FOUNDER HOLDINGS LIMITED
方正控股有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code : 0418)

Annual Report

2006

Exploring
New
Technology

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive directors

Mr Zhang Zhao Dong *(Chairman)*#
Mr Cheung Shuen Lung*
Professor Xiao Jian Guo *(Deputy Chairman)*
Mr Liu Xiao Kun *(President)*
Professor Wei Xin
Mr Chen Geng
Mr Xie Ke Hai

Independent non-executive directors

Dr Hu Hung Lick, Henry
Mr Li Fat Chung
Ms Wong Lam Kit Yee

COMMITTEES

Audit Committee

Mr Li Fat Chung *(Chairman)*
Dr Hu Hung Lick, Henry
Ms Wong Lam Kit Yee

Remuneration Committee

Mr Zhang Zhao Dong *(Chairman)*
Mr Li Fat Chung
Ms Wong Lam Kit Yee

COMPANY SECRETARY

Ms Tang Yuk Bo, Yvonne

QUALIFIED ACCOUNTANT

Mr Lau Fai Lawrence

AUTHORISED REPRESENTATIVES

Mr Zhang Zhao Dong
Professor Wei Xin

AUDITORS

Ernst & Young
Certified Public Accountants

LEGAL ADVISERS

Morrison & Foerster

PRINCIPAL BANKERS

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

REGISTERED OFFICE

Canon's Court
22 Victoria Street
Hamilton HM12
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

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

SHARE REGISTRARS AND TRANSFER OFFICE

Principal registrars

Butterfield Fund Services (Bermuda) Limited
Rosebank Centre
11 Bermudiana Road
Pembroke
Bermuda

Hong Kong branch share registrars and transfer office

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

LISTING INFORMATION

Main board of The Stock Exchange of Hong Kong Limited
Stock code: 0418
Board lot: 2,000 shares

COMPANY WEBSITES

www.founder.com.hk
www.irasia.com/listco/hk/founder

Appointed as Chairman of the Board of Directors on 23 April 2007
* Resigned as Executive Director and Chairman of the Board of Directors on 23 April 2007

FINANCIAL HIGHLIGHTS

YEAR	**2006**	2005	2004	2003	2002 *(Restated)*
Turnover *(HK$' million)*	**2,116**	2,594	2,014	1,554	1,442
Total assets *(HK$' million)*	**792**	1,323	1,086	961	820
Total liabilities *(HK$' million)*	**383**	852	677	532	472
Net assets *(HK$' million)*	**403**	368	316	342	333
Net asset value per share *(HK$)*	**0.36**	0.33	0.28	0.30	0.30
Working capital ratio	**1.58**	1.39	1.41	1.53	1.40
Long term debt to equity ratio	**N/A**	N/A	N/A	N/A	0.007
Total number of staff (As at the end of the year)	**1,603**	1,882	2,020	2,080	1,968

ADDITIONAL FINANCIAL INFORMATION

On 31 July 2006, the Company partially disposed of 21.85% equity interests in EC-Founder (Holdings) Company Limited ("EC-Founder") to Shining Wisdom Group Limited, an independent third party. The equity interests in EC-Founder held by the Company decreased from 54.85% to 33.00%. EC-Founder became an associate of the Company and the results and net assets of EC-Founder and its subsidiaries were accounted for using the equity method after the partial disposal.

The following unaudited pro forma consolidated income statement and unaudited pro forma consolidated balance sheet have been prepared as if EC-Founder was a 33.00% owned subsidiary of the Company after the partial disposal of equity interests in EC-Founder by the Company on 31 July 2006, so as to facilitate comparison. The consolidated income statement for the year ended 31 December 2005 and the consolidated balance sheet as at 31 December 2005 are extracted from pages 28 and 29 of this Annual Report respectively. The additional financial information does not form part of the audited financial statements.

