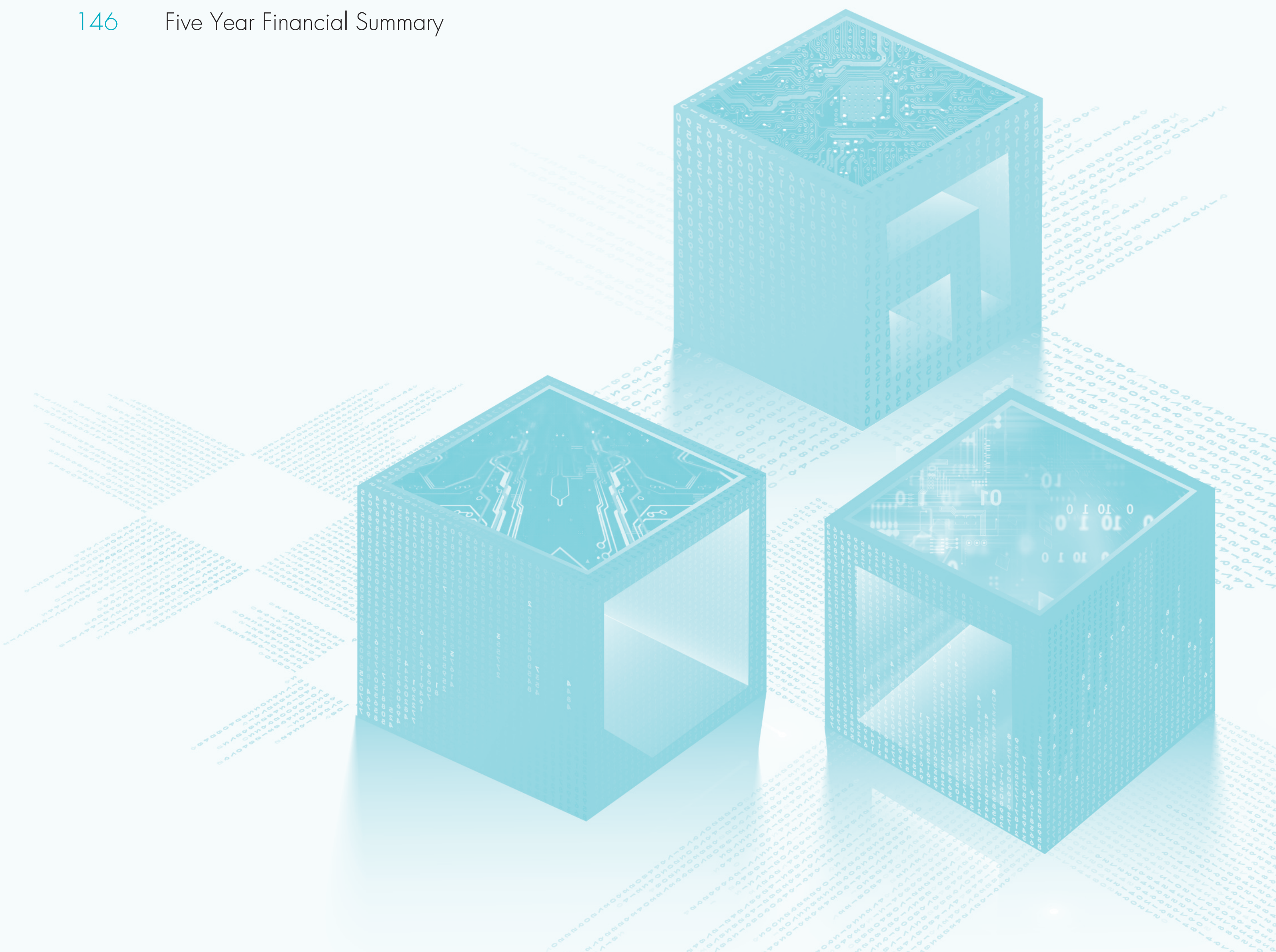


CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive directors

Mr Cheung Shuen Lung *(Chairman)*
Mr Shao Xing *(President)*
Professor Xiao Jian Guo
Ms Zuo Jin
Mr Hu Bin
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 Cheung Yee Wah Eva

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

	2018 HK$'million	2017 HK$'million	+/(-) Change
FINANCIAL PERFORMANCE			
Revenue	**1,059**	993	6.6%
Gross profit margin (%)	**48.7%**	44.2%	
Profit attributable to owners of the parent	**87**	89	(2.8%)
Net profit margin (%)	**8.2%**	9.0%	
KEY FINANCIAL INDICATORS			
Cash and cash equivalents	**548**	509	7.6%
Net current assets	**741**	690	7.3%
Total assets	**1,811**	1,824	(0.7%)
Total liabilities	**625**	684	(8.6%)
Interest-bearing bank borrowings	**161**	161	(0.1%)
Equity attributable to owners of the parent	**1,186**	1,139	4.1%
Current ratio (times)	**2.31**	2.11	
Gearing ratio	**0.14**	0.14	
Basic earnings per share (HK cents)	**7.3**	7.5	

PERFORMANCE

The Group reported a profit attributable to equity holders of the parent for the year ended 31 December 2018 of approximately HK$87.3 million (year ended 31 December 2017: HK$89.8 million). The Group's turnover for the current year increased by 6.6% to approximately HK$1,058.9 million (year ended 31 December 2017: HK$993.5 million) due to increase in sales of software products. Gross profit for the current year increased by 17.6% to HK$516.1 million compared with last year's HK$438.8 million. Gross profit ratio increased from 44.2% for the last year to 48.7% 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 17.6% to HK$516.1 million (year ended 31 December 2017: HK$438.8 million) as a result of increase in proportion of sales of software and technical services;

b. a decrease in other income and gains by 15.1% to HK$105.7 million (year ended 31 December 2017: HK$124.4 million) arising from (i) decrease in fair value gains on investment properties; (ii) decrease in foreign exchange difference net; and (iii) gain on disposal of intellectual properties in prior year; and

c. an increase in total selling and distribution expenses, administrative expense and other expenses, net by 12.8% to HK$525.2 million (year ended 31 December 2017: HK$465.7 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 HK7.3 cents (year ended 31 December 2017: HK7.5 cents).

OPERATING REVIEW AND PROSPECTS

Operating Review

Font Library Business

Against the backdrop that China is vigorously propelling cultural creative industry, the font library, as a Chinese culture carrier, has been receiving wider recognition. The value of fonts has been recognized by more and more enterprises and the public. Meanwhile, with a gradual improvement in the copyright protection environment in China and increasingly intense competition in the industry, new font design companies and individual font designers came into the font library market.

In 2018, 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 leading position in the font library market by introducing new fonts that leads a new trend in the font industry. Meanwhile, through convening font release conference and holding lectures and salons on font design, Founder has made font design knowledge more popular in the whole society to attract numerous young font designers and design lovers.

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.

* *For identification purpose only*

2) Marketing and service aspect: We have stepped up in promoting the positive publicity by establishing cooperation relationships with designers and advertising companies. Following the launch of a PC client-end "Font +", we have established a comprehensive service system covering the official website of Founder font library, "Font +" mobile APP, and a PC client-end "Font +".

3) Font design aspect: In 2018 we introduced over 100 new fonts. In addition to the design of our own exquisite font library, we also conducted extensive cooperation with independent font designers, medium-to-small font library manufacturers and other manufacturers in Japanese and English-speaking countries, including establishment of comprehensive cooperation with Monotype, a renowned font design manufacturers of western languages in the world, with a view to provide clients with complete font solutions that have abundant fonts and support more than 95% of the languages in the world.

Printing business

The printing industry has entered into a period of deep adjustment, during which over-capacity existed throughout the industry and hot topics such as developing in a more digitalised, intelligent and environmentally-friendly manner were emerging continuously. With deep understanding of this development trend of the industry, 北京方正印捷數碼技術有限公司 (Beijing Founder EasiPrint Digital Technical Co., Ltd.*) ("Founder EasiPrint"), the wholly-owned subsidiary of the Company, continued to invest in the research and development of inkjet printing technology and smart production software system. It has expanded the digital printing market by upgrading two-color machines, boosted CTP sales through establishment of electronic film system for People's Education Press and ensured the steady development of retail sales business by strengthening cooperation with manufacturers. Under intense market competition, the business of Founder EasiPrint still maintains its continued stability.

In 2018, Founder POD project achieved market breakthroughs and large inkjet printing revolving equipment has been installed, enabling the introduction of a new record of 11 new production lines. Meanwhile, we have established a complete process covering design, production, implementation, installation and maintenance. As an ancillary facility, the self-developed Founder Yunshu (方正雲舒) software gained over 20 new publishing press clients, the deployment of which have been basically completed.

Since the establishment of Hongyan POD Alliance (鴻雁POD聯盟) in May 2017, more and more publishers and printers have become the members of the alliance and cooperated with Founder Electronics in hardware and software, which made them pioneers in the industry. Currently, more than 60 publishers, printers, equipment and consumable suppliers have joined Hongyan POD Alliance.

* *For identification purpose only*

Media Business

The traditional media and publication industry continued to be subdued, recording a decline in the overall results with the newspaper advertising revenue in free fall over the last few years and a substantial decrease in publication volume, with the "shutdown, suspension, integration and transfer" of metropolitan newspapers. Meanwhile, the promotion of macroeconomic policies has offered new market opportunities to media and publishing businesses. The policies attached great importance to the integrated development of mainstream media and hence vigorously pushed ahead with the integrated development of traditional and emerging media at central and provincial level, and promoted the deep integration of the "mobile media as priority (移動優先)" strategy, as represented by the "centralized kitchen (中央廚房)", at the same time. On the other hand, we introduced the policy of "integrated media center of district and county level (區縣融媒體中心)" in the second half of the year which has enhanced the expansion of media integration to media markets of district and county level. The government of the publishing sector vigorously promoted "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)".

Under such conditions, Founder Electronics actively worked on the integration of media and the technology of big data and rearranged "Founder Solution for Hyper-integration of Media", "Media Cloud Solution", "Integrated Media Center Solution of District and County Level", "Solution for Joint Compilation of Books", "Knowledge Service Solution" and "Smart Review Solution". Meanwhile, Founder Electronics actively explored and propelled the transformation of the SaaS service including the SaaS service for media large-scale data and the SaaS service platform for Xinkong Cloud pan-media, 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. "Founder Solution for Hyper-integration of Media" was adopted by Malaysia Sin Chew Media Corporation, the largest overseas Chinese media; platforms for integrated media for the central editorial department of "Guangzhou Daily Newspaper Group" were officially launched. "Founder Zhihui (方正智匯) Knowledge Service Solution" was adopted to conduct the project of "Cihai (辭海) Cloud Platform for Digital Publication" of Shanghai Cishu Press to help revise the seventh edition of Cihai and establish its online version. Meanwhile, Founder has been actively seeking cooperation with external parties to enhance the completeness of solutions. "Mobile Collecting and Editing APP (移動採編APP)" has been launched in various app stores. "Flying 7.1 version (飛翔7.1版)" has been released to support the diversification of presses and newspaper offices and the production of interactive publications for H5 integrated media.

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 2018, the number of employees of the Group was 1,230 (31 December 2017: 1,278).

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 2018, the Group had interest-bearing bank borrowings of approximately HK$160.9 million (31 December 2017: HK$161.1 million), of which HK$120.9 million (31 December 2017: HK$121.1 million) were fixed interest bearing and HK$40.0 million (31 December 2017: HK$40.0 million) were floating interest bearing. The bank borrowings were denominated in Hong Kong Dollars ("HKD") and Renminbi ("RMB"), 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), certain of the Group's investment properties and bank deposits. As at 31 December 2018, the Group recorded total assets of HK$1,811.1 million which were financed by liabilities of HK$625.4 million and equity of HK$1,185.7 million. The Group's net asset value per share as at 31 December 2018 amounted to HK$0.99 (31 December 2017: HK$0.95).

The Group had total cash and bank balances of HK$561.1 million as at 31 December 2018 (31 December 2017: HK$523.9 million). After deducting total bank borrowings of HK$160.9 million (31 December 2017: HK$161.1 million), the Group recorded net cash and bank balances of HK$400.2 million as at 31 December 2018 as compared to HK$362.8 million as at 31 December 2017. 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 2018, the Group's gearing ratio, measured by the ratio of total borrowings to total shareholders' equity, was 0.14 (31 December 2017: 0.14) while the Group's working capital ratio was 2.31 (31 December 2017: 2.11).

As at 31 December 2018, 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 United States Dollars ("U.S. dollars"). Surplus cash is generally placed in banks as short term deposits denominated in HKD, RMB and U.S. dollars.

* *For identification purpose only*

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 2018, the major contracts in hand amounted to approximately HK$339.4 million (31 December 2017: HK$394.0 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 2018.

Charges on assets

As at 31 December 2018, the Group's investment properties in Hong Kong of approximately HK$79 million and bank deposits of approximately HK$12.9 million were pledged to banks to secure banking facilities granted.

Future plans for material investments or capital assets

The Group did not have any concrete future plans for material investments or capital assets as at 31 December 2018. However, the Group always seeks for new investment opportunities in the software development and system integration business to broaden the revenue and profit base of the Group and enhance shareholders' value in long term.

Contingent liabilities

At 31 December 2018, the Group did not have any significant contingent liabilities.

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 2018.

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 2018.

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), Professor Xiao Jian Guo, Ms Zuo Jin, Mr Hu Bin 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 32 to 33 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 2018. 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 (resigned on 4 April 2019)	4/4	0/1
Ms Liao Hang	4/4	0/1
Independent Non-executive Directors		
Mr Li Fat Chung	4/4	1/1
Ms Wong Lam Kit Yee	4/4	1/1
Mr Chan Chung Kik, Lewis	4/4	1/1

There are also three Board committees under the Board, namely, the Remuneration Committee, the Nomination Committee and the Audit 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 updates 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 2018. The individual training record of each director received for the year ended 31 December 2018 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 (resigned on 4 April 2019)	✓	✓
Ms Liao Hang	✓	✓
Independent Non-executive Directors		
Mr Li Fat Chung	✓	✓
Ms Wong Lam Kit Yee	✓	✓
Mr Chan Chung Kik, Lewis	✓	✓

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

The roles of the Chairman and the Chief Executive are separate 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, and all of them are independent. Each independent non-executive director has entered into a letter of appointment 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 have appropriate professional qualifications or accounting or related finanical management expertise. 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 COMMITTEE

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 2018, 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 2018 is set out in Note 8 to the Company's 2018 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 COMMITTEE

The Nomination Committee of the Board was established in 2012 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 December 2018 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 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 recommendations 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.

The nomination policy of directors of the Company was adopted by the Board on 28 December 2018. The policy sets out the procedures, process and criteria for identifying and recommending candidates for election to the Board.

Selection Criteria

When evaluating and selecting candidates for directorships, the members of the Nomination Committee or the Board shall consider the following criteria:

(a) Character and integrity;

(b) Qualifications including professional qualifications, skills, knowledge and experience that are relevant to the Company's business and corporate strategies;

(c) The Board Diversity Policy and any measurable objectives adopted by the Nomination Committee for achieving diversity on the Board;

(d) Willingness to devote adequate time to discharge duties as a Board member and other directorships and significant commitments;

(e) In case of independent non-executive Directors, whether the candidates would be considered independent in accordance with the Listing Rules;

(f) In case of re-election, the overall contribution and service to the Company of the Director to be re-elected and the level of participation and performance on the Board and the other criteria set out in this section; and

(g) Such other perspectives appropriate to the Company's business.

These factors are for reference only, and not meant to be exhaustive and decisive. The Nomination Committee has the discretion to nominate any person, as it considers appropriate.

