

# NOTES TO FINANCIAL STATEMENTS

31 December 2004

## 1. CORPORATE INFORMATION

The head office and principal place of business of EC-Founder (Holdings) Company Limited is located at Unit 1408, 14th Floor, Cable TV Tower, 9 Hoi Shing Road, Tsuen Wan, New Territories, Hong Kong.

During the year, the Group was involved in the following principal activities:

- distribution of information products
- provision of software solutions and services (discontinued during the year – notes 6(a) and 6(b))

In the opinion of the directors, the Company's ultimate holding company is Founder Holdings Limited ("FHL"), which is incorporated in Bermuda and listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

## 2. IMPACT OF RECENTLY ISSUED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

The Hong Kong Institute of Certified Public Accountants (the "HKICPA") has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("HKASs"), herein collectively referred to as the new HKFRSs, which are generally effective for accounting periods beginning on or after 1 January 2005. The Group has resolved to early adopt the following new HKFRSs in the financial statements for the year ended 31 December 2004:

- HKFRS 3 "Business combinations"
- HKAS 36 "Impairment of assets"
- HKAS 38 "Intangible assets"

The major effects on the Group's accounting policies and amounts disclosed in these financial statements are summarised as follows:

HKFRS 3 prescribes the accounting for business combinations. The early adoption of HKFRS 3 requires the early adoption of HKAS 36 and HKAS 38. The early adoption of HKFRS 3, HKAS 36 and HKAS 38 has resulted in a change in the accounting policy for goodwill.

Prior to the adoption:

- goodwill arising on acquisitions after 1 January 2001 was recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life subject to a maximum 20 years;
- goodwill arising on acquisitions before 1 January 2001 was eliminated against consolidated reserves in the year of acquisition;
- goodwill was assessed for impairment at each balance sheet date;

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### 2. IMPACT OF RECENTLY ISSUED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

- impairment loss was charged to the consolidated profit and loss account; and
- on disposal of subsidiaries, the gain or loss on disposal was calculated by reference to the net assets of the subsidiaries at the date of disposal, including the attributable amount of goodwill which remained unamortised and any relevant reserves, as appropriate. Any attributable goodwill previously eliminated against consolidated reserves at the time of acquisition was written back and included in the calculation of the gain or loss on disposal of the subsidiaries.

Upon adoption:

- the Group ceased the amortisation of goodwill from 1 January 2004;
- the accumulated amortisation of goodwill arising on acquisitions of subsidiaries as at 1 January 2004 has been eliminated with a corresponding decrease in the respective cost of goodwill at that date;
- from the year ended 31 December 2004 onwards, goodwill is tested annually for impairment, as well as when there are indications of impairment;
- upon impairment of goodwill previously eliminated against consolidated reserves, the impairment loss is not charged to the consolidated profit and loss account; and
- on disposal of subsidiaries, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate. Any attributable goodwill previously eliminated against consolidated reserves at the time of acquisition is not recognised in the consolidated profit and loss account upon disposal.

HKFRS 3 is prospectively applied and the effect of its adoption on these financial statements in respect of the year ended 31 December 2004 is included in note 15 to the financial statements.

The Group has already commenced an assessment of the impact of other new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (which also include Statements of Standard Accounting Practice and Interpretations) issued by the HKICPA, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention.

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## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### **Basis of consolidation**

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2004. The results of subsidiaries established, acquired or disposed of during the year are consolidated from or to their effective dates of establishment, acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

### **Subsidiaries**

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

### **Associates**

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

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

### **Goodwill**

Goodwill arising on acquisition of subsidiaries is initially measured at cost, being the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired as at the date of acquisition. Goodwill arising on acquisition of subsidiaries is recognised in the consolidated balance sheet as an asset.

Following the initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill arising on acquisitions on or after 1 January 2004 is not amortised. Goodwill already carried in the consolidated balance sheet as at 1 January 2004 is not amortised after that date and the carrying amount of the accumulated amortisation of goodwill was eliminated with a corresponding decrease in the cost of the related goodwill as at that date. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

On disposal of subsidiaries, the gain or loss on disposal is calculated by reference to the net assets of the subsidiaries at the date of disposal, including the attributable amount of goodwill except as further explained below in respect of the attributable goodwill previously eliminated against consolidated reserves.

## NOTES TO FINANCIAL STATEMENTS

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### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### *Goodwill (Continued)*

Goodwill arising on acquisitions before 1 January 2001 was eliminated against consolidated reserves in the year of acquisition. When the Group disposes of all or part of the business to which that goodwill relates, such goodwill is transferred from consolidated contributed surplus to consolidated accumulated losses and is not included in the calculation of gain or loss on disposal. When the business unit to which the goodwill relates becomes impaired, the impairment loss in respect of the goodwill is transferred from consolidated contributed surplus to consolidated accumulated losses and is not recognised in the consolidated profit and loss account.

#### *Related parties*

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

#### *Impairment of assets*

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's fair value less costs to sell and its value in use.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss of the asset other than goodwill eliminated against consolidated reserves, the treatment of which is included in the accounting policy for goodwill above, is charged to the profit and loss account in the period in which it arises.

A previously recognised impairment loss for an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however 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 an impairment loss is credited to the profit and loss account in the period in which it arises. Any impairment losses made against goodwill are not reversed.

# NOTES TO FINANCIAL STATEMENTS

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## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation and any impairment losses. The cost of an asset 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 fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

Depreciation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life after taking into account its estimated residual value. The principal annual rates used for this purpose are as follows:

Leasehold improvements	20% or over the lease terms, whichever is shorter
Furniture, fixtures and office equipment	10% – 33 $\frac{1}{3}$ %
Motor vehicles	10% – 30%

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

### Operating leases

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

### 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.

### Systems integration contracts

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

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

Provision is made for foreseeable losses as soon as they are anticipated by management.

## NOTES TO FINANCIAL STATEMENTS

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### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### Systems integration contracts *(Continued)*

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers.

Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

#### Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which 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 balance sheet, cash and cash equivalents comprise cash on hand and at banks, including short term deposits, and assets similar in nature to cash, which are not restricted as to use.

#### Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the profit and loss account, or in equity if it relates to items that are recognised, in the same or a different period, directly in equity.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date 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 where the deferred tax liability arises from goodwill or 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 taxable temporary differences associated with investments in subsidiaries and associates, except where 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, carryforward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax assets and unused tax losses can be utilised:

- except where 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

# NOTES TO FINANCIAL STATEMENTS

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## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Income tax *(Continued)*

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

The carrying amount of deferred tax assets is reviewed at each balance sheet date 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. Conversely, previously unrecognised deferred tax assets are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

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 at the balance sheet date.