PRO FORMA CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2006

	2006	2005
	HK$'000	*HK$'000*
REVENUE	**3,066,111**	2,593,915
Cost of sales	**(2,718,861)**	(2,284,040)
Gross profit	**347,250**	309,875
Other income and gains	**72,978**	88,693
Selling and distribution costs	**(210,034)**	(186,765)
Administrative expenses	**(118,567)**	(107,374)
Other expenses, net	**(64,570)**	(47,241)
Finance costs	**(2,733)**	(1,142)
Share of profits and losses of associates	**9,221**	10,250
PROFIT BEFORE TAX	**33,545**	66,296
Tax	**(1,577)**	(5,052)
PROFIT FOR THE YEAR	**31,968**	61,244
Attributable to:		
Equity holders of the parent	**25,911**	47,929
Minority interests	**6,057**	13,315
	31,968	61,244

ADDITIONAL FINANCIAL INFORMATION

PRO FORMA CONSOLIDATED BALANCE SHEET

31 December 2006

	2006	2005
	HK$'000	*HK$'000*
NON-CURRENT ASSETS		
Property, plant and equipment	**75,409**	63,329
Investment properties	**25,360**	23,110
Goodwill	**7,055**	7,055
Interests in associates	**43,754**	44,184
Total non-current assets	**151,578**	137,678
CURRENT ASSETS		
Inventories	**155,538**	171,076
Systems integration contracts	**70,735**	44,743
Trade and bills receivables	**447,337**	360,297
Prepayments, deposits and other receivables	**151,845**	119,312
Equity investments at fair value through profit or loss	**2,350**	1,981
Pledged deposits	**124,104**	72,536
Cash and cash equivalents	**498,467**	414,886
Total current assets	**1,450,376**	1,184,831
CURRENT LIABILITIES		
Trade and bills payables	**590,601**	438,263
Other payables and accruals	**403,167**	371,726
Interest-bearing bank borrowings	**40,004**	40,614
Tax payable	**272**	1,012
Total current liabilities	**1,034,044**	851,615
NET CURRENT ASSETS	**416,332**	333,216
TOTAL ASSETS LESS CURRENT LIABILITIES	**567,910**	470,894
NON-CURRENT LIABILITIES		
Finance lease payable	**386**	—
Net assets	**567,524**	470,894
EQUITY		
Equity attributable to equity holders of the parent		
Issued capital	**112,380**	112,380
Reserves	**290,913**	255,873
	403,293	368,253
Minority interests	**164,231**	102,641
Total equity	**567,524**	470,894

MANAGEMENT DISCUSSION AND ANALYSIS

OVERALL PERFORMANCE

The Group reported a profit attributable to equity holders of the parent for the year ended 31 December 2006 of approximately HK$25.9 million (2005: HK$47.9 million). The Group's turnover for the current financial year decreased by 18.4% to approximately HK$2,115.9 million (2005: HK$2,593.9 million) as a result of the partial disposal of EC-Founder (Holdings) Company Limited ("EC-Founder") which became the Group's associates on 31 July 2006. On the contrary, gross profit ratio increased from last financial year's 11.95% to 14.13% for the current financial year because EC-Founder's distribution business of information products had a much lower gross profit percentage as compared to the business of software development and systems integration. The Group recorded a gain on partial disposal of EC-Founder of approximately HK$17.8 million which is included as other income and gains in the current financial year.

Basic earnings per share for the year was HK2.3 cents (2005: HK4.3 cents).

OPERATING REVIEW AND PROSPECTS

(A) Software development and systems integration for media sector ("Media Business")

The turnover of the Media Business for the current financial year increased slightly by 0.3% to approximately HK$511.6 million (year ended 31 December 2005: HK$510.1 million) while the segment results recorded a profit of approximately HK$1.3 million (year ended 31 December 2005: HK$15.1 million). However, the gross profit ratio for the Media Business has increased by 1% to 39.2% from last financial year's 38.2%. The Media Business recorded a significant decrease in segment result because last year's segment results included the gain on deemed partial disposal of subsidiaries of approximately HK$10.7 million (year ended 31 December 2006: nil). However, due to the completion and revenue recognition of a number of systems integration contracts during the second half of the current financial year, the Media Business recorded a segment profit of approximately HK$32.9 million compared with HK$25.5 million for the six months ended 31 December 2005.

During the year the Group has allocated more resources for new products development and market exploration and Beijing Founder Apabi Technology Co., Ltd. (北京方正阿帕比技術有限公司) was incorporated in April 2006 to further develop and market the Group's prize-award technology, Founder Apabi Digital Right Management System (DRM), CEB electronic file format and a series of paperless products such as e-Library, e-Book, e-Document and e-Stamp. Our e-Library and e-Book Systems have been adopted by more than 2,900 schools, universities, public libraries, education web sites, governmental bureaus and private enterprises in the PRC and overseas. Over 400 publishing houses have cooperated with us for the production of e-books using our network publishing total solutions, Founder Apabi e-Book Solutions. At the end of the current financial year, we have produced over 250,000 e-books which are being offered to the retail market through our own on-line bookshop "www.apabi.com" (阿帕比閱讀網) and a number of popular portals. As the Group estimated that the further development of the e-Book business will require large investment amounts, therefore it is envisaged that the e-Book business is still a minor contributor to the Media Business segment results in the years to come.