Nomination Procedures

(a) The Nomination Committee and/or the Board identifies potential candidates including but not limited to internal promotion, re-designation, referral by other member of the management and external recruitment agencies and/or advisors. The Nomination Committee then develops a short list of candidates and agrees on proposed candidate(s);

(b) Proposed candidate(s) will be asked to submit the necessary personal information, biographical details, together with their written consent to be appointed as a director. The Nomination Committee may request candidates to provide additional information and documents, if considered necessary;

(c) The Nomination Committee shall, upon receipt of the proposal on appointment of new director and the personal information (or relevant details) of the proposed candidate(s), evaluate such candidate(s) based on the criteria as set out above to determine whether such candidate(s) is qualified for directorship;

(d) For any person that is nominated by a shareholder for election as a Director at the general meeting of the Company, the Nomination Committee shall evaluate such candidate based on the criteria as set out above to determine whether such candidate is qualified for directorship;

(e) If the process yields one or more desirable candidates, the Nomination Committee shall rank them by order of preference based on the needs of the Company and reference check of each candidate (where applicable);

(f) The secretary of the Nomination Committee shall convene a meeting of the Nomination Committee. For filling a casual vacancy, the Nomination Committee shall make recommendations for the Board's consideration and approval. For proposing candidates to stand for re-election or election at a general meeting, the Nomination Committee shall make nominations or recommendations for the Board's consideration and the Board shall make recommendations to shareholders in respect of the proposed re-election or election of Director(s) at the general meeting;

(g) In order to provide information of the candidates nominated by the Board to stand for election or re-election at a general meeting, a circular will be sent to shareholders. The circular will set out the names, brief biographies (including qualifications and relevant experience), independence, proposed remuneration and any other information, as required pursuant to the applicable laws, rules and regulations including the Listing Rules, of the proposed candidates; and

(h) The Board shall have the final decision on all matters relating to its recommendation of candidates to stand for election or re-election at any general meeting.

In 2018, 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 follows:

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

AUDIT COMMITTEE

The Audit Committee of the Board was 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 December 2018, 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 standards, 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 2018, 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)*	3/3

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 designed to manage, rather than eliminate the risk of failure to achieve 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 identified. 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 2018 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 of the Company, 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 of the Company acknowledge their responsibility for the preparation of the financial statements of the Group for the year ended 31 December 2018 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 42 to 46 of this Annual Report.

COMPANY SECRETARY

Ms Tang Yuk Bo, Yvonne ("Ms Tang"), who was responsible for advising the Board on corporate governance matters and ensuring that the Board policies and procedures, and the applicable laws, rules and regulations were followed, had been the company secretary of the Company from 20 November 2000 to 11 May 2018. Ms Tang resigned on 11 May 2018 and the Board appointed Ms Cheang Yee Wah Eva ("Ms Cheang") as the company secretary of the Company on 11 May 2018. Ms Cheang has taken relevant professional trainings which are in compliance with Rule 3.29 of the Listing Rules for the year ended 31 December 2018.

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. Directors of the Company, including the Chairmen of the Board and Board committees and Board committee members, and the Company's external auditor attended the 2018 AGM and were available to answer questions from shareholders.

Under the Listing Rules, all resolutions proposed at general 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 a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands. Details of the poll procedures will be explained during the proceedings of general meetings. The poll 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 Memorandum of Association and New Bye-Laws 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

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.

Put forward proposals at shareholders' meetings

Shareholder(s) representing not less than one-twentieth (5%) of the total voting rights of all the shareholders of the Company or of not less than 100 shareholders of the Company may by requisition, at their own expense unless the Company otherwise resolves, to put forward proposals at general meetings of the Company pursuant to Clauses 79 and 80 of the Companies Act 1981 of Bermuda (as amended). A written notice to that effect signed by the shareholder(s) concerned together with a sum reasonably sufficient to meet the expenses in giving effect thereto must be deposited at the registered office of the Company not less than six weeks before the meeting for requisition(s) requiring notice of a resolution, or not less than one week before the meeting for any other requisition(s).

DIVIDEND POLICY

Policy on Payment of Dividend of the Company is in place setting out the factors in determination of dividend payment of the Company, including results of operations, working capital, financial position, future prospects, and capital requirements, as well as any other factors which the Board may consider relevant from time to time. The policy shall be reviewed periodically and submitted to the Board for approval if amendments are required.

CONSTITUTIONAL DOCUMENTS

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

I. ENVIRONMENTAL PROTECTION

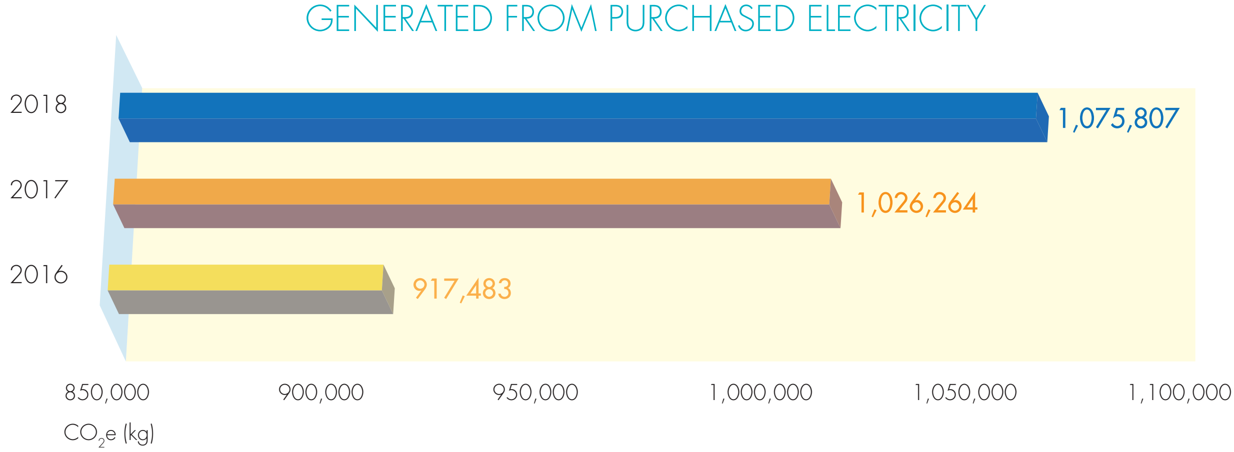
The Group serves in the fields of printing, media, publishing, big data and fonts library and is committed to providing leading information processing technology, products, system solutions and value-added services to customers, enabling customers to experience an information technology life in the era of mobile Internet via different devices without time and space limitation. 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 on-the-job training with its well-established governance system to actively reduce its overall impact on the environment from various aspects. Furthermore, we adhere to the core people-oriented principle, respecting the rights and interests of our employees. We actively participate in public services and earnestly honor our corporate citizenship.

1. Carbon emission

The Group comprehensively enhanced its corporate image on both the environment and the community aspects and actively responded to the challenges and impact of climate changes on the global economy. Starting from 2017, the Group discloses its carbon emission data 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 to the community and the environment. At Beijing Founder Electronics Co., Ltd. ("Founder Electronics"), the wholly-owned subsidiary of the Group, carbon emission was mainly resulted from energy consumption and electricity used in computers, printing systems, lighting systems and information technology (IT) systems for its core media business 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 by saving electricity and reducing consumption of resources with an aim to reduce 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 GENERATED FROM PURCHASED ELECTRICITY



2. Resource utilisation

The Group worked diligently to enhance the utilization rate of various materials and resources, including energy, water and paper, and strive to enhance the reutilization rate and recycling rate of resources and reduce the amount of waste produced so as to consistently implement its environmental protection concepts to all operational levels and production processes. Founder Electronics always exercises stringent control over its production process to avoid any hazardous or non-hazardous waste to be generated from the company's operation. By doing so, it has reduced waste from 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 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 consistent efforts in development and innovation, improving its production process, and enhancing 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:

- In the aspect of saving light energy, the Group reduces unnecessary lighting energy consumption; maximize the use of daylight and turn off the light of office rooms that are not being used; clean the lighting and lamps regularly to improve energy efficiencies; plan to use lighting with high energy efficiencies (e.g. T5 fluorescent light and LED);

- In the aspect of saving air conditioning, the Group establishes policies on better use of air conditioning resources with the lowest temperature of air conditioner being set at 25.5℃ and turn off the air conditioner of office rooms that are not being used; install split air conditioner with first-class energy efficiency label; plan to paste anti-ultraviolet heat insulation film on windows to reduce heat absorption;

- In the aspect of saving paper resources, the Group promotes paperless office by using a working system that replaces paper records and communicate through electronic technical equipment to reduce paper documentation;

- In the aspect of saving the printing resources, the computers and printers are preset for double-sided printing and ink-saving mode; staff are reminded to print documents on both sides and the files to be printed may use thinner fonts and row spacing;

- In terms of enhancement of utilization efficiency of water resources, the Company can obtain the suitable water source steadily, thus we will lower the water pressure to the lowest possible level; install double flush toilets in the washroom; plan to conduct leakage testing of concealed water pipes regularly and use the products with first-class water efficiency label;

- In the aspect of saving energy for information and communication technology equipment, the equipment are completely turned off during non-office hours, and the computers are set to enter automatic standby and sleep mode when it is idle. The Group plans to install a wireless network recorder to monitor the temperature and humidity of the data center, so as to better regulate the energy consumption of air conditioning;

- In terms of staff commuting, employees are encouraged to share the use of cars and choose public transportation to alleviate road burden and vehicle exhaust gas emissions.

2. Resource utilisation *(continued)*

Starting from 2017, the Group discloses its utilization of resources to the public every year, the specific details are as follows:

- The total water consumption of the headquarters in 2018 was approximately 226,541 litres, an increase of 16% as compared to 2017, mainly due to an increase in business volume, leading to the increase in overtime working hours of staff and thus the frequency of water use increased;
- The total amount of paper used by the headquarters in 2018 was approximately 797,000 pieces, an increase of 6.9% as compared to 2017, mainly due to an increase in business volume;
- The total electricity consumption of the headquarters in 2018 was approximately 1,216,563 kilowatt hour, an increase of 4.8% as compared to 2017, mainly due to increased business volume, extended working hours, and consequently increased electricity consumption for lighting, air conditioning and generator rooms; and
- The total fuel consumption of the headquarters's self-owned vehicles in 2018 was approximately 7,143 liters, a significant decrease of 55.9% as compared to 16,210 liters in 2017.

	Category	Emission this year(kg)
Exhaust gas	Sulphur oxides	0.11
	Nitrogen oxides	5.93
	Particulate matter	0.44

Scope	GHG emission this year (CO 2-e kg)
Scope 1: Direct GHG Emissions	19,342
Scope 2: Energy Indirect GHG Emissions	1,075,807
Scope 3: Other Indirect GHG Emissions	306,182
Total GHG emission	1,401,331
GHG intensity (CO 2-e kg/employee)	1,146

Due to the business nature of the Company, the non-hazardous waste produced is immaterial data, the Company considers to try and to collect more data and improve the report scope in the future.

2. Resource utilisation *(continued)*

	Category	Energy consumption of this year (1,000 kWh)
Energy use	Direct energy	37
	Indirect energy	1,217
	Total energy consumption	1,254
	Energy intensity (1,000 kWh/employee)	1.02
Resource use	Total water consumption (Litre)	226,541
	Water consumption intensity (Litre/employee)	185
	Total packing material used (tonne)	10

II. QUALITY OF WORKING ENVIRONMENT

1. Working environment

The Group has been actively devoting significant resources with a vision of providing a safe and comfortable working environment for its staff and creating a healthy, positive, harmonious and efficient corporate culture that supports its staff at different locations to unleash their potential and hence create more values for the Group continuously. 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 1,230 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 2018, Founder Electronics newly added one more laundry room for the staff living in youth apartment in order to satisfy the demand for washing and drying of clothes, and reduce their waiting time. In addition, there were 8 old air conditioners being replaced for improving the quality of lives of staff. Founder Electronics ceaselessly enhanced the overall living standards 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 cares 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 good physical fitness and mental being. 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, which the professionals made diagnosis for our staff and gave professional advice on healthcare. 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 gain knowledge regarding fire safety and their safety awareness raises. 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. In 2018, the number of work-related injuries was 0, so there was no loss of working days due to work-related injuries. In addition, the number and rate of work-related fatalities were both 0.

3. Development and Trainings

The Group always treats its staff as the most important asset and most valuable resource of the Group. They drive the continuous development of the Group and take the Group to new heights. The Group strives to provide diversified trainings for its staff at different aspects, so that its staff can gain a variety of professional knowledge and continue to develop their abilities, explore potential, enhance professional skills and broaden the horizons. In this regard, the Group launched a series of training programs, covering staff at all levels from new employees to senior management. Apart from free public courses organised by the Human Resources Department, the Group also provided diversified professional trainings targeting different business areas. In 2018, training activities organized by Founder Electronics attracted 195 participants in total. These activities have helped staff to better connect with the corporate culture and system and also enhanced their comprehensive capability.

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 Phrase 7 (方正電子新員工橙起航第七期)". Founder Electronics also organized "Success Achieving Training Camp (橙功營)" for potential staff to better develop the their talents and working ability. Also, in order to let all staff learn the latest knowledge and methods of dissemination of information in the industry, Founder Electronics held "TED Seminars Phrase 4 (TED大講堂第四期)". Furthermore, in order to enhance the organizational skills of the management, the Group has strengthened its work in relation to establishing role model cadre, thereby encouraging its staff to enhance the Group's operation. Founder Electronics has organized various targeted manager nurturing projects as follows:

"Elite Success Camp (精橙營)", a training activity organized for newly promoted managers so as to facilitate fast and smooth transition of roles and enhancing their leadership skills;

3. Development and Trainings *(continued)*

"2018 Product Manager Training Project (2018產品經理培訓專案)", a specific training included sharing on benchmarking enterprises, tool methodology learning, as well as the research and discussion on practical business topics in order to enable product managers to practice while learning, enhancing the product capabilities.

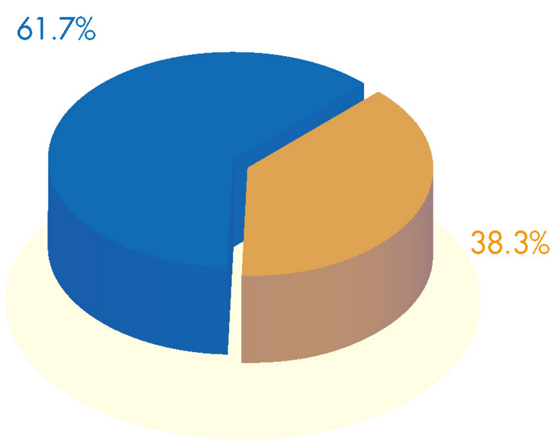
"Product Manager's Study Circle Phrase 1 to Phrase 6 (產品經理讀書會第一至第六期)", a training with the aim of strengthening the understanding on innovation aspect and enhancing the development of business to business (B2B) and innovation business.

4. Labour Standards

The Group strives to provide equal and diversified employment opportunities for its staff and strictly complied with the principle of fairness and anti-discrimination. Founder Electronics respects gender equality. Staff are provided with the same benefits and their remuneration are determined with the same method for new recruitment, promotion and determining level of remuneration. Promotion is based on personal competence instead of other factors such as gender and age. Furthermore, Founder Electronics includes its commitment to fairness and equity in the Company's rules, so that all employees are treated equally and all kinds of discrimination are strictly forbidden. The Group also encourages mutual respect among staff members in a view to creating a harmonious and friendly working environment. Moreover, the Group reviews 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 effectively avoids the problem of prolonged working hours or forced labour and ensures 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 ensure that no child labour is employed. If the Group finds and realizes any violation on the prevention of forced labour and the prevention of the employment of child labour, it will be handled by the department of Human Resources in accordance with the "Management Rules for Attendance and Holiday" and the "Prohibition of Child Labour Provisions" or the applicable internal guidelines.