### Government grants

Government grants are recognised at their fair value when 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 over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

### Revenue recognition

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

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) from systems integration contracts, on the percentage of completion basis, as further explained in the accounting policy for "Systems integration contracts" above;
- (c) from the rendering of services, when the transactions have been completed in accordance with the terms of the contracts;
- (d) from the disposal of fixed assets, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group has no further substantial acts and/or continuing involvement to complete under the contracts;
- (e) rental income, on a time proportion basis over the lease terms; and
- (f) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

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## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Employee benefits

#### *Retirement benefits schemes*

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

The employees of the Group's subsidiaries which operate in the Mainland of the People's Republic of China ("Mainland China" or the "PRC") are required to participate in a central pension scheme operated by the local municipal government. Contributions are made based on a percentage of the participating employees' salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the central pension scheme.

#### *Share option schemes*

The Company operates share option schemes for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under the share option schemes is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

### Foreign currencies

Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable exchange rates ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of overseas subsidiaries and associates are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries and associates are translated into Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated into Hong Kong dollars at the exchange rates at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

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



## 4. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:

### Continuing operations:

- (a) the distribution of information products segment engages in the distribution of computer hardware; and
- (b) the corporate segment comprises corporate income and expense items.

### Discontinued operations:

- (a) the provision of software solutions and services segment engages in the provision of systems integration solutions and services to financial institutions, enterprises and government departments in the PRC which are in the process of computerisation, and the provision of internet advertising agency services. As further explained in notes 6(a), 6(b) and 28(b) to these financial statements, the Group (i) disposed of the business of the provision of systems integration solutions and services to 方正軟件(蘇州)有限公司 (Founder Software (Suzhou) Company Limited\*) ("Founder Suzhou") and 上海方正信息安全技術有限公司 (Shanghai Founder Information Security Technology Company Limited\*) ("Shanghai Founder"), associates of Peking University Founder Group Corporation ("Peking Founder"), which is a substantial shareholder of the Company; and (ii) entered into a termination agreement with a subsidiary of a then shareholder which held 8.47% of the shares of the Company, for termination of the advertising sales representative agreement relating to the provision of internet advertising agency services; and
- (b) the electronic products segment engaged in the design, manufacture and distribution of weighing scales and lighting products. As further explained in notes 6(c) and 28(b) to these financial statements, on 26 September 2003, the Group completed the disposal of this entire business to Honour Glory Limited ("Honour Glory"), a company which is 90% owned by Mr Yung Richard, Jr., the then director of the Company who resigned on 1 November 2004.

\* For identification purpose only

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## 4. SEGMENT INFORMATION (Continued)

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

## (a) Business segments

The following tables present revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's business segments.

Group	Distribution of information products		Provision of software solutions and services (Discontinued)		Electronic products (Discontinued)		Corporate		Consolidated	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:										
Sales to external customers	<u>1,200,752</u>	<u>444,633</u>	<u>56,798</u>	<u>62,202</u>	<u>-</u>	<u>118,137</u>	<u>-</u>	<u>-</u>	<u>1,257,550</u>	<u>624,972</u>
Segment results	<u>7,434</u>	<u>5,447</u>	<u>1,635</u>	<u>(6,837)</u>	<u>-</u>	<u>(18,257)</u>	<u>(4,570)</u>	<u>(7,267)</u>	<u>4,499</u>	<u>(26,914)</u>
Interest income									<u>794</u>	<u>697</u>
Profit/(loss) from operating activities									<u>5,293</u>	<u>(26,217)</u>
Finance costs									<u>(45)</u>	<u>(832)</u>
Share of profits of associates									<u>6,420</u>	<u>6,224</u>
Profit/(loss) before tax									<u>11,668</u>	<u>(20,825)</u>
Tax									<u>(2,483)</u>	<u>(2,002)</u>
Net profit/(loss) from ordinary activities attributable to shareholders									<u>9,185</u>	<u>(22,827)</u>

# NOTES TO FINANCIAL STATEMENTS

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## 4. SEGMENT INFORMATION (Continued)

### (a) Business segments (Continued)

Group	Distribution of information products		Provision of software solutions and services (Discontinued)		Electronic products (Discontinued)		Consolidated	
	2004	2003	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment assets	510,074	365,633	19,991	38,414	-	-	530,065	404,047
Interests in associates	-	-	-	-	-	-	22,972	21,473
Corporate and other unallocated assets	-	-	-	-	-	-	8,305	32,424
<b>Total assets</b>							<b>561,342</b>	<b>457,944</b>
Segment liabilities	361,591	253,744	11,974	19,682	-	-	373,565	273,426
Corporate and other unallocated liabilities	-	-	-	-	-	-	2,462	8,392
<b>Total liabilities</b>							<b>376,027</b>	<b>281,818</b>
Other segment information:								
Depreciation and amortisation	1,048	519	2,337	2,399	-	4,678	3,385	7,596
Corporate and other unallocated amounts							29	349
							<b>3,414</b>	<b>7,945</b>
Capital expenditure	4,983	848	469	3,335	-	5,174	5,452	9,357
Corporate and other unallocated amounts							24	-
							<b>5,476</b>	<b>9,357</b>
Impairment of fixed assets recognised directly in equity	-	-	-	-	-	3,777	-	3,777

## NOTES TO FINANCIAL STATEMENTS

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## 4. SEGMENT INFORMATION (Continued)

## (b) Geographical segments

The following table presents revenue and certain asset and expenditure information for the Group's geographical segments.

Group	Mainland China		Hong Kong		Overseas		Eliminations		Consolidated	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:										
Sales to external customers	1,112,207	448,612	145,343	63,143	-	113,217	-	-	1,257,550	624,972
Intersegment sales	-	-	171,347	74,258	-	-	(171,347)	(74,258)	-	-
Total	<u>1,112,207</u>	<u>448,612</u>	<u>316,690</u>	<u>137,401</u>	<u>-</u>	<u>113,217</u>	<u>(171,347)</u>	<u>(74,258)</u>	<u>1,257,550</u>	<u>624,972</u>
Other segment information:										
Segment assets					466,506	374,506	94,836	83,438	561,342	457,944
Capital expenditure					<u>5,445</u>	<u>6,582</u>	<u>31</u>	<u>2,775</u>	<u>5,476</u>	<u>9,357</u>

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## 5. TURNOVER, OTHER REVENUE AND GAINS

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts; an appropriate proportion of contract revenue of systems integration contracts; and the value of services rendered during the year.

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

	Group	
	2004	2003
	HK\$'000	HK\$'000
<b>Turnover</b>		
Distribution of information products	1,200,752	444,633
Provision of software solutions and services	56,798	62,202
Sales of electronic products	–	118,137
	<u>1,257,550</u>	<u>624,972</u>
<b>Other revenue</b>		
Gross rental income	245	316
Interest income	794	697
Government grants (Note)	2,183	3,391
Others	4,897	1,219
	<u>8,119</u>	<u>5,623</u>
<b>Gains</b>		
Gain on disposal of fixed assets	–	123
Others	67	757
	<u>67</u>	<u>880</u>
	<u>8,186</u>	<u>6,503</u>

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

## NOTES TO FINANCIAL STATEMENTS

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### 6. DISCONTINUED OPERATIONS

- (a) Disposal of EC-Founder Co., Ltd. - Provision of software solutions and services business

On 20 October 2004, Founder Data Corporation International Limited ("FDC") entered into a conditional disposal agreement with Founder Suzhou, Shanghai Founder and Peking Founder to dispose of its entire equity interest in EC-Founder Co., Ltd. to Founder Suzhou and Shanghai Founder and to waive the entire outstanding balances on current accounts owed by EC-Founder Co., Ltd. to the Group at a total cash consideration of RMB13.4 million (equivalent to approximately HK\$12.6 million). The disposal was completed on 3 December 2004.

The principal activity of EC-Founder Co., Ltd. was the provision of software solutions and services in the PRC and was loss-making. The main purpose of the disposal of EC-Founder Co., Ltd. was to enable the Group to scale down its loss-making operations and to focus its resources on its profit making information products distribution business.

- (b) Discontinued operation of Beijing AdTargeting Inc. ("Beijing ADT") - Provision of software solutions and services business

On 15 October 2004, the Company and Beijing ADT entered into a termination agreement with a subsidiary of a then shareholder which held 8.47% of the shares of the Company, to terminate the advertising sales representative agreement. Pursuant to the termination agreement, the subsidiary of the then shareholder paid an ex gratia payment of approximately RMB4.9 million (equivalent to approximately HK\$4.6 million) to the Company.

The principal activity of Beijing ADT was the provision of internet advertising agency services.

- (c) Disposal of MIT Holdings Limited ("MIT") - Electronic products business

On 1 August 2003, the Company entered into a conditional disposal agreement with Honour Glory to dispose of its entire issued share capital of MIT at a total cash consideration of HK\$45.5 million. The disposal was completed on 26 September 2003.

The principal activities of MIT and its subsidiaries were the design, manufacture and distribution of electronic products.

The components of the gain on disposal of the discontinued operations of approximately HK\$3,255,000 (2003: loss of HK\$13,260,000) are disclosed in note 28(b) to the financial statements.

# NOTES TO FINANCIAL STATEMENTS

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## 6. DISCONTINUED OPERATIONS (Continued)

The turnover, other revenue and gains, expenses and results of the discontinued operations which have been included in the consolidated profit and loss account are as follows:

	Provision of software solutions and services		Electronic products	
	Year ended 31 December		Year ended 31 December	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>TURNOVER</b>	<b>56,798</b>	<b>62,202</b>	<b>–</b>	<b>118,137</b>
Cost of sales	(47,767)	(45,858)	–	(108,197)
<b>Gross profit</b>	<b>9,031</b>	<b>16,344</b>	<b>–</b>	<b>9,940</b>
Other revenue and gains	6,956	4,456	–	876
Selling and distribution costs	(13,383)	(20,603)	–	(2,485)
Administrative expenses	(4,457)	(7,150)	–	(14,988)
Other operating income, net	437	353	–	1,690
Gain/(loss) on disposal of discontinued operations	3,255	–	–	(13,260)
<b>PROFIT/(LOSS) FROM OPERATING ACTIVITIES</b>	<b>1,839</b>	<b>(6,600)</b>	<b>–</b>	<b>(18,227)</b>
Finance costs	–	(326)	–	(227)
<b>PROFIT/(LOSS) BEFORE TAX</b>	<b>1,839</b>	<b>(6,926)</b>	<b>–</b>	<b>(18,454)</b>
Tax	(1,230)	(772)	–	–
<b>NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS</b>	<b>609</b>	<b>(7,698)</b>	<b>–</b>	<b>(18,454)</b>

## NOTES TO FINANCIAL STATEMENTS

31 December 2004

### 6. DISCONTINUED OPERATIONS (Continued)

The carrying amounts of the total assets and liabilities relating to the discontinued operations are as follows:

	Provision of software solutions and services		Electronic products	
	As at 31 December		As at 31 December	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Total assets	18,995	39,340	–	–
Total liabilities	(22,539)	(75,120)	–	–
Net liabilities	<u>(3,544)</u>	<u>(35,780)</u>	<u>–</u>	<u>–</u>

The net cash flows attributable to the discontinued operations are as follows:

	Provision of software solutions and services		Electronic products	
	Year ended		Year ended	
	31 December		31 December	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Operating	760	(6,960)	–	2,998
Investing	(320)	4,840	–	(4,822)
Financing	–	759	–	(737)
Net cash inflow/(outflow)	<u>440</u>	<u>(1,361)</u>	<u>–</u>	<u>(2,561)</u>



# NOTES TO FINANCIAL STATEMENTS

31 December 2004

## 7. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

The Group's profit/(loss) from operating activities is arrived at after charging/(crediting):

		Group	
	Notes	2004 HK\$'000	2003 HK\$'000
Auditors' remuneration		860	900
Cost of inventories sold		1,156,949	536,056
Cost of services provided		5,724	4,716
Depreciation	14	3,414	7,624
Goodwill:	15		
Amortisation for the year *		–	321
Loss/(gain) on disposal of discontinued operations	28(b)	(3,255)	13,260
Provision and write off of doubtful debts		385	1,012
Provision and write off of obsolete inventories		3,417	2,551
Operating lease rentals in respect of land and buildings		5,771	6,084
Staff costs (including directors' remuneration – note 9):			
Wages and salaries		35,823	48,537
Pension scheme contributions **		2,341	2,138
		<u>38,164</u>	<u>50,675</u>
Exchange losses/(gains), net		35	(740)
Loss/(gain) on disposal of fixed assets		272	(123)
Net rental income		<u>(245)</u>	<u>(316)</u>

\* The amortisation of goodwill for prior year was included in "Other operating expenses, net" on the face of the consolidated profit and loss account.

\*\* At 31 December 2004, the Group had no forfeited contributions available to reduce its contributions to the pension scheme in future years (2003: Nil).