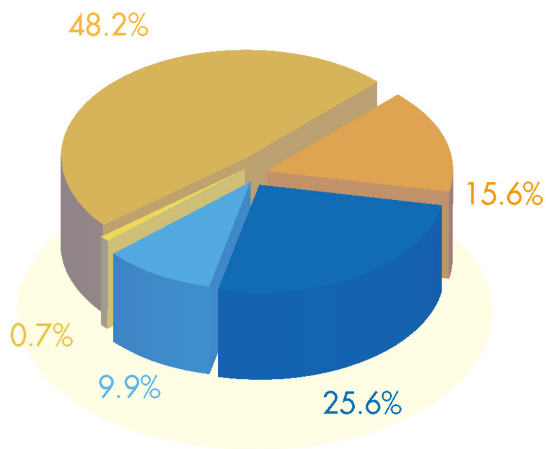
A detailed classification of our staff by gender, age groups, employment type and region set out as below:

EMPLOYEE BY GENDER



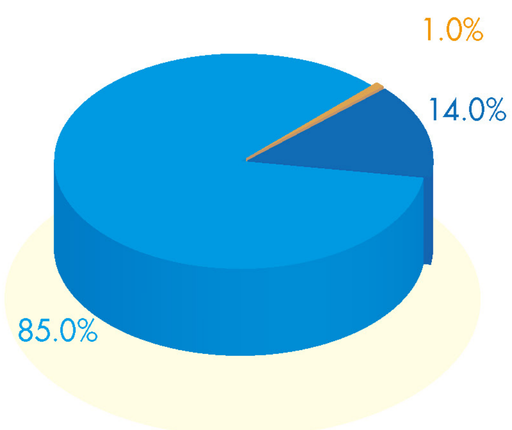
■ Male ■ Female

EMPLOYEE BY AGE GROUPS



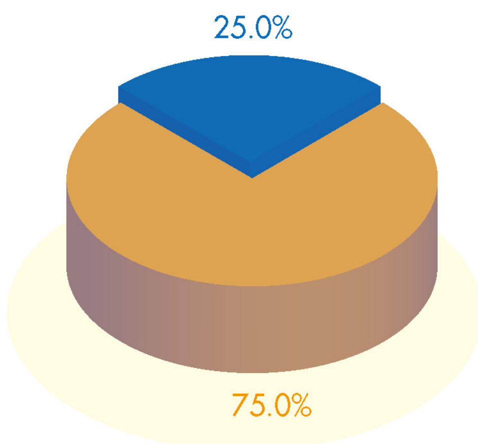
■ 18–25 ■ 26–35 ■ 36–45
■ 46–55 ■ Above 55

EMPLOYEE BY EMPLOYMENT TYPE



■ Senior Management
■ Middle Management
■ General staff

EMPLOYEE BY REGION



■ Headquarter, Beijing
■ Other Region

5. Staff welfare

The Company has established a comprehensive welfare system, providing 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.

Social insurance

Regarding the various bases of premium of social insurance for staff, Founder Electronics implements and pays the premium in accordance with the national and local regulations to ensure that staff is guaranteed of statutory social protection.

Additional commercial insurance

Founder Electronics provides comprehensive medical insurance, personal accident insurance for staff and provides traffic accident insurance for staff with specific job needs, in order to provide staff with better medical and accident protection and more caring as well as comprehensive medical benefits.

Other benefits

Founder Electronics provides working lunch allowance of RMB30 per workday for staff, so that staff can enjoy a rich and nutritious lunch. In addition, the company provides free health check-ups, wedding cash gifts, travelling expenses of family visits for staff and so on, showing the company's care and attention to staff.

Staff activities

In 2018, Founder Electronics held a number of staff activities, so that staff could feel more belonging to the Company, and enhance the cohesion of the Company, reflecting the company's care for staff.

Goddess Festival

On 8 March 2018, Founder Electronics held the "Goddess Festival" (女神節) which was opened to all female staff and attracted 200 staff to participate. The physical fitness of staff was improved through yoga, health classes and ladies' afternoon tea.

5. Staff welfare *(continued)*

Halloween

In October 2018, Founder Electronics held a "Halloween" (萬聖節) event. In that evening, we made "Overtime Work Surprise " for all staff, adding festival atmosphere with Halloween delicacies and costumes, offering comfort to staff who were working overtime, so as to enhance the cohesion of the Company.

New year's Day activities

In December 2018, Founder Electronics held the "New Year Koi Carp Carnival" (新年錦鯉喜樂會). The theme of the event was New Year's Fair. There were 12 shops with different characteristics from which staff could earn game points and redeemed the prizes at 12 redemption stations, and participated in lucky draw. All staff in Beijing had participated in the event, creating a positive and dynamic atmosphere, allowing staff to enjoy and rest from their busy work, enhancing the interaction between staff and the cohesion of Company.

Other activities

In addition to festive activities, Founder Electronics organized various types of staff activity. Staff could participate in photography club, hip-hop dancing club, badminton club, recitation clubs according to their own interests during "Community recruitment" (社團招新); In "Children's Day activities" (兒童節), staff participated in talent show of electronic clubs, children's golden song singing contest; "Qixi Festival Treasure Hunting" (七夕搜寶) allowed staff to hunt treasures in the Company building. The Company hoped that the staff had a taste of festive atmosphere in joy and happiness, so as to strengthen the interaction between the staff, improve the team's morale and enhance Company's bonding and vitality.

Staff reward

In the aspect of environmental governance, Founder Electronics sets incentive targets for staff's performance according to two criteria. One is to reward the staff who carried out the replacement of plug-in board with a small commemorative prize. The second is the staff who actively put forward effective suggestions on environmental improvement to the department of administration will be rewarded an exquisite gift after those suggestions being adopted.

III. OPERATING PRACTICE

1. Supply chain management

The Group puts great emphasis on business quality, thereby adhering to the principle of fairness, justice and openness in terms of selection of suppliers. Therefore, Founder Electronics has formulated the "Supplier Introduction Rules" to select appropriate suppliers in strict compliance with the rules and regulations. Any supplier that have not been traded with before need to complete the procedures for introduction of supplier before a new transaction. The procedures for introduction of suppliers are managed by four lines: main supplier, non-main supplier, outsourcer and raw material supplier, involving control by various departments of the Company, including the product department, procurement department, service center, R&D center and production 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 chain 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 set of stringent standards 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. 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 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 qualification requirement on the environmental assessment of manufacturers, otherwise such cooperation will not be considered;

- Special requirements: Founder Electronics exercises caution to a certain extent in introducing new suppliers, in which the differences of commercial conditions between newly introduced and the existing suppliers must be specified. For long-term corporate suppliers, Founder Electronics pays attention to where the supplier is located, whether the supplier can supply high-quality products in a long-term and stable manner, and whether continue to offer at relatively reasonable costs; while for project-specific based corporate suppliers, we pay attention to the degree to which the project is satisfied, such as delivery date, after-sales guarantee of the project, etc.

Founder Electronics will conduct regular assessment on the suppliers existing. If a supplier fails the assessment, Founder Electronics will 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 2018, the Company continued to deepen its strategic goal of realizing POD service (on-demand publishing) for PRC's publishing industry, aiming at promoting the current situation of lagging behind in the process of intelligence and automation in the industry by pouring the resources. A comprehensive solution which is suitable for POD on-demand printing system has been constructed, specifically including:

- Jieying P5600 digital inkjet production line (桀鷹P5600數位噴墨生產線): an industrial grading piezoelectric nozzle on demand, the first-to-none paper circuit design, a brand new structure of inkjet module, an open interface standards.

- Founder Yunshu Cloud Platform for Books and Periodicals Production (方正雲舒書刊製作雲平台): Build a digital management platform for book production process, and get through the publishing and printing chain.

- A new generation of on-demand intelligent production system (新一代按需智慧生產體系): using digital printing, information and communication technology to realize the connection between people and things, to help enterprises construct flexible, efficient and intelligent work paradigm.

For the press, publishing and printing industries, the promotion of the progress of the industry with technique and technology has always been the company's diligent pursuit, tireless exploration and development goals. In the future, Founder Electronics will build a Chinese version of the intelligent and digital on-demand printing factory, through the Internet cloud service platform to form an integrated information system as a whole with publishers and distributors.

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. 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, 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. During the reporting period, there were no legal cases regarding corruption practices brought against the Group or its employees.

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, 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.

In 2018, Founder Electronics mainly promoted the Project of Ink Rhyme Wisdom and Calligraphy entered into campus (墨韻智慧•書法進校園助力項目) (hereinafter referred to as "Ink Rhyme Wisdom Project") (墨韻智慧項目)with the overall goal of "inheriting the excellent Chinese culture and letting every child write Chinese characters well". Towards the 10,000 schools in economically underdeveloped areas, Ink Rhyme Wisdom Project utilized the technical achievements of "Artificial Wisdom + Calligraphy Teaching" (人工智慧+書法教學) to provide direct support of calligraphy education so as to promote an overall regional development and calligraphy classes. This helps to solve practical problems such as the shortage of "Professional Calligraphy" teachers in current calligraphy education, helping the "Inclusive Education and Educational Equity" (普惠教育和教育公平).

Under the guidance and support of the Department of Language and Text Information Management of the Ministry of Education (教育部語言文字資訊管理司) and the National Center for Educational Technology (中央電化教育館), Ink Rhyme Wisdom Project was officially launched. The first batch of helping goods were used in Hebei, Gansu, Hainan, Fujian and Shanxii, in which more than 10 poverty-stricken counties, and 1,000 schools in the old revolutionary districts located. As a supporting unit of the project, Founder supported the Ink Rhyme Wisdom Project to scale up, providing cloud services for calligraphy teaching and training support for calligraphy teachers, so that more teachers and students can enjoy the benefits of the development of science and technology.

V. AN OVERVIEW OF SUSTAINABLE DEVELOPMENT

Pursuant to the Appendix 27 of Listing Rules, the Company has complied the relevant laws and regulations of Environmental, Social and Governance Indicator as follows:

Environmental, Social and Governance aspect	Compliance with National Laws and Regulations	Internal Policies
A Environmental	Law of the PRC on the Prevention and Control of Environmental Pollution by Solid Wastes Law of the PRC on the Environmental Protection	–
B1 Employment	Labour Law of the PRC	Management Rules for Attendance and Holiday
	Labour Contract Law of the PRC Social Insurance Law of the PRC Prohibition of Child Labour Provisions	
B2 Health and Safety	Labour Law of the PRC Work Safety Law of the PRC	–
B4 Labour Standard	Labour Law of the PRC	Management Rules for Attendance and Holiday
	Labour Contract Law of the PRC Prohibition of Child Labour Provisions	
B5 Supply Chain Management	–	Supplier Introduction Rules
B6 Product Responsibility	Trademark Law of the PRC	–
B7 Anti-corruption	Company Law of the PRC Anti–Money Laundering Law of the PRC	–

CONCLUSION AND PROSPECT

Founder Electronics will continue to enhance the company's image of environment, society and governance through future media and non-media industries, including the continuous brand promotion, marketing and public relations. The Company will focus on key products and businesses to carry out media communication, and maintain continuous exchange of opinions for branding and business. In addition, in terms of marketing, we will deepen into the industry and customers by marketing activities. In terms of public relations, the Company will fully communicate with associations, industry authorities and customers to enhance our image.

EXECUTIVE DIRECTORS

Mr Cheung Shuen Lung, aged 62, 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 54, 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 system 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.

Professor Xiao Jian Guo, aged 62, is an executive director of the Company since April 2019. He was an executive director of the Company from May 2001 to December 2016 and was re-designated from Deputy Chairman of the Company to the Chairman of the Company on 1 March 2016. He is also the director of Peking Founder and PKU Founder Information. He is a director of associated companies of Peking Founder. He is a professor and a supervisor of PhD students of the Peking University. He graduated from the Department of Computer Science at the College of Dalian Ocean Communication with a bachelor's degree in 1982 and obtained a master's degree in Computer Science at Peking University.

Ms Zuo Jin, aged 45, 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 subsidiary 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 40, 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.

* *For identification purpose only*

Ms Liao Hang, aged 40, 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 associated companies of Peking Funder and 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 58, 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 55, 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 46, is an independent non-executive director of the Company since March 2017. He is the chief financial officer and joint company secretary 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) from May 2014 to June 2018; (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; and (iv) Wing Chi Holdings Limited (stock code: 6080), a company listed on the Main Board; and (v) Eternity Technology Holdings Limited (Stock code: 01725), a company listed on the Main Board, since July 2018. 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 2018.

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 2018 and the Group's financial position at that date are set out in the financial statements on pages 47 to 143.

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 section 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 37 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 19 to 31 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 146. 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 2018, the Company's reserves available for distribution amounted to approximately HK$182,522,000. 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 loss than 30% of the total purchase for the year.

None of the directors of the Company or any of their associates or any shareholders of the Company (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

In accordance with the bye-laws of the Company, Mr Hu Bin, Mr Li Fat Chung and Mr Chan Chung Kik, Lewis 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 32 to 33 of the annual report.

DIRECTORS' SERVICE AGREEMENTS

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

DIRECTORS' REMUNERATION

The remuneration of the directors of the Company are determined by reference to the market rates, commitments, contribution and their duties and 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 year ended 31 December 2018. 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 2018, 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	7,071,556	0.59

Save as disclosed above, as at 31 December 2018, 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.

DIRECTORS INTERESTS IN COMPETING BUSINESS

During the year ended 31 December 2018, none of the directors of the Company had any interest in a business (other than those businesses where the Directors of the Company were appointed as directors to represent the interests of the Company and/or any member of the Group) which is considered to compete or is likely to compete, either directly or indirectly, with the businesses of the Group.

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

At 31 December 2018, 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 2018, 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, 北京北大方正電子有限公司 (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.

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.

During the year, rental and management fees of approximately HK$16,067,000 (2017: HK$15,655,000) 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.

* *For identification purpose only*

(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.

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.

During the year, products and services of approximately HK$1,666,000 (2017: HK$377,000) were purchased from Peking Founder Group. The directors consider that the purchases of products and services were made in accordance with the master agreements.

(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$9,330,000 (2017: HK$5,260,000) 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.

On 25 October 2018, the Company and Peking Founder entered into a master sales agreement to extend the term for the period from 1 January 2019 to 31 December 2021. Further details of the transaction were set out in the announcement of the Company dated 25 October 2018.

(d) 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 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 RM370,000,000 (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.

For the year ended 31 December 2018, entrusted loans in the amounts of RMB370,000,000 (equivalent to approximately HK$420,320,000) and RMB370,000,000 (equivalent to approximately HK$420,320,000) were provided to PKU Founder Information and Peking Founder, respectively. The entrusted loans are unsecured and bear interest at rate of 7.0% per annum. The entrusted loans were settled by 19 October 2018 as to the amount of RMB370,000,000 (equivalent to approximately HK$420,320,000). The entrusted loans of RMB370,000,000 (equivalent to approximately HK$420,320,000) and the related interest receivable of RMB830,000 (equivalent to approximately HK$943,000) remained undue and were included in prepayments, deposits and other receivables as at 31 December 2018. Subsequent to the end of the reporting period, the entrusted loans of RM370,000,000 (equivalent to approximately HK$420,320,000) and interest receivables of RMB830,000 (equivalent to approximately HK$943,000) were settled by Peking Founder.

During the year, interest income earned by the Group from Peking Founder Group amounted to HK$25,138,000 (2017: HK$21,442,000). 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.*

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
25 March 2019

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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 47 to 143, which comprise the consolidated statement of financial position as at 31 December 2018, 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 2018, 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 judgement, 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.

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 2018, the carrying amounts of these assets amounted to HK$305,306,000 and HK$147,223,000, 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 the evaluation of the quality, objectivity, independence and expertise of the external property valuation appraisers, and the verification of the correctness of selected property-related information (among others, the location, age and area of the buildings, and rental income) used for the valuation. 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 also 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 2018, the carrying amount of trade receivables before provision for impairment amounted to HK$141,201,000, which was included in the amount of trade and bills receivables before provision for impairment of HK$168,916,000. The Group recognises an impairment provision based on the expected credit loss ("ECL") approach under HKFRS 9 Financial Instruments. The measurement of ECL requires the application of significant judgement and estimates, such as the expected future cash flows and forward-looking factors specific to the debtors and the economic environment. As at 31 December 2018, the impairment provision recorded for trade receivables was HK$29,216,000. Relevant disclosures are included in notes 3 and 19 to the consolidated financial statements.	Our audit procedures included the assessment of the design, implementation and operating effectiveness of key internal controls which govern credit control, debt collection and estimate of ECLs. We also assessed the reasonableness of management's ECL allowance by examining the information used by management to form such judgement and estimates, including checking the completeness of the historical default information, and evaluating whether the historical loss rates are appropriately adjusted based on current economic conditions and forward-looking information. We also evaluated the reasonableness of the Group's provision for trade receivables by reference to the Group's subsequent collection of the trade receivables.

Key audit matter	How our audit addressed the key audit matter
Stage of completion of software development and system integration contracts	
The Group derives a significant portion of its revenue from the provision of software development and system integration services, which is recognised over time based on the stage of completion of the contracts. The determination of the revenue recognised over time, involves the use of significant management judgement and estimates, including estimates of the progress towards completion and remaining costs to completion of the contracts. Relevant disclosures are included in notes 3 and 5 to the consolidated financial statements.	Our audit procedures included the evaluation of the management's controls relating to revenue recognition, (among others, the determination of total budgets, the percentage of completion and the timing of revenue recognition). In addition, we 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.

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

25 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

YEAR ENDED 31 DECEMBER 2018

	NOTES	2018 HK$'000	2017 HK$'000
REVENUE	5	**1,058,857**	993,493
Cost of sales		**(542,733)**	(554,710)
Gross profit		**516,124**	438,783
Other income and gains	5	**105,668**	124,431
Selling and distribution expenses		**(246,806)**	(232,624)
Administrative expenses		**(97,383)**	(92,987)
Other expenses, net		**(181,035)**	(140,039)
Finance costs	7	**(7,882)**	(6,571)
Share of (losses)/profits of associates		**(209)**	233
PROFIT BEFORE TAX	6	**88,477**	91,226
Income tax	10	**(966)**	(1,397)
PROFIT FOR THE YEAR		**87,511**	89,829
Attributable to:			
Owners of the parent		**87,336**	89,836
Non-controlling interests		**175**	(7)
		87,511	89,829
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted	11	**HK7.3 cents**	HK7.5 cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

YEAR ENDED 31 DECEMBER 2018

	NOTES	2018 HK$'000	2017 HK$'000
PROFIT FOR THE YEAR		**87,511**	89,829
OTHER COMPREHENSIVE (LOSS)/INCOME			
Other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods:			
Changes in fair value of available-for-sale investments	*15*	**–**	15,834
Share of other comprehensive losses/income of associates	*14*	**(677)**	310
		(677)	16,144
Exchange differences:			
Exchange differences on translation of foreign operations		**(39,045)**	44,026
Reclassification adjustments for a foreign operation deregistered during the year	*5*	**(890)**	–
		(39,935)	44,026
Net other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods		**(40,612)**	60,170
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:			
Changes in fair value of equity investments at fair value through other comprehensive income	*15*	**(12,995)**	–
Revaluation surplus of land and buildings, net of tax		**15,894**	16,216
Net other comprehensive income that will not be reclassified to profit or loss in subsequent periods		**2,899**	16,216
OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR, NET OF TAX		**(37,713)**	76,386
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**49,798**	166,215
Attributable to:			
Owners of the parent		**49,638**	166,210
Non-controlling interests		**160**	5
		49,798	166,215

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 DECEMBER 2018

	NOTES	2018 HK$'000	2017 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	12	**337,289**	359,419
Investment properties	13	**147,223**	117,879
Investments in associates	14	**2,544**	3,430
Available-for-sale investments	15	**–**	19,718
Equity investments at fair value through other comprehensive income	15	**6,709**	–
Intangible assets	16	**–**	–
Deferred tax assets	27	**4,569**	2,268
Pledged deposits	21	**4,804**	7,201
Total non-current assets		**503,138**	509,915
CURRENT ASSETS			
Inventories	17	**93,569**	103,810
Gross amount due from contract customers	18	**–**	17,744
Contract assets	18	**45,003**	–
Trade and bills receivables	19	**139,700**	161,384
Prepayments, other receivables and other assets	20	**472,591**	511,569
Financial assets at fair value through profit or loss	22	**803**	2,287
Pledged deposits	21	**8,073**	7,396
Cash and cash equivalents	21	**548,222**	509,277
Total current assets		**1,307,961**	1,313,467
CURRENT LIABILITIES			
Trade and bills payables	23	**69,987**	78,615
Contract liabilities	25	**86,373**	–
Gross amount due to contract customers	18	**–**	19,247
Other payables and accruals	24	**246,133**	358,791
Interest-bearing bank borrowings	26	**160,914**	161,119
Tax payable		**3,982**	5,443
Total current liabilities		**567,389**	623,215
NET CURRENT ASSETS		**740,572**	690,252
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,243,710**	1,200,167
NON-CURRENT LIABILITIES			
Deferred tax liabilities	27	**58,009**	61,033
Net assets		**1,185,701**	1,139,134

31 DECEMBER 2018

	NOTES	2018 HK$'000	2017 HK$'000
EQUITY			
Equity attributable to owners of the parent			
Issued capital	*28*	**119,975**	119,975
Reserves	*30*	**1,065,726**	1,018,975
		1,185,701	1,138,950
Non-controlling interests		**–**	184
Total equity		**1,185,701**	1,139,134

Cheung Shuen Lung
Director

Shao Xing
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

YEAR ENDED 31 DECEMBER 2018

	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

YEAR ENDED 31 DECEMBER 2018

	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 investments revaluation reserve HK$'000	Equity investments at fair value through other comprehensive income revaluation reserve HK$'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 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
Adjustment on adoption of HKFRS 9 (note 2.2)	-	-	-	-	(15,834)	5,701	-	-	7,246	(2,887)	-	(2,887)
Restated balance at 1 January 2018	119,975	53,597	867,910	263,337	-	5,701	21,561	68,276	(264,294)	1,136,063	184	1,136,247
Profit for the year	-	-	-	-	-	-	-	-	87,336	87,336	175	87,511
Other comprehensive income for the year:												
Revaluation surplus of land and buildings, net of tax	-	-	-	15,894	-	-	-	-	-	15,894	-	15,894
Change in equity investments at fair value through other comprehensive income	-	-	-	-	-	(12,995)	-	-	-	(12,995)	-	(12,995)
Share of other comprehensive losses of associates	-	-	-	-	-	-	(696)	19	-	(677)	-	(677)
Exchange differences on translation of foreign operations	-	-	-	-	-	-	(39,030)	-	-	(39,030)	(15)	(39,045)
Reclassification adjustments for a foreign operation deregistered during the year (note 5)	-	-	-	-	-	-	(890)	-	-	(890)	-	(890)
Total comprehensive income for the year	-	-	-	15,894	-	(12,995)	(40,616)	19	87,336	49,638	160	49,798
Dividends paid to non-controlling shareholders	-	-	-	-	-	-	-	-	-	-	(166)	(166)
Deregistration of a subsidiary	-	-	-	-	-	-	-	(482)	482	-	(178)	(178)
Transfer revaluation reserve of land and buildings to accumulated losses	-	-	-	(29,944)	-	-	-	-	29,944	-	-	-
Transfer to general reserve	-	-	-	-	-	-	-	12,055	(12,055)	-	-	-
At 31 December 2018	119,975	53,597*	867,910*	249,287*	-	(7,294)*	(19,055)*	79,868*	(158,587)*	1,185,701	-	1,185,701

* These reserve accounts comprise the consolidated reserves of HK$1,065,726,000 (2017: HK$1,018,975,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED 31 DECEMBER 2018

	NOTES	2018 HK$'000	2017 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**88,477**	91,226
Adjustments for:			
Finance costs	7	**7,882**	6,571
Share of losses/(profits) of associates		**209**	(233)
Interest income	5	**(31,262)**	(24,668)
Fair value gains on investment properties	5	**(2,595)**	(14,115)
Gain on disposal of items of property, plant and equipment	5	**(6)**	(3,086)
Gain on disposal of intangible assets	5	**–**	(6,636)
Gain on disposal of an associate	5	**–**	(224)
Fair value losses/(gains) on financial assets at fair value through profit or loss	6	**1,475**	(1,544)
Reversal of impairment of contract assets	6	**(2,143)**	–
Depreciation	6	**17,878**	15,202
Amortisation of intangible assets	6	**–**	2,158
Impairment of trade receivables	6	**824**	827
(Reversal of impairment)/impairment of other receivables	6	**(575)**	1,643
Write-off of inventories	6	**2,024**	–
Provision for obsolete inventories	6	**4,690**	3,092
		86,878	70,213
Decrease/(increase) in inventories		**3,307**	(45,633)
Decrease in contract assets		**5,422**	–
Increase in gross amount due from contract customers		**–**	(6,040)
Decrease/(increase) in trade and bills receivables		**7,646**	(30,387)
Increase in prepayments, other receivables and other assets		**(1,774)**	(8,746)
Decrease in contract liabilities		**(37,363)**	–
Decrease in gross amount due to contract customers		**–**	(2,449)
(Decrease)/increase in trade and bills payables		**(8,628)**	24,151
(Decrease)/increase in other payables and accruals		**(8,169)**	36,490
Exchange differences		**(21,853)**	7,896
Cash generated from operations		**25,466**	45,495
Interest received		**6,124**	3,226
Interest paid		**(7,882)**	(6,571)
Hong Kong profits tax paid		**(2,946)**	(460)
Corporate income tax paid in Mainland of the People's Republic of China ("Mainland China" or the "PRC")		**(5,628)**	(5,837)
Net cash flows from operating activities		**15,134**	35,853

	NOTES	2018 HK$'000	2017 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**25,186**	21,856
Purchases of items of property, plant and equipment		**(17,410)**	(21,519)
Additions of investment properties	13	**(2,476)**	(644)
Proceeds from disposal of items of properties, plant and equipment		**6,607**	1,021
Proceeds from disposal of intangible assets		**–**	8,671
Proceeds from disposal of investments in associates		**–**	470
Return of capital of an associate		**–**	2,022
Proceeds from disposal of financial assets at fair value through profit or loss		**9**	–
Increase in non-pledged time deposits with original maturity of more than three months when acquired		**(43,018)**	(31,717)
Advances of entrusted loans to related companies		**(840,640)**	(943,260)
Repayment of entrusted loans from related companies		**862,100**	759,080
Decrease in pledged deposits		**1,720**	2,690
Net cash flows used in investing activities		**(7,922)**	(201,330)
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans		**132,501**	132,821
Repayment of bank loans		**(126,823)**	(125,104)
Decrease in trust receipt loans		**–**	(2,637)
Dividends paid to non-controlling shareholders		**(166)**	–
Repayment of capital to non-controlling shareholders		**(178)**	–
Net cash flows from financing activities		**5,334**	5,080
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**12,546**	(160,397)
Cash and cash equivalents at beginning of year		**475,615**	602,960
Effect of foreign exchange rate changes, net		**(16,619)**	33,052
CASH AND CASH EQUIVALENTS AT END OF YEAR		**471,542**	475,615
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	21	**415,818**	410,805
Non-pledged time deposits		**132,404**	98,472
Cash and cash equivalents as stated in the consolidated statement of financial position		**548,222**	509,277
Non-pledged time deposits with original maturity of more than three months when acquired		**(76,680)**	(33,662)
Cash and cash equivalents as stated in the consolidated statement of cash flows		**471,542**	475,615

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, system integration and the 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 product distribution and investment holding
Beijing Founder Electronics Co., Ltd. ("Founder Electronics") #*	PRC/Mainland China	Registered HK$230 million	–	100	Software development, system integration and information product 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 product 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 product distribution
Founder Electronics (HK) Limited	Hong Kong	Ordinary HK$2	–	100	Information product 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, equity investments at fair value through other comprehensive income, bills receivable and financial assets 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 2018. 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 new and revised HKFRSs for the first time for the current year's financial statements.

Amendments to HKFRS 2	*Classification and Measurement of Share-based Payment Transactions*
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*
HKFRS 9	*Financial Instruments*
HKFRS 15	*Revenue from Contracts with Customers*
Amendments to HKFRS 15	*Clarifications to HKFRS 15 Revenue from Contracts with Customers*
Amendments to HKAS 40	*Transfers of Investment Property*
HK(IFRIC)-Int 22	*Foreign Currency Transactions and Advance Consideration*
Annual Improvements 2014–2016 Cycle	Amendments to HKFRS 1 and HKAS 28

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

Except for the amendments to HKFRS 4 and *Annual Improvements to HKFRSs 2014–2016 Cycle*, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the new and revised HKFRSs are described below:

(a) Amendments to HKFRS 2 address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding a certain amount in order to meet an employee's tax obligation associated with the share-based payment; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. The amendments clarify that the approach used to account for vesting conditions when measuring equity-settled share-based payments also applies to cash-settled share-based payments. The amendments introduce an exception so that a share-based payment transaction with net share settlement features for withholding a certain amount in order to meet the employee's tax obligation is classified in its entirety as an equity-settled share-based payment transaction when certain conditions are met. Furthermore, the amendments clarify that if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. The amendments have had no impact on the financial position or performance of the Group as the Group does not have any cash-settled share-based payment transactions and has no share-based payment transactions with net settlement features for withholding tax.

(b) HKFRS 9 *Financial Instruments* replaces HKAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting.

With the exception of hedge accounting, which the Group has applied prospectively, the Group has recognised the transition adjustments against the applicable opening balances in equity at 1 January 2018. Therefore, the comparative information was not restated and continues to be reported under HKAS 39.

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

(b) *(continued)*

Classification and measurement

The following information sets out the impacts of adopting HKFRS 9 on the statement of financial position, including the effect of replacing HKAS 39's incurred credit loss calculations with HKFRS 9's expected credit losses ("ECLs").