## NOTES TO FINANCIAL STATEMENTS

31 December 2004

### 8. FINANCE COSTS

	Group	
	2004	2003
	HK\$'000	HK\$'000
Interest on bank loans and overdrafts	45	775
Interest on finance leases	—	57
	<u>45</u>	<u>832</u>

### 9. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Group	
	2004	2003
	HK\$'000	HK\$'000
Fees	<u>370</u>	<u>300</u>
Other emoluments:		
Salaries, bonuses and benefits in kind	142	4,958
Performance related bonuses	63	300
Pension scheme contributions	—	9
	<u>205</u>	<u>5,267</u>
	<u>575</u>	<u>5,567</u>

Fees include HK\$270,000 (2003: HK\$240,000) payable to the independent non-executive directors. There were no other emoluments payable to the independent non-executive directors during the year (2003: Nil).

# NOTES TO FINANCIAL STATEMENTS

31 December 2004

## 9. DIRECTORS' REMUNERATION (Continued)

The remuneration of the above directors fell within the following bands:

	Number of directors	
	2004	2003
Nil – HK\$1,000,000	12	6
HK\$1,500,001 – HK\$2,000,000	–	1
HK\$3,000,001 – HK\$3,500,000	–	1
	12	8
	12	8

There were no arrangements under which any director waived or agreed to waive any remuneration during the year.

During the year, certain directors were granted share options in respect of their services to the Group under the share option schemes of the Company and its ultimate holding company, further details of which are set out in note 26 to the financial statements. No value in respect of the share options granted during the year had been charged to the profit and loss account, or is otherwise included in the above directors' remuneration disclosures.

## 10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year did not include any (2003: two) director, details of whose remuneration are set out in note 9 to the financial statements above. Details of the remuneration of the remaining five (2003: three) non-director, highest-paid employees for the year are as follows:

	Group	
	2004 HK\$'000	2003 HK\$'000
Salaries, bonuses and benefits in kind	3,701	2,426
Pension scheme contributions	25	30
	3,726	2,456
	3,726	2,456

## NOTES TO FINANCIAL STATEMENTS

31 December 2004

### 10. FIVE HIGHEST PAID EMPLOYEES (Continued)

The remuneration of the above non-director, highest-paid employees fell within the following band:

	Number of employees	
	2004	2003
Nil – HK\$1,000,000	4	3
HK\$1,000,001 – HK\$1,500,000	1	–
	<u>5</u>	<u>3</u>

During the year, 16,500,000 share options were granted to the three non-director, highest paid employees in respect of their services to the Group, further details of which are included in the disclosures in note 26 to the financial statements. No value in respect of the share options granted during the year has been charged to the profit and loss account, or is otherwise included in the above non-director, highest paid employees' remuneration disclosures.

### 11. TAX

	Group	
	2004 HK\$'000	2003 HK\$'000
Group:		
Current – Hong Kong	5	–
Deferred (note 24)	<u>1,230</u>	<u>772</u>
	<u>1,235</u>	<u>772</u>
Share of tax attributable to associates	<u>1,248</u>	<u>1,230</u>
Total tax charge for the year	<u>2,483</u>	<u>2,002</u>

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 17.5%) on the estimated assessable profits arising in Hong Kong during the year.

No provision for PRC profits tax has been made for the year as the relevant PRC subsidiaries were either under their tax exemption period or had sufficient tax losses brought forward to offset against the assessable profits arising during the year.

Beijing Founder Century Information System Co., Ltd. ("PRC Century"), a wholly-owned PRC subsidiary of the Group, is exempted from PRC profits tax for the three fiscal years which commenced in 2002 and ended on 31 December 2004 and, thereafter, is taxed at 50% of its standard tax rate in the fourth to sixth years, inclusive. At present, the standard tax rate applicable to PRC Century is 15%.

# NOTES TO FINANCIAL STATEMENTS

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## 11. TAX (Continued)

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

### Group - 2004

	Hong Kong		Mainland China		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Profit before tax	<u>10,156</u>		<u>1,512</u>		<u>11,668</u>	
Tax at the statutory tax rate	1,777	17.5	499	33.0	2,276	19.5
Lower tax rate for specific provinces or local authority	-	-	(1,218)	(80.6)	(1,218)	(10.4)
Income not subject to tax	(879)	(8.7)	(400)	(26.5)	(1,279)	(11.0)
Expenses not deductible for tax	501	4.9	132	8.7	633	5.4
Tax losses not recognised	48	0.5	2,579	170.6	2,627	22.5
Tax losses utilised from previous periods	(194)	(1.9)	(362)	(23.9)	(556)	(4.7)
Tax charge at the Group's effective rate	<u>1,253</u>	<u>12.3</u>	<u>1,230</u>	<u>81.3</u>	<u>2,483</u>	<u>21.3</u>

### Group - 2003

	Hong Kong		Mainland China		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Loss before tax	<u>(18,064)</u>		<u>(2,761)</u>		<u>(20,825)</u>	
Tax at the statutory tax rate	(3,161)	17.5	(911)	33.0	(4,072)	19.6
Lower tax rate for specific provinces or local authority	-	-	1,364	(49.4)	1,364	(6.5)
Income not subject to tax	(491)	2.7	-	-	(491)	2.4
Expenses not deductible for tax	3,521	(19.5)	319	(11.6)	3,840	(18.5)
Tax losses not recognised	1,429	(7.9)	-	-	1,429	(6.9)
Tax losses utilised from previous periods	(68)	0.4	-	-	(68)	0.3
Tax charge at the Group's effective rate	<u>1,230</u>	<u>(6.8)</u>	<u>772</u>	<u>(28.0)</u>	<u>2,002</u>	<u>(9.6)</u>

## NOTES TO FINANCIAL STATEMENTS

31 December 2004

### 12. NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders for the year ended 31 December 2004 dealt with in the financial statements of the Company, was approximately HK\$37,313,000 (2003: HK\$89,980,000) (note 27(b)).

### 13. EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings/(loss) per share is based on the net profit from ordinary activities attributable to shareholders for the year of approximately HK\$9,185,000 (2003: net loss of approximately HK\$22,827,000), and the weighted average of 1,100,562,040 (2003: 960,945,601) ordinary shares in issue during the year.

Diluted earnings/(loss) per share for the years ended 31 December 2004 and 2003 have not been disclosed as the impact of the outstanding share options was anti-dilutive.