A reconciliation between the carrying amounts under HKAS 39 and the balances reported under HKFRS 9 as at 1 January 2018 is as follows:

	NOTES	Original measurement category under HKAS 39	New measurement category under HKFRS 9	Original carrying amount under HKAS 39	New carrying amount under HKFRS 9
Due from associates *(note 14)*		Loans and receivables	Financial assets at amortised cost	31	31
Available-for-sale investments *(note 15)*	*(i)*	Available-for-sale financial assets	Equity investments at fair value through other comprehensive income	19,718	19,718
Pledged deposits *(note 21)*		Loans and receivables	Financial assets at amortised cost	14,597	14,597
Contract assets *(note 18)*	*(ii)*	Not applicable	Financial assets at amortised cost	50,401	47,514
Trade receivables *(note19)*	*(ii)*	Loans and receivables	Financial assets at amortised cost	109,408	109,408
Bills receivable *(note 19)*	*(iii)*	Loans and receivables	Financial assets at fair value through other comprehensive income	36,906	36,906
Financial assets included in prepayments, other receivables and other assets *(note 20)*		Loans and receivables	Financial assets at amortised cost	467,412	467,412
Financial assets at fair value through profit or loss *(note 22)*		Financial assets at fair value through profit or loss	Financial assets at fair value through profit or loss	2,287	2,287
Cash and cash equivalents *(note 21)*		Loans and receivables	Financial assets at amortised cost	509,277	509,277
Trade and bills payables *(note 23)*		Financial liabilities at amortised cost	Financial liabilities at amortised cost	78,615	78,615

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

(b) *(continued)*

Classification and measurement *(continued)*

	Original measurement category under HKAS 39	New measurement category under HKFRS 9	Original carrying amount under HKAS 39	New carrying amount under HKFRS 9
Contract liabilities *(note 25)*	Financial liabilities at amortised cost	Financial liabilities at amortised cost	123,736	123,736
Financial liabilities included in other payables and accruals *(note 24)*	Financial liabilities at amortised cost	Financial liabilities at amortised cost	229,182	229,182
Interest-bearing bank borrowings *(note 26)*	Financial liabilities at amortised cost	Financial liabilities at amortised cost	161,119	161,119

Notes:

(i) The Group has elected the option to irrevocably designate certain of its previous available-for-sale equity investments as equity investments at fair value through other comprehensive income. As the carrying amount of the available-for-sale investments amounting to HK$19,718,000 as at 31 December 2017 approximated to the fair value as at 1 January 2018, no transition adjustment to the financial asset at 1 January 2018 was recognised.

(ii) The gross carrying amounts of the trade receivables and the contract assets under the column "Original carrying amount under HKAS 39" represent the amounts after adjustments for the adoption of HKFRS 15 but before the measurement of ECLs. Further details of the adjustments for the adoption of HKFRS 15 are included in note 2.2(c) to the financial statements.

(iii) The Group's bills receivable are managed with a business model under which bills receivable are held to collect contractual cash flows or endorsed to suppliers prior to their expiry date. Accordingly, the bills receivable are reclassified as financial assets at fair value through other comprehensive income upon adoption of HKFRS 9.

Impairment

The following table reconciles the aggregate opening impairment allowances under HKAS 39 to the ECL allowances under HKFRS 9. Further details are disclosed in note 18 to the financial statements.

	Impairment allowances under HKAS 39 at 31 December 2017 HK$'000	Re-measurement HK$'000	Transfer *(note)* HK$'000	ECL allowance under HKFRS 9 at 1 January 2018 HK$'000
Contract assets	–	2,887	4,554	7,441

Note: The amount represented a transfer of HK$4,554,000 from the loss allowance for impairment of trade receivables *(note 19)*.

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

(b) *(continued)*

Impact on reserves and retained profits/(accumulated losses)

The impact of transition to HKFRS 9 on reserves and retained profits is as follows:

	Reserves and retained profits/ (accumulated losses) HK$'000
Equity investments at fair value through other comprehensive income revaluation reserve under HKFRS 9 (available-for-sale investment revaluation reserve under HKAS 39)	
Balance as at 31 December 2017 under HKAS 39	15,834
Reversal of impairment losses under HKAS 39 for equity investments at fair value through other comprehensive income previously classified as available-for-sale investments	(10,133)
Balance as at 1 January 2018 under HKFRS 9	5,701
Retained profits/(accumulated losses)	
Balance as at 31 December 2017 under HKAS 39	(271,540)
Reversal of impairment losses under HKAS 39 for equity investments at fair value through other comprehensive income previously classified as available-for-sale investments	10,133
Recognition of expected credit losses for contract assets under HKFRS 9	(2,887)
Balance as at 1 January 2018 under HKFRS 9	(264,294)

(c) HKFRS 15 and its amendments replace HKAS 11 Construction Contracts, HKAS 18 Revenue and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. HKFRS 15 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 disclosures are included in notes 3 and 5 to the financial statements. As a result of the application of HKFRS 15, the Group has changed the accounting policy with respect to revenue recognition in note 2.4 to the financial statements.

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

(c) *(continued)*

The Group has adopted HKFRS 15 using the modified retrospective method of adoption. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Group has elected to apply the standard to contracts that are not completed as at 1 January 2018.

The cumulative effect of the initial application of HKFRS 15 was recognised as an adjustment to the opening balance of accumulated losses as at 1 January 2018. Therefore, the comparative information was not restated and continues to be reported under HKAS 11, HKAS 18 and related interpretations.

Set out below are the amounts by which each financial statement line item was affected as at 1 January 2018 as a result of the adoption of HKFRS 15:

	NOTES	Increase/ (decrease) HK$'000
Assets		
Trade and bills receivables	*(i)*	(19,624)
Financial assets included in prepayments, other receivables and other assets	*(i)*	(29,950)
Gross amount due from contract customers	*(i)*	(17,744)
Contract assets	*(i)*	67,318
Total assets		–
Liabilities		
Gross amount due to contract customers	*(ii)*	(19,247)
Other payables and accruals	*(ii)*	(104,489)
Contract liabilities	*(ii)*	123,736
Total liabilities		–

Set out below are the amounts by which each financial statement line item was affected as at 31 December 2018 and for the year ended 31 December 2018 as a result of the adoption of HKFRS 15. The adoption of HKFRS 15 has had no impact on the consolidated statement of profit or loss, other comprehensive income or on the Group's operating, investing and financing cash flows. The first column shows the amounts recorded under HKFRS 15 and the second column shows what the amounts would have been had HKFRS 15 not been adopted:

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

(c) *(continued)*

Consolidated statement of financial position as at 31 December 2018:

	NOTES	Amounts prepared under HKFRS 15 HK$'000	Previous HKFRS HK$'000	Increase/ (decrease) HK$'000
Gross amount due from contract customers	*(i)*	–	24,452	(24,452)
Trade and bills receivables	*(i)*	168,916	188,487	(19,571)
Financial assets included in prepayments, other receivables and other assets	*(i)*	477,810	495,683	(17,873)
Contract assets	*(i)*	61,896	–	61,896
Total assets		1,811,099	1,811,099	–
Other payables and accruals	*(ii)*	246,133	309,721	(63,588)
Contract liabilities	*(ii)*	86,373	–	86,373
Gross amount due to contract customers	*(ii)*	–	22,785	(22,785)
Total liabilities		625,398	625,398	–
Net assets		1,185,701	1,185,701	–
Accumulated losses		158,587	158,587	–
Total equity		1,185,701	1,185,701	–

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

(c) *(continued)*

The nature of the adjustments as at 1 January 2018 and the reasons for the significant changes in the statement of financial position as at 31 December 2018 for the year ended 31 December 2018 are described below:

(i) Before the adoption of HKFRS 15, retention receivables, which were conditional on the satisfaction of the goods or service quality by the customers over a certain period as stipulated in the contracts, were included in trade receivables. Upon adoption of HKFRS 15, retention receivables are reclassified to contract assets. Accordingly, the Group reclassified HK$19,624,000 from trade receivables to contract assets as at 1 January 2018.

Before the adoption of HKFRS 15, performance deposits which were conditional on the completion of the projects, were included in prepayments, other receivables and other assets. Upon adoption of HKFRS 15, performance deposits are reclassified to contract assets. Accordingly, the Group reclassified HK$29,950,000 from financial assets included in prepayments, other receivables and other assets to contract assets as at 1 January 2018.

Before the adoption of HKFRS 15, contract costs were recognised as an asset, provided it was probable that they would be recovered. Such costs represented an amount due from the customers and were recorded as a gross amount due from contract customers in the statement of financial position before the services were billed to customers. Upon the adoption of HKFRS 15, a contract asset is recognised when the Group performs by transferring goods or services to customers and the Group's right to consideration is conditional. Accordingly, the Group reclassified HK$17,744,000 from gross amount due from contract customers to contract assets as at 1 January 2018.

As at 31 December 2018, the adoption of HKFRS 15 resulted in a decrease in trade receivables of HK$19,571,000, a decrease in the financial assets included in prepayments, other receivables and other assets of HK$17,873,000, a decrease in the gross amount due from contract customers of HK$24,452,000 and an increase in contract assets of HK$61,896,000.

(ii) Before the adoption of HKFRS 15, the obligation to transfer goods and services to a customer for which the Group has received consideration or issued progress billing, was recognised as receipt in advance, which was included in other payables and accruals, and the gross amount due to contract customers. They are reclassified to contract liabilities under HKFRS 15. Accordingly, the Group reclassified HK$104,489,000 from other payables and accruals and HK$19,247,000 from gross amount due to contract customers to contract liabilities as at 1 January 2018. As at 31 December 2018, the adoption of HKFRS 15 resulted in a decrease in other payables and accruals and amount due to contract customers of HK$86,373,000.

(d) Amendments to HKAS 40 clarify when an entity should transfer property, including property under construction or development, into or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments have had no impact on the financial position or performance of the Group.

(e) HK(IFRIC)-Int 22 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. The interpretation has had no impact on the Group's financial statements as the Group's accounting policy for the determination of the exchange rate applied for initial recognition of non-monetary assets or non-monetary liabilities is consistent with the guidance provided in the interpretation.

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 3	*Definition of a Business*[2]
Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*[1]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
HKFRS 16	*Leases*[1]
HKFRS 17	*Insurance Contracts*[3]
Amendments to HKAS 1 and HKAS 8	*Definition of Material*[2]
Amendments to HKAS 19	*Plan Amendment, Curtailment or Settlement*[1]
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*[1]
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*[1]
Annual Improvements 2015–2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23[1]

1 Effective for annual periods beginning on or after 1 January 2019
2 Effective for annual periods beginning on or after 1 January 2020
3 Effective for annual periods beginning on or after 1 January 2021
4 No mandatory effective date yet determined but available for adoption

Further information about those HKFRSs that are expected to be applicable to the Group is described below.

Amendments to HKFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group expects to adopt the amendments prospectively from 1 January 2020.

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.

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

HKFRS 16 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 elective 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 will adopt HKFRS 16 from 1 January 2019. The Group plans to adopt the transitional provisions in HKFRS 16 to recognise the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2019 and will not restate the comparatives. In addition, the Group plans to apply the new requirements to contracts that were previously identified as leases applying HKAS 17 and measure the lease liability at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate at the date of initial application. The right-of-use asset will be measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before the date of initial application. The Group plans to use the exemptions allowed by the standard on lease contracts whose lease terms end within 12 months as of the date of initial application. During 2018, the Group has performed a detailed assessment on the impact of adoption of HKFRS 16. The Group has estimated that right-of-use assets of HK$27,618,000 and lease liabilities of HK$27,285,000 will be recognised at 1 January 2019.

Amendments to HKAS 1 and HKAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. The Group expects to adopt the amendments prospectively from 1 January 2020. The amendments are not expected to have any significant impact on the Group's financial statements.

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

Amendments to HKAS 28 clarify that the scope exclusion of HKFRS 9 only includes interests in an associate or joint venture to which the equity method is applied and does not include long-term interests that in substance form part of the net investment in the associate or joint venture, to which the equity method has not been applied. Therefore, an entity applies HKFRS 9, rather than HKAS 28, including the impairment requirements under HKFRS 9, in accounting for such long-term interests. HKAS 28 is then applied to the net investment, which includes the long-term interests, only in the context of recognising losses of an associate or joint venture and impairment of the net investment in the associate or joint venture. The Group expects to adopt the amendments on 1 January 2019 and will assess its business model for such long-term interests based on the facts and circumstances that exist on 1 January 2019 using the transitional requirements in the amendments. The Group also intends to apply the relief from restating comparative information for prior periods upon adoption of the amendments.

HK(IFRIC)-Int 23 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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments in associates and joint ventures *(continued)*

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

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

Fair value measurement

The Group measures its land and buildings, investment properties, financial assets at fair value through profit or loss, bills receivables, equity investment at fair value through other comprehensive income 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

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, 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. An annual transfer from the asset revaluation surplus to accumulated losses is made for the difference between depreciation based on the revalued carrying amount of the assets and depreciation based on its original cost. 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 33⅓%
Machinery and equipment	12.5% to 20%
Motor vehicles	10% to 25%

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Leases

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

Investments and other financial assets (policies under HKFRS 9 applicable from 1 January 2018)

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under HKFRS 15 in accordance with the policies set out for "Revenue recognition (applicable from 1 January 2018)" below.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets (policies under HKFRS 9 applicable from 1 January 2018) *(continued)*

Subsequent measurement

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

Financial assets at amortised cost (debt instruments)

The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows.

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in the statement of profit or loss when the asset is derecognised, modified or impaired.

Financial assets at fair value through other comprehensive income (debt instruments)

The Group measures debt investments at fair value through other comprehensive income if both of the following conditions are met:

- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling.

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For debt investments at fair value through other comprehensive income, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in other comprehensive income. Upon derecognition, the cumulative fair value change recognised in other comprehensive income is recycled to the statement of profit or loss.

Financial assets designated at fair value through other comprehensive income (equity investments)

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity investments designated at fair value through other comprehensive income when they meet the definition of equity under HKAS 32 *Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to the statement of profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in other comprehensive income. Equity investments designated at fair value through other comprehensive income are not subject to impairment assessment.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets (policies under HKFRS 9 applicable from 1 January 2018) *(continued)*

Subsequent measurement *(continued)*

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through other comprehensive income, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

This category includes derivative instruments and equity investments which the Group had not irrevocably elected to classify at fair value through other comprehensive income. Dividends on equity investments classified as financial assets at fair value through profit or loss are also recognised as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. 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.

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at fair value through profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets (policies under HKAS 39 applicable before 1 January 2018)

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 (applicable before 1 January 2018)" 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 (policies under HKAS 39 applicable before 1 January 2018) *(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.

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 (applicable before 1 January 2018)" 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 (policies under HKFRS 9 applicable from 1 January 2018 and policies under HKAS 39 applicable before 1 January 2018)

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.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets (policies under HKFRS 9 applicable from 1 January 2018)

The Group recognises an allowance for ECLs for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets (policies under HKFRS 9 applicable from 1 January 2018) *(continued)*

General approach *(continued)*

The Group considers a financial asset in default when contractual payments are aged more than three years. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Debt investments at fair value through other comprehensive income and financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables and contract assets which apply the simplified approach as detailed below.

Stage 1	–	Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs
Stage 2	–	Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs
Stage 3	–	Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

Simplified approach

For trade receivables and contract assets that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For trade receivables and contract assets that contain a significant financing component and lease receivables, the Group chooses as its accounting policy to adopt the simplified approach in calculating ECLs with policies as described above.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets (policies under HKAS 39 applicable before 1 January 2018)

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets (policies under HKAS 39 applicable before 1 January 2018) *(continued)*

Available-for-sale financial investments

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

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

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

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 (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018)

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, 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 and payables, net of directly attributable transaction costs.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Derecognition of financial liabilities (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018)

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 (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018)

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.

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.

The Group provides for warranties in relation to the sale of certain products for general repairs of defects occurring during the warranty period. Provisions for these assurance-type warranties granted by the Group are recognised based on sales volume and past experience of the level of repairs and returns, discounted to their present values as appropriate.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax

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

Current tax assets and liabilities 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, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax *(continued)*

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 (applicable from 1 January 2018)

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

When the contract contains a financing component which provides the customer a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

(a) *Sale of information products and software*

Revenue from the sale of information products and software is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the information products and software.