### 14. FIXED ASSETS

Group

	Leasehold improvements HK\$'000	Furniture, fixtures and office equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Cost:				
At 1 January 2004	1,162	18,921	3,099	23,182
Additions	–	3,074	2,402	5,476
Disposals	–	(4,228)	(443)	(4,671)
Disposal of a subsidiary	(1,166)	(10,151)	(2,013)	(13,330)
Exchange realignment	4	49	10	63
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2004	–	7,665	3,055	10,720
Accumulated depreciation and impairment:				
At 1 January 2004	371	12,288	902	13,561
Provided during the year	170	2,588	656	3,414
Disposals	–	(3,764)	(443)	(4,207)
Disposal of a subsidiary	(542)	(7,086)	(777)	(8,405)
Exchange realignment	1	28	4	33
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2004	–	4,054	342	4,396
Net book value:				
At 31 December 2004	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
At 31 December 2003	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

# NOTES TO FINANCIAL STATEMENTS

31 December 2004

## 14. FIXED ASSETS (Continued)

Company

	Furniture, fixtures and office equipment <i>HK\$'000</i>
Cost:	
At 1 January 2004	233
Additions	24
Disposals	(23)
	<hr/>
At 31 December 2004	234
Accumulated depreciation:	
At 1 January 2004	72
Provided during the year	30
Disposals	(10)
	<hr/>
At 31 December 2004	92
Net book value:	
At 31 December 2004	<u>142</u>
At 31 December 2003	<u>161</u>

## NOTES TO FINANCIAL STATEMENTS

31 December 2004

### 15. GOODWILL

The amounts of the goodwill capitalised as an asset in the consolidated balance sheet, arising from the acquisitions of subsidiaries, is as follows:

	Group	
	2004	2003
	HK\$'000	HK\$'000
Cost, net of accumulated amortisation:		
At 1 January	2,892	3,213
Amortisation for the year	—	(321)
	<u>2,892</u>	<u>2,892</u>
At 31 December	<u><u>2,892</u></u>	<u><u>2,892</u></u>

As detailed in note 2 to the financial statements, on the adoption of HKFRS 3, HKAS 36 and HKAS 38 during the year:

- the Group ceased the amortisation of goodwill from 1 January 2004;
- the accumulated amortisation of goodwill arising on acquisitions of subsidiaries prior to 1 January 2004 of approximately HK\$321,000 has been eliminated with a corresponding decrease in the cost of goodwill as at that date; and
- from the year ended 31 December 2004 onwards, goodwill is tested annually for impairment, as well as when there are indications of impairment.

The amounts of the goodwill remaining in consolidated reserves as at 31 December 2004 are as follows:

	Group Goodwill eliminated against consolidated contributed surplus HK\$'000
Cost at beginning of year and 31 December 2004	<u>537,259</u>
Accumulated impairment:	
At beginning of year	488,759
Provided during the year	48,500
	<u>537,259</u>
At 31 December 2004	<u>537,259</u>
Net amount:	
At 31 December 2004	<u><u>—</u></u>
At 31 December 2003	<u><u>48,500</u></u>



# NOTES TO FINANCIAL STATEMENTS

31 December 2004

## 15. GOODWILL (Continued)

As detailed in note 2 to the financial statements, on the adoption of HKFRS 3 during the year, the impairment loss of goodwill remaining eliminated against consolidated contributed surplus of approximately HK\$48,500,000 recognised during the year was transferred to consolidated accumulated losses as a movement in reserves and was not charged to the consolidated profit and loss account.

For the purpose of impairment review, the recoverable amount of goodwill was determined based on the value in use calculation. The value in use calculation used cash flow projections based on financial budgets approved by the management. There were a number of assumptions and estimates involved in the preparation of cash flow projections for the period covered by the approved budget. The discount rates used in determining the value in use are not greater than 23%. The management prepared the financial budgets reflecting actual and prior year performance and market development expectations. Judgement was required to determine key assumptions adopted in the cash flow projections and changes to key assumptions can significantly affect these cash flow projections.

## 16. INTERESTS IN SUBSIDIARIES

	Company	
	2004	2003
	HK\$'000	HK\$'000
Unlisted shares, at cost	450,071	450,071
Due from subsidiaries	299,583	300,057
	<u>749,654</u>	<u>750,128</u>
Provision for impairment	(565,394)	(552,532)
	<u>184,260</u>	<u>197,596</u>

The amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment, except for the balance due from a subsidiary of approximately HK\$15,584,000 (2003: Nil) which bears interest at 1.825% per annum. Although these balances are technically currently repayable under the original terms of the transactions giving rise thereto, they have been deferred or subordinated for the longer term and are therefore classified as non-current assets.

## NOTES TO FINANCIAL STATEMENTS

31 December 2004

### 16. INTERESTS IN SUBSIDIARIES (Continued)

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
FDC	British Virgin Islands/ Hong Kong	Ordinary US\$20,000	100	–	Investment holding
PRC Century *	Mainland China	Registered RMB117,303,000	–	100	Distribution of information products
Founder Century (Hong Kong) Limited ("HK Century")	Hong Kong	Ordinary HK\$2	–	100	Distribution of information products
Beijing ADT *	Mainland China	Registered US\$300,000	–	100	Provision of internet advertising agency services

\* Registered as wholly foreign-owned enterprise under the 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.

### 17. INTERESTS IN ASSOCIATES

	Group	
	2004 HK\$'000	2003 HK\$'000
Share of net assets	<u>22,972</u>	<u>21,473</u>

# NOTES TO FINANCIAL STATEMENTS

31 December 2004

## 17. INTERESTS IN ASSOCIATES (Continued)

Particulars of the principal associates are as follows:

Name	Business structure	Place of incorporation/ registration and operations	Percentage of ownership interest indirectly attributable to the Group	Principal activities
MC.Founder Limited *	Corporate	Hong Kong	36.69	Investment holding, marketing and distribution of mobile phones and data products
MC.Founder (Distribution) Limited *	Corporate	Hong Kong	36.69	Distribution of mobile phones and accessories, and provision of repair services
MC.Founder (Technology) Limited *	Corporate	Hong Kong	36.69	Sales of data products

\* Not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms

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

## 18. INVENTORIES

	Group	
	2004 HK\$'000	2003 HK\$'000
Trading stocks	<u>108,010</u>	<u>79,721</u>

The carrying amount of inventories carried at net realisable value included in the above balance was immaterial.

## NOTES TO FINANCIAL STATEMENTS

31 December 2004

### 19. SYSTEMS INTEGRATION CONTRACTS

	Group	
	2004	2003
	HK\$'000	HK\$'000
Gross amount due from contract customers	–	2,733
Gross amount due to contract customers	–	(753)
	<u>–</u>	<u>1,980</u>
Contract costs incurred plus recognised profits less recognised losses and foreseeable losses to date	–	21,434
Less: Progress billings	–	(19,454)
	<u>–</u>	<u>1,980</u>

### 20. TRADE AND BILLS RECEIVABLES

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally for a period of one month, extending up to six months for major customers. 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.

An aged analysis of the trade and bills receivables, net of provisions, as at the balance sheet date is as follows:

	Group	
	2004	2003
	HK\$'000	HK\$'000
Within 6 months	178,545	146,392
7 – 12 months	15,306	3,412
13 – 24 months	1,435	1,619
Over 24 months	70	590
	<u>195,356</u>	<u>152,013</u>

Included in the Group's trade and bills receivables are amounts due from a fellow subsidiary and related companies of approximately HK\$1,896,000 (2003: HK\$2,557,000) and HK\$1,094,000 (2003: Nil), respectively, which are repayable on similar credit terms to those offered to the major customers of the Group.

# NOTES TO FINANCIAL STATEMENTS

31 December 2004

## 21. PLEDGED DEPOSITS

The Group's bank deposits were pledged to banks to secure the banking facilities granted to the Group.

## 22. CASH AND CASH EQUIVALENTS

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Cash and bank balances	135,654	119,516	519	5,284
Time deposits	21,253	22,554	2,453	22,554
	<u>156,907</u>	<u>142,070</u>	<u>2,972</u>	<u>27,838</u>

At the balance sheet date, the cash and cash equivalents of the Group denominated in Renminbi ("RMB") amounted to approximately HK\$137,730,000 (2003: HK\$111,157,000). 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 in the PRC.

## 23. TRADE AND BILLS PAYABLES

An aged analysis of trade and bills payables as at the balance sheet date is as follows:

	Group	
	2004 HK\$'000	2003 HK\$'000
Within 6 months	306,497	219,959
7 – 12 months	1,970	326
Over 12 months	81	3,661
	<u>308,548</u>	<u>223,946</u>

## NOTES TO FINANCIAL STATEMENTS

31 December 2004

### 24. DEFERRED TAX

The movement in deferred tax assets arising from the tax losses available for offsetting against future taxable profits during the year is as follows:

	Group	
	2004	2003
	HK\$'000	HK\$'000
At 1 January	1,230	2,002
Deferred tax charged to the profit and loss account during the year	<u>(1,230)</u>	<u>(772)</u>
Gross and net deferred tax assets at 31 December	<u><u>–</u></u>	<u><u>1,230</u></u>

The principal components of the Group's unused tax losses and other deductible temporary differences not recognised as deferred tax assets in the financial statements are as follows:

	Group	
	2004	2003
	HK\$'000	HK\$'000
Tax losses	58,456	122,516
General provision for doubtful debts	8,003	10,600
General provision for obsolete inventories	<u>10,978</u>	<u>9,601</u>
	<u><u>77,437</u></u>	<u><u>142,717</u></u>

The unused tax losses include an amount of approximately HK\$2,976,000 (2003: HK\$66,201,000) arising in Mainland China which is due to expire within two to five years for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of the unused tax losses and other deductible temporary differences as they have arisen in subsidiaries that have been loss-making for some time.

At 31 December 2004, there was no significant unrecognised deferred tax liability (2003: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries and associates as the Group has no liability to additional tax should such amounts be remitted due to the availability of double tax relief.

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

# NOTES TO FINANCIAL STATEMENTS

31 December 2004

## 25. SHARE CAPITAL

	Group and Company	
	2004	2003
	HK\$'000	HK\$'000
<i>Authorised:</i>		
3,000,000,000 ordinary shares of HK\$0.10 each	<u>300,000</u>	<u>300,000</u>
<i>Issued and fully paid:</i>		
1,100,562,040 ordinary shares of HK\$0.10 each	<u>110,056</u>	<u>110,056</u>

## 26. SHARE OPTION SCHEMES

### (a) Share option schemes of the Company

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

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

## NOTES TO FINANCIAL STATEMENTS

31 December 2004

### 26. SHARE OPTION SCHEMES *(Continued)*

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

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

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

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

The share option schemes adopted by the Company on 11 September 1991 (the "1991 Scheme") and 7 May 2001 (the "2001 Scheme") were terminated on 24 May 2002, however, the options granted under the 1991 Scheme and the 2001 Scheme remain in full force and effect.



# NOTES TO FINANCIAL STATEMENTS

31 December 2004

## 26. SHARE OPTION SCHEMES (Continued)

### (a) Share option schemes of the Company (Continued)

The following share options were outstanding under the 1991 Scheme, the 2001 Scheme and the 2002 Scheme at 1 January 2004 and at the end of the year:

Name or category of participant	Number of share options			At 31 December 2004	Date of grant of share options *	Exercise period of share options	Exercise price of share options** HK\$
	At 1 January 2004	Granted during the year	Lapsed during the year				
<b>1991 Scheme</b>							
<i>Directors</i>							
Mr Yung Richard, Jr. (Note)	2,700,000	-	-	2,700,000	18.5.2001	15.12.2001 to 14.12.2006	0.450
<b>2001 Scheme</b>							
<i>Directors</i>							
Mr Cheung Shuen Lung	2,000,000	-	-	2,000,000	18.5.2001	18.5.2001 to 17.5.2011	0.450
Professor Wei Xin	2,000,000	-	-	2,000,000	18.5.2001	18.5.2001 to 17.5.2011	0.450
Professor Zou Wei (Note)	2,000,000	-	(2,000,000)	-	18.5.2001	18.5.2001 to 17.5.2011	0.450
Subtotal	6,000,000	-	(2,000,000)	4,000,000			
<i>Other employees</i>							
In aggregate	1,900,000	-	-	1,900,000	18.5.2001	18.5.2001 to 17.5.2011	0.450
Total under the 2001 Scheme	7,900,000	-	(2,000,000)	5,900,000			

## NOTES TO FINANCIAL STATEMENTS

31 December 2004

## 26. SHARE OPTION SCHEMES (Continued)

## (a) Share option schemes of the Company (Continued)

Name or category of participant	Number of share options			At 31 December 2004	Date of grant of share options*	Exercise period of share options	Exercise price of share options** HK\$
	At 1 January 2004	Granted during the year	Lapsed during the year				
<b>2002 Scheme</b>							
<i>Directors</i>							
Mr Zhang Zhao Dong	-	8,000,000	-	8,000,000	6.2.2004	7.2.2004 to 5.2.2014	0.381
Mr Cheung Shuen Lung	-	8,000,000	-	8,000,000	6.2.2004	7.2.2004 to 5.2.2014	0.381
Professor Wei Xin	-	8,000,000	-	8,000,000	6.2.2004	7.2.2004 to 5.2.2014	0.381
Professor Zou Wei (Note)	-	8,000,000	(8,000,000)	-	6.2.2004	7.2.2004 to 5.2.2014	0.381
Subtotal	-	32,000,000	(8,000,000)	24,000,000			
<i>Other employees of the ultimate holding company</i>							
In aggregate	-	16,500,000	-	16,500,000	2.1.2004	3.1.2004 to 31.12.2013	0.340
<i>Other employees of the Group</i>							
In aggregate	-	21,500,000	-	21,500,000	2.1.2004	3.1.2004 to 31.12.2013	0.340
Total under the 2002 Scheme	-	70,000,000	(8,000,000)	62,000,000			

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

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

Note: Mr Yung Richard, Jr. and Professor Zou Wei resigned as the directors of the Company on 1 November 2004.