(b) *Sale of software development and system integration service*

Revenue from the provision of software development and system integration service is recognised over time, using an input method to measure progress towards complete satisfaction of the service, because the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced. The input method recognises revenue based on the proportion of the actual costs incurred relative to the estimated total costs for satisfaction of the services.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition (applicable from 1 January 2018) *(continued)*

Revenue from other sources

Rental income is recognised on a time proportion basis over the lease terms.

Other income

Interest income is recognised 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.

Dividend income is recognised when the shareholders' right to receive payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

Revenue recognition (applicable before 1 January 2018)

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 system integration contracts, on the percentage of completion basis, as further explained in the accounting policy for "System 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)*

System integration contracts (applicable before 1 January 2018)

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 system 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.

Contract assets (applicable from 1 January 2018)

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional.

Contract costs (applicable from 1 January 2018)

Other than the costs which are capitalised as inventories, property, plant and equipment and intangible assets, costs incurred to fulfil a contract with a customer are capitalised as an asset if all of the following criteria are met:

(a) The costs relate directly to a contract or to an anticipated contract that the entity can specifically identify.

(b) The costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future.

(c) The costs are expected to be recovered.

The capitalised contract costs are amortised and charged to the statement of profit or loss on a systematic basis that is consistent with the pattern of the revenue to which the asset related is recognised. Other contract costs are expensed as incurred.

Contract liabilities (applicable from 1 January 2018)

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received a consideration (or an amount of consideration that is due) from the customer. If a customer pays the consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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).

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

The functional currencies of certain subsidiaries and associates not operating in Hong Kong are currencies other than 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.

Provision for expected credit losses on trade receivables and contract assets

The Group uses a provision matrix to calculate ECLs for trade receivables and contract assets. The provision rates are based on the invoice date for groupings of various customer segments that have similar loss patterns (i.e., by geography, product type).

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast industry conditions are expected to deteriorate over the next year which can lead to an increased number of defaults, the historical default rates are adjusted. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of the customer's actual default in the future. The information about the ECLs on the Group's contract assets and trade receivables is disclosed in notes 18 and 19 to the financial statements, respectively.

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

Estimation uncertainty *(continued)*

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.

Stage of completion of software development and system 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 software development and system 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. 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 2018 was approximately HK$387,422,000 (2017: HK$379,128,000). Further details are included in note 27 to the financial statements.

4. OPERATING SEGMENT INFORMATION

The Group is primarily engaged in the provision of software development and system integration and information products distribution. Given that the chief operating decision maker of the Company considers that the Group's business is operated and managed as a single segment, accordingly, no segment information is presented.

Geographical information

(a) Revenue from external customers

	2018 HK$'000	2017 HK$'000
Mainland China	**1,054,219**	982,089
Hong Kong	**3,246**	10,673
Others	**1,392**	731
	1,058,857	993,493

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

(b) Non-current assets

	2018 HK$'000	2017 HK$'000
Mainland China	**263,351**	274,852
Hong Kong	**221,111**	202,363
Others	**2,594**	3,513
	487,056	480,728

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 (2017: Nil).

5. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	2018 **HK$'000**	2017 HK$'000
Revenue from contracts with customers		
Software development, system integration and information products distribution	**1,055,113**	989,462
Revenue from other sources		
Rental income	**3,744**	4,031
	1,058,857	993,493

Revenue from contract with customers

(i) Disaggregated revenue information

For the year ended 31 December 2018	**Total** HK$'000
Type of goods or service	
Sale of information products and software	800,663
Sale of software development and system integration service	254,450
Total revenue from contracts with customers	1,055,113
Geographical markets	
Mainland China	1,053,721
Others	1,392
Total revenue from contracts with customers	1,055,113
Timing of revenue recognition	
Goods transferred at a point in time	800,663
Services transferred over time	254,450
Total revenue from contracts with customers	1,055,113

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

Revenue from contracts with customers *(continued)*

(i) ***Disaggregated revenue information*** *(continued)*

The following table shows the amounts of revenue recognised in the current reporting period that were included in the contract liabilities at the beginning of the reporting period and recognised from performance obligations satisfied in previous periods:

	2018 HK$'000
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:	
Sale of information products and software	72,120
Sale of software development and system integration service	12,193
	84,313

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

Revenue from contracts with customers *(continued)*

(ii) Performance obligations

Information about the Group's performance obligations is summarised below:

Sale of information products and software

The performance obligation is satisfied upon delivery of information products and software and payment is generally due within 90 days from the invoice date, except for new customers, where payment in advance is normally required. A certain percentage of payment is retained by customers until the end of the retention period as the Group's entitlement to the final payment is conditional on the satisfaction of the goods' quality by the customers over a certain period as stipulated in the contracts.

Software development and system integration service

The performance obligation is satisfied over time as services are rendered and payment is generally due within 90 days from the invoice date. A certain percentage of payment is retained by customers until the end of the retention period as the Group's entitlement to the final payment is conditional on the satisfaction of the service quality by the customers over a certain period as stipulated in the contracts.

The transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December 2018 are as follows:

	HK$'000
Within one year	237,637
More than one year	30,382
	268,019

The remaining performance obligations expected to be recognised in more than one year relate to software development and system integration services that are to be satisfied within two years. The amounts disclosed above do not include variable consideration which is constrained.

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

	NOTE	2018 HK$'000	2017 HK$'000
Other income			
Bank interest income		**6,124**	3,226
Other interest income		**25,138**	21,442
Government grants *(note)*		**58,102**	54,716
Others		**12,813**	11,328
		102,177	90,712
Gains			
Fair value gains on investment properties	*13*	**2,595**	14,115
Foreign exchange differences, net		**–**	8,114
Fair value gains on financial assets at fair value through profit or loss		**–**	1,544
Gain on disposal of items of property, plant and equipment		**6**	3,086
Gain on disposal of intangible assets		**–**	6,636
Gain on disposal of an associate		**–**	224
Gain on deregistration of a subsidiary		**890**	–
		3,491	33,719
		105,668	124,431

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	2018 HK$'000	2017 HK$'000
Auditor's remuneration		**2,460**	2,460
Cost of inventories sold**		**370,985**	387,742
Cost of services provided**		**92,401**	81,542
Depreciation	*12*	**17,878**	15,202
Amortisation of patents and acquired software*	*16*	**–**	1,011
Minimum lease payments under operating leases		**16,751**	14,651
Impairment of trade receivables*	*19*	**824**	827
(Reversal of impairment)/impairment of other receivables*	*20*	**(575)**	1,643
Reversal of impairment of contract assets	*18*	**(2,143)**	–
Loss on write-off of inventories*		**2,024**	–
Provision for obsolete inventories**		**4,690**	3,092
Research and development costs:			
Current year expenditure*		**176,773**	133,605
Amortisation of capitalised software costs*	*16*	**–**	1,147
		176,773	134,752
Employee benefit expenses (including directors' and chief executive's remuneration – note 8):			
Wages and salaries		**314,287**	291,342
Pension scheme contributions***		**42,895**	31,701
		357,182	323,043
Foreign exchange differences, net		**7,635**	(8,114)
Direct operating expenses (including repair and maintenance) arising on rental-earning investment properties		**768**	800
Fair value losses/(gains) on financial assets at fair value through profit or loss		**1,475**	(1,544)

* 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 2018, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (2017: Nil).

7. FINANCE COSTS

An analysis of finance costs is as follows:

	2018 HK$'000	2017 HK$'000
Interest on bank borrowings	**7,882**	6,571

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

Directors' and chief executive's 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:

	2018 HK$'000	2017 HK$'000
Fees	**402**	402
Other emoluments:		
Salaries, allowances and benefits in kind	**2,508**	2,420
Performance related bonuses*	**1,384**	1,478
Pension scheme contributions	**74**	68
	3,966	3,966
	4,368	4,368

* 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:

	2018 HK$'000	2017 HK$'000
Mr Li Fat Chung	**138**	138
Ms Wong Lam Kit Yee	**132**	132
Mr Chan Chung Kik, Lewis[1]	**132**	99
Mr Fung Man Yin, Sammy[2]	**–**	33
	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 (2017: 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
2018					
Mr Cheung Shuen Lung	**–**	**1,437**	**–**	**74**	**1,511**
Mr Shao Xing#	**–**	**1,071**	**1,384**	**–**	**2,455**
Ms Zuo Jin	**–**	**–**	**–**	**–**	**–**
Mr Cui Yun Tao	**–**	**–**	**–**	**–**	**–**
Mr Hu Bin	**–**	**–**	**–**	**–**	**–**
Ms Liao Hang	**–**	**–**	**–**	**–**	**–**
	–	**2,508**	**1,384**	**74**	**3,966**
2017					
Mr Cheung Shuen Lung	–	1,385	–	68	1,453
Mr Shao Xing#	–	1,035	1,478	–	2,513
Ms Zuo Jin	–	–	–	–	–
Mr Cui Yun Tao	–	–	–	–	–
Mr Hu Bin	–	–	–	–	–
Ms Liao Hang	–	–	–	–	–
	–	2,420	1,478	68	3,966

Mr Shao Xing is also the chief executive of the Group.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included one (2017: two) director and the chief executive, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining four (2017: three) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2018 HK$'000	2017 HK$'000
Salaries, allowances and benefits in kind	4,217	2,556
Performance related bonuses	2,846	2,231
Pension scheme contributions	260	174
	7,323	4,961

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 2018	2017
HK$1,500,001 to HK$2,000,000	3	3
HK$2,000,001 to HK$2,500,000	1	–
	4	3

10. INCOME TAX

	2018 HK$'000	2017 HK$'000
Current – Hong Kong		
Charge for the year	596	1,944
Current – Mainland China		
Charge for the year	4,904	3,525
Underprovision in prior years	1,613	1,863
Deferred *(note 27)*	(6,147)	(5,935)
Total tax charge for the year	966	1,397

10. INCOME TAX *(continued)*

Hong Kong profits tax has been provided at the rate of 16.5% (2017: 16.5%) on the estimated assessable profits arising in Hong Kong during the year, except for the first HK$2,000,000 of assessable profits for Founder Electronics (HK) Limited which is accessed at the rate of 8.25% as Founder Electronics (HK) Limited elects the two-tiered profits tax rates in 2018.

Taxes on profits assessable in Mainland China have been calculated at the applicable PRC corporate income tax ("CIT") rate of 25%. 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$42,000 (2017: HK$73,000) 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:

	2018		2017	
	HK$'000	**%**	HK$'000	%
Profit before tax	**88,477**		91,226	
Tax at the statutory tax rate	**22,955**	**25.9**	20,579	22.6
Lower tax rate for specific provinces or enacted by local authority	**(15,994)**	**(18.1)**	(9,750)	(10.7)
Adjustment in respect of current tax of previous periods	**1,613**	**1.8**	1,863	2.0
Effect on changes in tax rates	**(2,047)**	**(2.3)**	(2,028)	(2.2)
Profits and losses attributable to associates	**42**	**–**	(40)	–
Income not subject to tax	**(1,549)**	**(1.7)**	(5,341)	(5.9)
Expenses not deductible for tax	**3,899**	**4.4**	1,450	1.6
Research and development super deduction	**(9,577)**	**(10.7)**	(4,732)	(5.2)
Tax losses utilised from previous periods	**(1,409)**	**(1.6)**	(2,536)	(2.8)
Tax losses not recognised	**3,033**	**3.4**	1,932	2.1
Tax charge at the Group's effective rate	**966**	**1.1**	1,397	1.5

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 (2017: 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 2018 and 2017.

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 2018						
At 31 December 2017 and at 1 January 2018:						
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
At 1 January 2018, net of accumulated depreciation	339,660	217	5,232	11,753	2,557	359,419
Additions	–	4,682	6,974	5,506	248	17,410
Disposals	–	–	(90)	(3,759)	–	(3,849)
Transfers	(6,839)	6,839	–	–	–	–
Transfers from inventories	–	–	–	220	–	220
Transfers to investment properties	(24,621)	–	–	–	–	(24,621)
Surplus on revaluation	19,384	–	–	–	–	19,384
Depreciation provided during the year *(note 6)*	(10,524)	(855)	(4,129)	(1,403)	(967)	(17,878)
Exchange realignment	(11,754)	–	(354)	(598)	(90)	(12,796)
At 31 December 2018, net of accumulated depreciation and impairment	305,306	10,883	7,633	11,719	1,748	337,289
At 31 December 2018:						
Cost or valuation	305,306	17,225	47,940	17,507	8,682	396,660
Accumulated depreciation and impairment	–	(6,342)	(40,307)	(5,788)	(6,934)	(59,371)
Net carrying amount	305,306	10,883	7,633	11,719	1,748	337,289

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 2017						
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)*

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 2018 based on valuations performed by LCH (Asia-Pacific) Surveyors Limited, independent professionally qualified valuers, at HK$305,306,000. 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$19,529,000 (2017: HK$26,618,000).

At 31 December 2018, none of the Group's land and buildings in Hong Kong was pledged to secure general banking facilities granted to the Group (note 26). At 31 December 2017, certain of the Group's land and buildings with a net carrying amount of approximately HK$84,669,000 in Hong Kong were pledged to secure general banking facilities granted to the Group.

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 2018 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	–	–	63,229	63,229
Residential properties	–	–	235,072	235,072
Car parking spaces	–	–	7,005	7,005
	–	–	305,306	305,306

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

Fair value hierarchy *(continued)*

	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

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 (2017: 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 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 and 1 January 2018	**84,685**	**248,615**	**6,360**
Net gain from a fair value adjustment recognised in other comprehensive income	**11,844**	**6,683**	**857**
Transfers to leasehold improvement	**(6,839)**	**–**	**–**
Transfer to investment properties	**(23,860)**	**(761)**	**–**
Depreciation provided during the year	**(2,601)**	**(7,711)**	**(212)**
Exchange realignment	**–**	**(11,754)**	**–**
Carrying amount at 31 December 2018	**63,229**	**235,072**	**7,005**

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 2018	Range or weighted average 2017
Commercial properties	Market approach	Adjustment on market unit price (per s.q.m.)	**-47.7% to 19.2%**	-47.7% to 12%
Residential properties	Market approach	Adjustment on market unit price (per s.q.m.)	**-16.0% to -3.7%**	-55% to 0%
	Income approach	Adjustment on market rental (per s.q.m. and per month)	**-13.8% to -7.0%**	-1% to 1%
		Capitalisation rate	**1.0% to 1.3%**	1.2% to 1.3%
Car parking spaces	Market approach	Adjustment on market unit price (per s.q.m.)	**-15.2% to 11.4%**	-10% to 13%

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

	2018 **HK$'000**	2017 HK$'000
Carrying amount at 1 January	**117,879**	102,684
Net gain from a fair value adjustment *(note 5)*	**2,595**	14,115
Additions	**2,476**	644
Transfer from property, plant and equipment	**24,621**	–
Exchange realignment	**(348)**	436
Carrying amount at 31 December	**147,223**	117,879

The Group's investment properties consist of certain commercial properties, residential properties and car parking spaces in Hong Kong and one commercial property and one residential 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 2018 based on valuations performed by LCH (Asia-Pacific) Surveyors Limited, independent professionally qualified valuers, at HK$147,223,000. 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 details of which are included in note 33(a) to the financial statements.

At 31 December 2018, certain of the Group's investment properties with a carrying value of approximately HK$79,020,000 (2017: HK$108,584,000) were pledged to secure general banking facilities granted to the Group *(note 26)*.