31 December 2004

## 26. SHARE OPTION SCHEMES *(Continued)*

### (a) Share option schemes of the Company *(Continued)*

The directors do not consider it appropriate to disclose a theoretical value of the share options granted during the year because a number of factors crucial for the valuation cannot be determined. Accordingly, any valuation of the share options based on various speculative assumptions would not be meaningful, but would be misleading to the shareholders of the Company.

#### *1991 Scheme*

At the balance sheet date, the Company had 2,700,000 share options outstanding under the 1991 Scheme, which represented approximately 0.2% of the Company's shares in issue as at that date. The exercise in full of the remaining share options under the 1991 Scheme would, under the present capital structure of the Company, result in the issue of 2,700,000 additional ordinary shares of the Company and additional share capital of HK\$270,000 and share premium of HK\$945,000 (before issue expenses).

#### *2001 Scheme*

At the balance sheet date, the Company had 5,900,000 share options outstanding under the 2001 Scheme, which represented approximately 0.5% of the Company's shares in issue as at that date. The exercise in full of the remaining share options under the 2001 Scheme would, under the present capital structure of the Company, result in the issue of 5,900,000 additional ordinary shares of the Company and additional share capital of HK\$590,000 and share premium of HK\$2,065,000 (before issue expenses).

#### *2002 Scheme*

At the balance sheet date, the Company had 62,000,000 share options outstanding under the 2002 Scheme, which represented approximately 5.6% of the Company's shares in issue as at that date. The exercise in full of the remaining share options under the 2002 Scheme would, under the present capital structure of the Company, result in the issue of 62,000,000 additional ordinary shares of the Company and additional share capital of HK\$6,200,000 and share premium of HK\$15,864,000 (before issue expenses).

### (b) Share option scheme of FHL

On 24 May 2002, FHL adopted a new share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the operations of FHL and its subsidiaries. Eligible participants of the Scheme include the employees of the Group. The Scheme became effective on 24 May 2002 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date. The vesting period of the share options is from the date of grant until the commencement of the exercise period.

## NOTES TO FINANCIAL STATEMENTS

31 December 2004

## 26. SHARE OPTION SCHEMES (Continued)

## (b) Share option scheme of FHL (Continued)

The following share options were outstanding in respect of options granted to the directors of the Company under the Scheme at 1 January 2004 and at the end of the year:

Name or category of participant	Number of share options			Date of grant of share options*	Exercise period of share options	Exercise price of share options** HK\$
	At 1 January 2004	Granted during the year	At 31 December 2004			
<i>Directors</i>						
Mr Zhang Zhao Dong	-	8,000,000	8,000,000	5.2.2004	6.2.2004 to 5.2.2014	1.104
Mr Cheung Shuen Lung	-	8,000,000	8,000,000	5.2.2004	6.2.2004 to 5.2.2014	1.104
Professor Wei Xin	-	8,000,000	8,000,000	5.2.2004	6.2.2004 to 5.2.2014	1.104
	-	24,000,000	24,000,000			
	-	24,000,000	24,000,000			

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

\*\* The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the share capital of FHL.

# NOTES TO FINANCIAL STATEMENTS

31 December 2004

## 27. RESERVES

(a) Group

	Share premium account HK\$'000	Contributed surplus HK\$'000	Exchange fluctuation reserve HK\$'000	Revaluation reserve HK\$'000	Retained profits/ accumulated losses) HK\$'000	Total HK\$'000
At 1 January 2003	118,299	488,759	181	3,777	(554,450)	56,566
Issue of shares	36,400	-	-	-	-	36,400
Impairment of fixed assets	-	-	-	(3,777)	-	(3,777)
Exchange realignment	-	-	(292)	-	-	(292)
Transfer of goodwill previously eliminated against retained profits	-	(17,103)	-	-	17,103	-
Net loss for the year	-	-	-	-	(22,827)	(22,827)
At 31 December 2003 and beginning of year	154,699	471,656	(111)	-	(560,174)	66,070
Impairment of goodwill	-	48,500	-	-	(48,500)	-
Realisation upon disposal of a subsidiary	-	-	(316)	-	-	(316)
Exchange realignment	-	-	320	-	-	320
Net profit for the year	-	-	-	-	9,185	9,185
At 31 December 2004	<u>154,699</u>	<u>520,156</u>	<u>(107)</u>	<u>-</u>	<u>(599,489)</u>	<u>75,259</u>
Reserves retained by:						
Company and subsidiaries	154,699	520,156	(107)	-	(621,661)	53,087
Associates	-	-	-	-	22,172	22,172
31 December 2004	<u>154,699</u>	<u>520,156</u>	<u>(107)</u>	<u>-</u>	<u>(599,489)</u>	<u>75,259</u>
Company and subsidiaries	154,699	471,656	(111)	-	(580,847)	45,397
Associates	-	-	-	-	20,673	20,673
31 December 2003	<u>154,699</u>	<u>471,656</u>	<u>(111)</u>	<u>-</u>	<u>(560,174)</u>	<u>66,070</u>

## NOTES TO FINANCIAL STATEMENTS

31 December 2004

### 27. RESERVES (Continued)

(a) Group (Continued)

The contributed surplus of the Group represents the difference between the nominal value of the Company's share capital issued as consideration in exchange for the nominal value of the issued share capital of the subsidiaries acquired.

(b) Company

	Share premium account HK\$'000	Contributed surplus HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2003	118,299	528,980	(481,127)	166,152
Issue of shares	36,400	–	–	36,400
Net loss for the year	–	–	(89,980)	(89,980)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2003 and beginning of year	154,699	528,980	(571,107)	112,572
Net loss for the year	–	–	(37,313)	(37,313)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2004	<u>154,699</u>	<u>528,980</u>	<u>(608,420)</u>	<u>75,259</u>

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

# NOTES TO FINANCIAL STATEMENTS

31 December 2004

## 28. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

### (a) Acquisition of subsidiaries

	2003 HK\$'000
Net assets acquired:	
Fixed assets	1,866
Inventories	51,579
Trade and bills receivables	125,936
Prepayments, deposits and other receivables	38,981
Pledged deposits	9,639
Cash and cash equivalents	45,446
Trade and bills payables	(151,973)
Tax payable	(25)
Other payables and accruals	(49,942)
	<hr/>
	71,507
Goodwill on acquisition	3,213
	<hr/>
	74,720
	<hr/> <hr/>
Satisfied by:	
Cash	10,320
Issue of shares	64,400
	<hr/>
	74,720
	<hr/> <hr/>

An analysis of the net inflow of cash and cash equivalents in respect of the acquisition of subsidiaries is as follows:

	2003 HK\$'000
Cash consideration	(10,320)
Cash and cash equivalents acquired	45,446
	<hr/>
Net inflow of cash and cash equivalents in respect of the acquisition of subsidiaries	35,126
	<hr/> <hr/>

The subsidiaries acquired in 2003 contributed approximately HK\$444,633,000 to the Group's consolidated turnover and a profit of approximately HK\$5,127,000 to the consolidated loss after tax for the year ended 31 December 2003.