Further particulars of the Group's investment properties are included on pages 144 to 145 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 2018 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	**–**	**–**	**121,443**	**121,443**
Residential properties	**–**	**–**	**22,525**	**22,525**
Car parking spaces	**–**	**–**	**3,255**	**3,255**
	–	**–**	**147,223**	**147,223**

	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

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 (2017: 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 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 and 1 January 2018	**94,569**	**20,330**	**2,980**
Net gain from a fair value adjustment recognised in other income and gains in profit or loss	**886**	**1,434**	**275**
Transfers from property, plant and equipment *(note 12)*	**23,860**	**761**	**–**
Additions	**2,476**	**–**	**–**
Exchange realignment	**(348)**	**–**	**–**
Carrying amount at 31 December 2018	**121,443**	**22,525**	**3,255**

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 2018	Range 2017
Commercial properties	Investment approach	Adjustment on market unit price (per s.q.m.)	**-33.3% to 19.2%**	-36% to 25%
		Adopted yield	**2.8% to 6.7%**	2.8% to 5.9%
	Market approach	Adjustment on market unit price (per s.q.m.)	**-1.7% to 19.2%**	Not applicable
Residential properties	Investment approach	Adjustment on market unit price (per s.q.m.)	**-20.0% to 13.6%**	-13% to 11%
		Adopted yield	**2.0% to 2.7%**	2% to 2.5%
	Market approach	Adjustment on market unit price (per s.q.m.)	**-46.6% to -12.6%**	Not applicable
Car parking spaces	Investment approach	Adjustment on market unit price (per s.q.m.)	**-12.1% to -0.9%**	0%
		Adopted yield	**2.1% to 2.8%**	2.5% to 2.8%

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.

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.

14. INVESTMENTS IN ASSOCIATES

	2018	2017
	HK$'000	HK$'000
Share of net assets	**2,513**	3,399
Due from associates	**31**	31
	2,544	3,430

The amounts due from associates are unsecured, interest-free and repayable on demand. In the opinion of the directors, the amounts due from associates are unlikely to be repaid in the foreseeable future and are considered as part of the Group's net investments in the associates.

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:

	2018 **HK$'000**	2017 HK$'000
Share of the associates' (losses)/profits for the year	**(209)**	233
Share of the associates' other comprehensive (losses)/income	**(677)**	310
Share of the associates' total comprehensive (losses)/income	**(886)**	543
Aggregate carrying amount of the Group's investments in associates	**2,544**	3,430

15. EQUITY INVESTMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME/AVAILABLE-FOR-SALE INVESTMENTS

	2018 **HK$'000**	2017 HK$'000
Equity investments at fair value through other comprehensive income		
Listed equity investments, at fair value:		
PUC Berhad	**6,709**	–
Available-for-sale investments		
Listed equity investments, at fair value	**–**	19,718

The above equity investments were irrevocably designated at fair value through other comprehensive income as the Group considers these investments to be strategic in nature.

During the year ended 31 December 2018, the gross loss in respect of the Group's equity investments at fair value through other comprehensive income recognised in other comprehensive income amounted to HK$12,995,000.

During the year ended 31 December 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.

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 and 1 January 2018		–	–	–
At 31 December 2017 and 1 January 2018				
Cost		**2,388**	**10,783**	**13,171**
Accumulated amortisation and impairment		**(2,388)**	**(10,783)**	**(13,171)**
Net carrying amount		**–**	**–**	**–**
At 31 December 2018				
Cost		**2,272**	**10,259**	**12,531**
Accumulated amortisation and impairment		**(2,272)**	**(10,259)**	**(12,531)**
Net carrying amount		**–**	**–**	**–**

17. INVENTORIES

	2018 HK$'000	2017 HK$'000
Trading stocks	**93,569**	103,810

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

Gross amounts due from/to contract customers

	2018 **HK$'000**	2017 HK$'000
Gross amount due from contract customers	–	17,744
Gross amount due to contract customers	–	(19,247)
	–	(1,503)
Contract costs incurred plus recognised profits less recognised losses to date	–	242,581
Less: Progress billings	–	(244,084)
	–	(1,503)

Contract assets

	31 December 2018 HK$'000	**1 January 2018** HK$'000	**31 December 2017** HK$'000
Contract assets arising from:			
Sale of software development and system integration services	31,022	34,255	–
Sale of information products and software	30,874	33,063	–
	61,896	67,318	–
Impairment	(16,893)	(19,804)	–
	45,003	47,514	–

Included in the Group's amounts due from/to contract customers as at 31 December 2017 are amounts due from/to a subsidiary of Peking University Founder Group Company Limited*(北大方正集團有限公司) ("Peking Founder") and a substantial shareholder of the Company, of approximately HK$4,133,000 and HK$1,106,000, respectively.

Included in the Group's contract assets as at 31 December 2018 are amounts due from subsidiaries of Peking Founder of approximately HK$5,224,000.

* *For identification purpose only*

18. GROSS AMOUNTS DUE FROM/TO CONTRACT CUSTOMERS/CONTRACT ASSETS *(continued)*

Contract assets are initially recognised for revenue earned from the sale of information products and software and the provision of software development and system integration services as the receipt of consideration is conditional on successful delivery of goods or completion of services. Included in contract assets for the sale of information products and software, and the provision of software development and system integration services are retention receivables. Upon delivery of goods or services and acceptance by the customer, the amounts recognised as contract assets are reclassified to trade receivables. The increase in contract assets in 2018 was the result of the increase in the ongoing sale of information products and software and the provision of software development and system integration services at the end of the year.

The expected timing of recovery or settlement for contract assets as at 31 December 2018 is as follows:

	HK$'000
Within 1 year	35,244
Over 1 year	26,652
	61,896

The movements in the loss allowance for impairment of contract assets are as follows:

	2018 HK$'000
At beginning of year	–
Effect of adoption of HKFRS 9 *(note)*	19,804
At beginning of year (restated)	19,804
Impairment losses, net *(note 6)*	(2,143)
Exchange realignment	(768)
At end of year	16,893

Note: The amount included a transfer of HK$4,554,000 from the loss allowance for impairment of trade receivables *(note 19)*.

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates for the measurement of the expected credit losses of the contract assets are based on those of the trade receivables as the contract assets and the trade receivables are from the same customer bases. The provision rates of contract assets are based on the ageing of trade receivables for groupings of various customer segments with similar loss patterns (i.e., by geographical region, product type). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

18. GROSS AMOUNTS DUE FROM/TO CONTRACT CUSTOMERS/CONTRACT ASSETS *(continued)*

Set out below is the information about the credit risk exposure on the Group's contract assets using a provision matrix:

As at 31 December 2018

Expected credit loss rate	27.3%
	HK$'000
Gross carrying amount	61,896
Expected credit losses	16,893

19. TRADE AND BILLS RECEIVABLES

	2018 **HK$'000**	2017 HK$'000
Trade and bills receivables	**168,916**	196,186
Impairment	**(29,216)**	(34,802)
	139,700	161,384

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. Payment are generally due within 90 days from the invoice date. 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.

Included in the Group's trade and bills receivables are amounts due from subsidiaries of Peking Founder of HK$12,304,000 (2017: HK$12,495,000), which are repayable on credit terms similar to those offered to the major customers of the Group.

19. TRADE AND BILLS RECEIVABLES *(continued)*

An ageing analysis of the trade receivables and bills receivables, based on the invoice date or bills receipt date and net of loss allowance, is as follows:

	2018 HK$'000	2017 HK$'000
Within 6 months	**111,440**	134,936
7 to 12 months	**10,476**	8,590
13 to 24 months	**7,492**	7,552
Over 24 months	**10,292**	10,306
	139,700	161,384

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

	2018 HK$'000	2017 HK$'000
At beginning of year	**34,802**	40,594
Effect of adoption of HKFRS15	**(4,554)**	–
At beginning of year (restated)	**30,248**	40,594
Impairment losses, net *(note 6)*	**824**	827
Amount written off as uncollectible	**(638)**	(8,461)
Exchange realignment	**(1,218)**	1,842
At end of year	**29,216**	34,802

Impairment under HKFRS 9 for the year ended 31 December 2018

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on the ageing of groupings of various customer segments with similar loss patterns (i.e., by geographical region. product type. The calculation reflects the probability–weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

19. TRADE AND BILLS RECEIVABLES *(continued)*

Impairment under HKFRS 9 for the year ended 31 December 2018 *(continued)*

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

As at 31 December 2018

	Ageing				
	Less than 6 months HK$'000	**7 to 12 months** HK$'000	**13 to 24 months** HK$'000	**Over 24 months** HK$'000	**Total** HK$'000
Expected credit loss rate	2.57%	11.84%	26.61%	68.98%	20.69%
Gross carrying amount (HK$'000)	85,933	11,883	10,209	33,176	141,201
Expected credit losses (HK$'000)	2,208	1,407	2,717	22,884	29,216

Impairment under HKAS 39 for the year ended 31 December 2017

Included in the above provision for impairment of trade receivables, which was measured based on incurred credit losses under HKAS 39, as at 31 December 2017 was a provision for individually impaired trade receivables of approximately HK$3,956,000 with a carrying amount before provision of approximately HK$14,262,000.

The individually impaired trade receivables as at 31 December 2017 related to customers that were in default.

The ageing analysis of the trade and bills receivables as at 31 December 2017 that were not individually nor collectively considered to be impaired under HKAS 39 is as follows:

	2017 HK$'000
Neither past due nor impaired	47,301
Less than 6 months past due	50,769
	98,070

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

Receivables that were past due but not impaired related to a number of independent customers that had a good track record with the Group. Based on past experience, the directors of the Company were of the opinion that no provision for impairment under HKAS 39 was necessary in respect of these balances as there had not been a significant change in credit quality and the balances were still considered fully recoverable.

19. TRADE AND BILLS RECEIVABLES *(continued)*

Transferred financial assets that are not derecognised in their entirety

At 31 December 2017, the Group endorsed certain bills receivable accepted by banks in Mainland China (the "Endorsed Bills") with a carrying amount of RMB470,000, equivalent to HK$561,000, to certain of its suppliers in order to settle the trade payables due to such suppliers (the "Endorsement"). In the opinion of the directors, the Group had retained the substantial risks and rewards, which include default risks relating to such Endorsed Bills, and accordingly, it continued to recognise the full carrying amounts of the Endorsed Bills and the associated trade payables settled. Subsequent to the Endorsement, the Group did not retain any rights on the use of the Endorsed Bills, including the sale, transfer or pledge of the Endorsed Bills to any other third parties. The aggregate carrying amount of the trade payables settled by the Endorsed Bills during the year to which the suppliers have recourse was RMB470,000, equivalent to HK$561,000, as at 31 December 2017. The Group did not have any Endorsed Bills as at 31 December 2018.

Transferred financial assets that are derecognised in their entirety

At 31 December 2018, the Group endorsed certain bills receivable accepted by banks in Mainland China (the "Derecognised Bills") to certain of its suppliers in order to settle the trade payables due to such suppliers with a carrying amount in aggregate of RMB1,650,000 (equivalent to HK$1,874,400). The Derecognised Bills had a maturity of one to twelve months at the end of the reporting period. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Derecognised Bills have a right of recourse against the Group if the PRC banks default (the "Continuing Involvement"). In the opinion of the directors, the Group has transferred substantially all risks and rewards relating to the Derecognised Bills. Accordingly, it has derecognised the full carrying amounts of the Derecognised Bills and the associated trade payables. The maximum exposure to loss from the Group's Continuing Involvement in the Derecognised Bills and the undiscounted cash flows to repurchase these Derecognised Bills is equal to their carrying amounts. In the opinion of the directors, the fair values of the Group's Continuing Involvement in the Derecognised Bills are not significant.

During the year ended 31 December 2018, the Group has not recognised any gain or loss on the date of transfer of the Derecognised Bills. No gains or losses were recognised from the Continuing Involvement, both during the year or cumulatively. The endorsement has been made evenly throughout the year.

20. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	2018 HK$'000	2017 HK$'000
Prepayments	**28,568**	26,571
Deposits and other receivables	**28,922**	61,895
Entrusted loans	**420,320**	441,780
	477,810	530,246
Impairment allowance	**(5,219)**	(18,677)
	472,591	511,569

The movements in the loss allowance for impairment of other receivables are as follows:

	2018 HK$'000	2017 HK$'000
At 1 January	**18,677**	22,868
Effect of adoption of HKFRS 15	**(12,364)**	–
At beginning of year (restated)	**6,313**	22,868
(Reversal of impairment)/impairment losses recognised *(note 6)*	**(575)**	1,643
Amount written off as uncollectible	**(143)**	(7,402)
Exchange realignment	**(376)**	1,568
At 31 December	**5,219**	18,677

Deposits and other receivables mainly represent rental deposits and deposits with customers. Expected credit losses are estimated by applying a loss rate approach with reference to the historical loss record of the Group. The loss rate is adjusted to reflect the current conditions and forecasts of future economic conditions, as appropriate. The loss rate applied for where there are no comparable companies as at 31 December 2018 was 18%.

Impairment under HKAS39 for the year ended 31 December 2017

Included in the above provision for the impairment of other receivables, which was measured based on incurred credit loss under HKAS 39, as at 31 December 2017 was a full provision of HK$5,456,000, relating to debtors that were in default and which was measured based on incurred credit loss under HKAS 39, the outstanding receivables were not expected to be recovered. The Group did not hold any collateral or other credit enhancements over these balances.

21. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	2018 HK$'000	2017 HK$'000
Cash and bank balances	**415,818**	410,805
Time deposits	**145,281**	113,069
	561,099	523,874
Less: Pledged time deposits		
Pledged for long term letters of guarantee	**(4,804)**	(7,201)
Pledged for trade finance facilities and bank loans	**8,073**	(7,396)
Cash and cash equivalents	**548,222**	509,277

At the end of the reporting period, the cash and cash equivalents of the Group denominated in Renminbi ("RMB") amounted to approximately HK$380,813,000 (2017: HK$366,084,000). 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.

22. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2018 HK$'000	2017 HK$'000
Listed equity investments, at fair value	**293**	569
Listed derivative investments, at fair value	**510**	1,718
	803	2,287

The above equity/derivative investments at 31 December 2018 were classified as financial assets at fair value through profit or loss as they were held for trading.

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 or bills issuance date, is as follows:

	2018 HK$'000	2017 HK$'000
Within 6 months	**28,297**	36,991
7 to 12 months	**2,894**	11,305
13 to 24 months	**9,855**	16,533
Over 24 months	**28,941**	13,786
	69,987	78,615

Included in the Group's trade and bills payables are amounts due to subsidiaries of Peking Founder of approximately HK$1,410,000 (2017: HK$1,058,000), 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

	2018 HK$'000	2017 HK$'000
Deferred revenue	**27,919**	21,888
Other payables	**71,550**	105,723
Accruals	**146,664**	126,691
Receipt in advance	**–**	104,489
	246,113	358,791

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

25. CONTRACT LIABILITIES

Details of contract liabilities as at 31 December 2018, 1 January 2018 and 31 December 2017 are as follows:

	31 December 2018 HK$'000	**1 January 2018** HK$'000	**31 December 2017** HK$'000
Sale of information products and software	63,588	104,489	–
Sale of software development and system integration service	22,785	19,247	–
	86,373	123,736	–

Contract liabilities include short-term advances received to deliver information products and software and render software development and system integration services and amounts due to contract customers. The decrease in contract liabilities in 2018 was mainly due to the decrease in advances received from customers in relation to the sale of information products and software at the end of the year.

Included in the Group's short-term advances as at 31 December 2018 are amounts from subsidiaries of Peking Founder of approximately HK$1,400,000.