## NOTES TO FINANCIAL STATEMENTS

31 December 2004

### 28. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(b) Disposal of subsidiaries

	2004 HK\$'000	2003 HK\$'000
Net assets disposed of:		
Fixed assets	4,925	37,052
Long term investment	–	63
Inventories	177	39,098
Systems integration contracts	2,481	–
Trade and bills receivables	2,869	25,592
Prepayment, deposits and other receivables	1,388	2,559
Cash and bank balances	5,049	10,881
Trade payables	(1,896)	(35,170)
Other payables and accruals	(5,336)	(10,020)
Interest-bearing bank and other borrowings	–	(11,295)
Exchange fluctuation reserve	(316)	–
	<u>9,341</u>	<u>58,760</u>
Gain/(loss) on disposal of subsidiaries (note 6)	<u>3,255</u>	<u>(13,260)</u>
	<u><u>12,596</u></u>	<u><u>45,500</u></u>
Satisfied by:		
Cash	<u><u>12,596</u></u>	<u><u>45,500</u></u>

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

	2004 HK\$'000	2003 HK\$'000
Cash consideration	12,596	45,500
Cash and bank balances disposed of	(5,049)	(10,881)
Bank overdrafts disposed of	–	5,510
	<u>7,547</u>	<u>40,129</u>
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	<u><u>7,547</u></u>	<u><u>40,129</u></u>

The subsidiaries disposed of in 2004 contributed approximately HK\$23,691,000 to the Group's consolidated turnover and loss of approximately HK\$7,208,000 to the consolidated profit after tax for the year ended 31 December 2004.

The subsidiaries disposed of in prior year contributed approximately HK\$118,137,000 to the Group's consolidated turnover and loss of approximately HK\$5,194,000 to the Group's consolidated loss after tax for that year.



# NOTES TO FINANCIAL STATEMENTS

31 December 2004

## 29. CONTINGENT LIABILITIES

At the balance sheet date, contingent liabilities not provided for in the financial statements were as follows:

	Company	
	2004	2003
	HK\$'000	HK\$'000
Guarantees given to suppliers in connection with credit facilities granted to subsidiaries	<u>19,740</u>	<u>19,441</u>

As at 31 December 2004, the guarantees given to suppliers in connection with credit facilities granted to subsidiaries by the Company were utilised to the extent of approximately HK\$9,116,000 (2003: HK\$19,441,000).

The Group did not have any significant contingent liabilities as at 31 December 2004 (2003: Nil).

## 30. OPERATING LEASE ARRANGEMENTS AS LESSEE

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

At 31 December 2004, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2004	2003
	HK\$'000	HK\$'000
Within one year	2,850	6,256
In the second to fifth years, inclusive	<u>818</u>	<u>4,804</u>
	<u>3,668</u>	<u>11,060</u>

## NOTES TO FINANCIAL STATEMENTS

31 December 2004

### 31. RELATED PARTY TRANSACTIONS

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

- (a) On 20 October 2004, FDC entered into a conditional disposal agreement with Founder Suzhou, Shanghai Founder and Peking Founder. Further details of the transaction are set out in note 6(a) to the financial statements.
- (b) On 29 April 2003, the Group entered into lease agreements with Peking Founder to lease from Peking Founder certain premises in Beijing, the PRC, as its offices. During the year, rental and management fee expenses of approximately HK\$4,288,000 (2003: HK\$2,138,000) were paid to Peking Founder. The directors considered that the rental and management fee expenses were paid in accordance with the terms of the lease arrangements governing such transaction. The balances due from/to Peking Founder included in prepayments, deposits and other receivables and other payables and accruals as at 31 December 2004 were approximately HK\$319,000 (2003: HK\$713,000) and HK\$478,000 (2003: HK\$1,338,000), respectively.
- (c) During the year, products of approximately HK\$13,286,000 (2003: HK\$11,016,000) were sold to fellow subsidiaries. The sales of products were made according to published prices and conditions similar to those offered to other customers of the Group.
- (d) During the year, the Group received commission income of approximately HK\$4,546,000 (2003: HK\$3,052,000) from a subsidiary of a then shareholder which held 8.47% of the shares of the Company, prior to the disposal of shares of the Company by the shareholder, for the provision of internet advertising agency services.
- (e) During the year, products of approximately HK\$68,000 (2003: HK\$854,000) were purchased from fellow subsidiaries. The purchases of goods were made according to published prices and conditions similar to those offered by the fellow subsidiary to its own customers.
- (f) As at 31 December 2004, Peking Founder guaranteed banking facilities given by the PRC banks to the Group of approximately HK\$295,630,000 (2003: HK\$238,935,000) which were utilised to the extent of approximately HK\$266,858,000 (2003: HK\$177,128,000).
- (g) As at 31 December 2003, Peking Founder guaranteed credit facilities given by a supplier and utilised by the Group of approximately HK\$5,265,000.
- (h) During the year, products of approximately HK\$48,687,000 (2003: HK\$23,062,000) were purchased from a company in which one director of a subsidiary was a shareholder. The purchase prices were determined based on actual costs incurred. The balance due from the related company included in prepayments, deposits and other receivables as at 31 December 2004 was approximately HK\$4,220,000 (2003: HK\$6,295,000).

# NOTES TO FINANCIAL STATEMENTS

31 December 2004

## 31. RELATED PARTY TRANSACTIONS *(Continued)*

- (i) On 19 March 2003, the Company entered into a conditional sale and purchase agreement (the "S&P Agreement") with Founder (Hong Kong) Limited ("FHK"), a wholly-owned subsidiary of FHL. Pursuant to the S&P Agreement, the Company acquired the entire equity interests in HK Century and PRC Century from FHK. The acquisition was completed on 1 July 2003.
- (j) On 1 August 2003, the Company entered into a conditional disposal agreement with Honour Glory to dispose of the electronic products business. Further details of the transaction are set out in note 6(c) to the financial statements. The disposal was completed on 26 September 2003.

## 32. COMPARATIVE AMOUNTS

As further explained in note 6 to these financial statements, due to the discontinued operations arising during the current year, the presentation of certain items in the financial statements have been revised. Accordingly, certain comparative amounts have been restated.

## 33. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 22 April 2005.