26. INTEREST-BEARING BANK BORROWINGS

	2018			2017		
	Effective interest rate (%)	**Maturity**	**HK$'000**	Effective interest rate (%)	Maturity	HK$'000
Current						
Bank loans – unsecured	**4.61-5.48**	**2019**	**111,258**	4.61-5.22	2018	121,119
Bank loans – secured	**5.66**	**2019**	**9,656**	–	–	–
Bank loans – secured	**HIBOR+2.8**	**On demand**	**40,000**	HIBOR+2.8	On demand	40,000
			160,914			161,119

	2018 HK$'000	2017 HK$'000
Analysed into:		
Bank loans repayable:		
Within one year or on demand	**160,914**	161,119

Notes:

(a) As at 31 December 2018 , the unsecured bank loans of approximately HK$111,258,000 (2017: HK$119,997,000) and secured bank loans of approximately HK$9,656,000 (2017: Nil) were guaranteed by Peking Founder.

(b) The Group's trade finance facilities and secured bank loans at the end of the reporting period were secured by:

(i) charges over certain of the Group's investment properties which had an aggregate carrying value at the end of the reporting period of approximately HK$79,020,000 (2017: HK$108,584,000); and

(ii) the pledge of certain of the Group's time deposits amounting to approximately HK$12,877,000 (2017: HK$14,597,000).

At 31 December 2017, the Group's land and buildings with an aggregate carrying value of HK$84,669,000 were pledged to the Group's general banking facilities.

(c) The Group's bank borrowings with carrying amounts of HK$40,000,000 (2017: HK$40,000,000) and HK$120,914,000 (2017: HK$121,119,000) were denominated in Hong Kong dollars and RMB, respectively.

27. 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$'000	Others HK$'000	Total HK$'000
At 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 and 1 January 2018	(71,138)	5,752	1,767	501	4,353	–	(58,765)
Deferred tax credited/(charged) to the statement of profit or loss for the year *(note 10)*	**–**	**1,807**	**(196)**	**2,314**	**1,823**	**399**	**6,147**
Deferred tax charged to other comprehensive income during the year	**(3,490)**	**–**	**–**	**–**	**–**	**–**	**(3,490)**
Exchange realignment	**3,330**	**(446)**	**(78)**	**(121)**	**–**	**(17)**	**2,668**
At 31 December 2018	**(71,298)**	**7,113**	**1,493**	**2,694**	**6,176**	**382**	**(53,440)**

27. DEFERRED TAX *(continued)*

For presentation purposes, at the end of the reporting period 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:

	2018 HK$'000	2017 HK$'000
Net deferred tax assets recognised in the consolidated statement of financial position	**4,569**	2,268
Net deferred tax liabilities recognised in the consolidated statement of financial position	**(58,009)**	(61,033)
	(53,440)	(58,765)

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

	2018 HK$'000	2017 HK$'000
Tax losses	**310,369**	302,672
Deductible temporary differences	**77,053**	76,456
	387,422	379,128

The Group has tax losses arising in Hong Kong of approximately HK$308,970,000 (2017: HK$302,375,000), that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. As at 31 December 2018, the Group also had tax losses arising in Mainland China of HK$1,399,000 (2017: HK$297,000) 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.

27. DEFERRED TAX *(continued)*

At 31 December 2018, 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$392,354,000 at 31 December 2018 (2017: HK$362,635,000).

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

28. SHARE CAPITAL

Shares

	2018 HK$'000	2017 HK$'000
Authorised:		
2,100,000,000 (2017: 2,100,000,000) ordinary shares of HK$0.10 each	**210,000**	210,000
Issued and fully paid:		
1,199,746,993 (2017: 1,199,746,993) ordinary shares of HK$0.10 each	**119,975**	119,975

29. 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, has 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.

29. 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 2018 and 2017, or outstanding options as at 31 December 2018 and 2017.

30. 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 51 and 52 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$12,055,000 (2017: HK$6,691,000), which represented 10% of their profit after tax as determined in accordance with the PRC accounting standards, to the general reserve.

31. NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Changes in liabilities arising from financing activities

	Interest-bearing bank borrowings	
	2018	2017
	HK$'000	HK$'000
At 1 January	**161,119**	149,011
Changes from financing cash flows	**5,678**	5,080
Foreign exchange movement	**(5,883)**	7,028
At 31 December	**160,914**	161,119

32. CONTINGENT LIABILITIES

At the end of the reporting period, the Group did not have any significant contingent liabilities (2017: Nil).

33. 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 2018, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	2018	2017
	HK$'000	HK$'000
Within one year	**3,504**	3,545
In the second to fifth years, inclusive	**873**	3,167
	4,377	6,712

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

33. OPERATING LEASE ARRANGEMENTS *(continued)*

(a) As lessor *(continued)*

At 31 December 2018, the Group had total future minimum lease receivables under non-cancellable operating leases as follows:

	2018 HK$'000	2017 HK$'000
Within one year	**–**	340

(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 2018, the Group had total future minimum lease payments under the non-cancellable operating leases falling due as follows:

	2018 HK$'000	2017 HK$'000
Within one year	**20,998**	12,943
In the second to fifth years, inclusive	**10,478**	11,577
	31,476	24,520

34. 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	2018 HK$'000	2017 HK$'000
Management fee income received from subsidiaries of Peking Founder	*(i)*	**1,407**	1,846
Handling fee income received from a subsidiary of Peking Founder	*(i)*	**–**	70
Interest income from Peking Founder and PKU Founder Information	*(ii)*	**25,138**	21,444
Sales of goods to Peking Founder Group	*(i)*	**9,769**	5,260
Banking facility guarantees given by Peking Founder	*(iii)*	**181,760**	167,160
Rental and management expense paid to a subsidiary of Peking Founder Group	*(iv)*	**16,067**	15,655
Service fee paid to PKU Founder Information	*(v)*	**337**	1,131
Purchase of goods from Peking Founder	*(i)*	**1,666**	390

Notes:

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

(ii) The interest income was attributable to the entrusted loans provided to Peking Founder and PKU Founder Information, which was unsecured and bear interest at a rate of 7.0% per annum (2017: 6.3% to 7.0% per annum).

(iii) The banking facility guarantees were given to PRC banks for credit facilities granted to subsidiaries of the Company which were utilised to the extent of approximately HK$120,936,000 as at 31 December 2018 (2017: HK$119,997,000).

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

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

34. RELATED PARTY TRANSACTIONS *(continued)*

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

(b) 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). During the year of 2017, the transfer was completed 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 2018, the outstanding balance of entrusted loans and related interest receivables from Peking Founder Group amounted to approximately HK$420,320,000 (2017: HK$441,780,000) and HK$943,000 (2017: HK$991,000), respectively. The entrusted loans are unsecured, bear interest at a rate of 7.0% (2017: 6.3% to 7%) per annum and repayable within one year. In addition, included in prepayments, other receivables and other assets were balances due from Peking Founder Group of approximately HK$6,050,000 (2017: HK$6,415,000), and included in other payables and accruals were balances due to Peking Founder Group of approximately HK$13,566,000 (2017: HK$15,315,000). 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 18, 19, 23 and 25 to the financial statements.

(III) Compensation of key management personnel of the Group

	2018 **HK$'000**	2017 HK$'000
Short term employee benefits	**4,294**	4,300
Pension scheme contributions	**74**	68
Total compensation paid to key management personnel	**4,368**	4,368

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

35. 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:

2018

Financial assets

	Fair value through profit or loss – held for trading HK$'000	Financial assets at amortised cost HK$'000	Financial assets at fair value through other comprehensive income: Debt HK$'000	Financial assets at fair value through other comprehensive income: Equity HK$'000	Total HK$'000
Due from associates	–	31	–	–	31
Equity investments at fair value through other comprehensive income	–	–	–	6,709	6,709
Trade and bills receivables	–	111,985	27,715	–	139,700
Financial assets included in prepayments, other receivables and other assets	–	444,023	–	–	444,023
Equity investments at fair value through profit or loss	803	–	–	–	803
Pledged deposits	–	12,877	–	–	12,877
Cash and cash equivalents	–	548,222	–	–	548,222
	803	1,117,138	27,715	6,709	1,152,365

Financial liabilities – financial liabilities at amortised cost

	HK$'000
Trade and bills payables	69,987
Financial liabilities included in other payables and accruals	214,949
Interest-bearing bank borrowings	160,914
	445,850

35. FINANCIAL INSTRUMENTS BY CATEGORY *(continued)*

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, other receivables and other assets	–	484,998	–	484,998
Financial assets 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	229,182
Interest-bearing bank borrowings	161,119
	468,916

36. 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	
	2018 HK$'000	2017 HK$'000	**2018 HK$'000**	2017 HK$'000
Financial assets				
Due from associates	**31**	31	**31**	31
Available-for-sale investments	**–**	19,718	**–**	19,718
Equity investments at fair value through other comprehensive income	**6,709**	–	**6,709**	–
Pledged deposits, non-current portion	**4,804**	7,201	**4,505**	6,553
Bills receivables	**27,715**	36,906	**27,715**	36,906
Financial assets at fair value through profit or loss	**803**	2,287	**803**	2,287
	40,062	66,143	**39,763**	65,495

Management has assessed that the fair values of cash and cash equivalents, the current portion of pledged deposits, trade receivables, trade and bills payables, financial assets included in prepayments, other receivables and other assets, financial liabilities included in other payables and accruals 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 and bills receivables 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 2018 was assessed to be insignificant.

The fair values of listed financial assets at fair value through profit or loss and listed equity investments at fair value through other comprehensive income are based on quoted market prices.

36. 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 2018

	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
Equity investments at fair value through other comprehensive income	6,709	–	–	6,709
Financial assets at fair value through profit or loss	803	–	–	803
Bills receivable	–	27,715	–	27,715
	7,512	27,715	–	35,227

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
Financial assets at fair value through profit or loss	2,287	–	–	2,287
	22,005	–	–	22,005

The Group did not have any financial liabilities measured at fair value as at 31 December 2018 and 31 December 2017.

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 (2017: Nil).

36. 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 2018

	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	**–**	**4,505**	**–**	**4,505**

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

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

The main risks arising from the Group's financial instruments are credit risk, interest rate risk, 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.

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

Credit risk

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

Maximum exposure and year-end staging as at 31 December 2018

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December 2018. The amounts presented are carrying amounts for financial assets.

	12-month ECLs	Lifetime ECLs			
	Stage 1 HK$'000	**Stage 2** HK$'000	**Stage 3** HK$'000	**Simplified approach** HK$'000	HK$'000
Due from associates	31	–	–	–	31
Contract assets*	–	–	–	45,003	45,003
Trade and bills receivables*	–	–	–	139,700	139,700
Financial assets included in prepayments, other receivables and other assets					
– Normal**	444,023	–	–	–	444,023
Pledged deposits					
– Not yet past due	11,776	–	–	–	11,776
– Past due	1,101	–	–	–	1,101
Cash and cash equivalents					
– Not yet past due	548,222	–	–	–	548,222
	1,005,153	–	–	184,703	1,189,856

* For contract assets and trade receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in notes 18 and 19 to the financial statements, respectively.

** The credit quality of the financial assets included in prepayments, other receivables and other assets is considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition.

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

Credit risk *(continued)*

Maximum exposure as at 31 December 2017

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 a financial institution approved by the PBOC. This investment policy limits the Group's exposure to concentrations of credit risk.

Interest rate risk

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

At 31 December 2018, approximately HK$40,000,000 (2017: HK$40,000,000) of the Group's interest-bearing bank 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
2018		
Hong Kong dollar	**100**	**(400)**
Hong Kong dollar	**(100)**	**400**
2017		
Hong Kong dollar	100	(400)
Hong Kong dollar	(100)	400

37. 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:

	2018 Within 1 year or on demand HK$'000
Trade and bills payables	**69,987**
Financial liabilities included in other payables and accruals	**214,949**
Interest-bearing bank borrowings	**164,234**
	449,170

	2017 Within 1 year or on demand HK$'000
Trade and bills payables	78,615
Financial liabilities included in other payables and accruals	229,182
Interest-bearing bank borrowings	163,640
	471,437

37. 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 financial assets at fair value through profit or loss (note 22) and equity investments at fair value through other comprehensive income/available-for-sale investments (note 15) as at 31 December 2018 and 31 December 2017. 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 equity investments at fair value through other comprehensive income/the available-for-sale equity investments, the impact is deemed to be on the fair value reserve and the available-for-sale investment revaluation reserve, respectively.

	Carrying amount of investments HK$'000	**Increase/ (decrease) in profit before tax** HK$'000	**Increase/ (decrease) in equity*** HK$'000
2018			
Investments listed in:			
Malaysia – Equity investments at fair value through other comprehensive income	**6,709**	**–**	**67**
2017			
Investments listed in:			
Malaysia – Available-for-sale investments	19,718	–	197

* Excluding retained profits.

37. 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 2018 and 31 December 2017.

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:

	2018 **HK$'000**	2017 HK$'000
Interest-bearing bank borrowings	**160,914**	161,119
Total equity attributable to owners of the parent	**1,185,701**	1,138,950
Debt to equity ratio	**13.6%**	14.1%

38. 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:

	2018 HK$'000	2017 HK$'000
NON-CURRENT ASSETS		
Investments in subsidiaries	**559,088**	559,088
CURRENT ASSETS		
Prepayments, other receivables and other assets	**1,118**	1,108
Cash and cash equivalents	**1,020**	1,055
Total current assets	**2,138**	2,163
CURRENT LIABILITIES		
Other payables and accruals	**1,336**	2,083
NET CURRENT ASSETS	**802**	80
TOTAL ASSETS LESS CURRENT LIABILITIES	**559,890**	559,168
NON-CURRENT LIABILITY		
Due to a subsidiary	**203,796**	199,079
Net assets	**356,094**	360,089
EQUITY		
Issued capital	**119,975**	119,975
Reserves	**236,119**	240,114
Total equity	**356,094**	360,089

38. 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 2017	53,597	448,209	(257,673)	244,133
Total comprehensive loss for the year	–	–	(4,019)	(4,019)
At 1 January 2018	**53,597**	**448,209**	**(261,692)**	**240,114**
Total comprehensive loss for the year	**–**	**–**	**(3,995)**	**(3,995)**
At 31 December 2018	**53,597**	**448,209**	**(265,687)**	**236,119**

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.

39. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 25 March 2019.

PARTICULARS OF INVESTMENT PROPERTIES

31 DECEMBER 2018

Location	Use	Tenure	Percentage of interest attributable to the Group
Units 1, 2a, 2b, 3a, 3b, 4a, 4b,5, 7a, 7b, 11b and 12 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

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
6th Floor, Block 4 Youyi Garden 52 Kaixuan Road Kuancheng District Changchun China	Residential premises for rental	Medium term lease	100

FIVE YEAR FINANCIAL SUMMARY

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

RESULTS

	Year ended 31 December				
	2018 HK$'000	2017 HK$'000	2016 HK$'000	2015 HK$'000	2014 HK$'000
REVENUE	**1,058,857**	993,493	1,035,410	963,628	1,079,869
PROFIT FOR THE YEAR	**87,511**	89,829	40,180	7,262	6,386
Attributable to:					
Owners of the parent	**87,336**	89,836	40,235	7,382	6,381
Non-controlling interests	**175**	(7)	(55)	(120)	5
	87,511	89,829	40,180	7,262	6,386

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	As at 31 December				
	2018 HK$'000	2017 HK$'000	2016 HK$'000	2015 HK$'000	2014 HK$'000
TOTAL ASSETS	**1,811,099**	1,823,382	1,583,047	1,658,491	1,692,087
TOTAL LIABILITIES	**(625,398)**	(684,248)	(610,128)	(677,279)	(730,562)
NON-CONTROLLING INTERESTS	**–**	(184)	(179)	(245)	(381)
	1,185,701	1,138,950	972,740	980,967	961,144