MANAGEMENT DISCUSSION AND ANALYSIS

Besides our traditional graphic arts and e-publishing software solutions for the needs of newspaper and publishing houses, our new product, Founder EasiPrint Digital Printing System ("EasiPrint") (印捷數碼印刷系統), was also well received by the market. More and more partners have joined our franchising digital printing shops. At present, we have approximately one hundred franchising digital printing shops over different provinces in the PRC. During the current financial year, the Group has also started to open up its own digital printing shops and plan to further expand its own-shop network in the future. By enriching its franchise and own-shop network, enhancing the co-operation with the suppliers and exploring the possible business application opportunities for EasiPrint, the Group is confident that the EasiPrint business will continue to gain market share in the PRC's digital printing business.

In June 2006, the Group's flagship software development arm, Beijing Founder Electronics Co., Ltd. ("Founder Electronics"), was awarded one of the ten most valuable software enterprise (十大最具價值軟件企業) in the PRC and our EasiPrint Digital Printing System (印捷數碼印刷系統) was awarded one of the most value-adding potential software product (最具增值潛力軟件產品) in the PRC in the 10th China International Software Exhibition (二零零六年第十屆中國國際軟件博覽會) and in September 2006, the Group's well-renowned publishing software, FIT (飛騰集成排版軟件) was awarded one of the ten most innovative software product (中國十大創新軟件產品) in the PRC in The 2nd China (Nanjing) International Software Product Expo (第二屆中國(南京)國際軟件產品博覽會). In August 2006, Founder Electronics, was awarded one of the most innovative and advance IT entity (資訊產業科技創新先進集體) in the State National IT Industry Innovation Conference (全國資訊產業科技創新會議) organized by the China Information Industry Net (中國資訊產業網). On 10 November 2006, Founder Electronics, was awarded as one of the top 100 IT corporation (2006年中國商業科技100強白皮書，中國商業科技100強) in the PRC by Information Week (《信息周刊》).

(B) Software development and systems integration for non-media sector ("Non-media Business")

The turnover of the Non-media Business for the current financial year increased by 64.4% to approximately HK$306.9 million (2005: HK$186.6 million) while its segment results has turned back from 2005's loss of approximately HK$1.6 million to the current financial year's profit of approximately HK$4.0 million.

Coupled with the continued effort for tight cost control and the increase in marketing activities, the Non-media Business has turned back to profit in the current financial year after incurring losses for two consecutive years. During the current financial year, the Non-media Business was mainly focused on the systems integration business for the finance and securities industries and government bureaus in the PRC.

In June 2006, the Group's non-media operating arm, Beijing Founder Order Computer System Co., Ltd. ("Founder Order") was ranked one of the top 30 systems integrators in the PRC by the Computer Partner World (電腦商報). In addition, Founder Order was ranked the top three systems integrators for the PRC's finance and securities industries by Smart Partner (計算機產品與流通) in June 2006. In addition to being a CISCO gold certified partner, Founder Order is also a state-certified high-tech enterprise and first-class systems integrator with certifications in ISO9000 and CMML2. The Group is confident that the Non-media Business will become one of the leading systems integrator in the PRC with its sound and solid technology and knowledge base, long history of R&D and quality assurance system.

MANAGEMENT DISCUSSION AND ANALYSIS

(C) Distribution of information products ("Distribution Business")

The turnover of the Distribution Business for the current financial year decreased by 31.3% to approximately HK$1,289.3 million (2005: HK$1,876.7 million) while its segmental profit reported approximately HK$20.4 million (2005: HK$20.8 million).

The Distribution Business was partially disposed of in July 2006 as a result of the Company's partial disposal of 21.85% equity interest in EC-Founder which became the Company's associated company and the segment results for the current financial year represented the January to July's operating results of the Distribution Business. At present, the Distribution Business has developed an efficient and effective distribution channel and network with branch offices/representative offices spanning 21 major cities in the PRC.

The Distribution Business has been awarded by various upstream vendors such as HP and Huawei-3Com for its excellent distribution services in terms of distribution channel, coverage, growth and overall performance in the PRC. In June 2006, the Distribution Business was ranked the 4th place (2005: 5th) by Computer Partner World (電腦商報) among the top 200 information products distributors in the PRC's information products distribution business and was also ranked the 5th place (2005: 7th) by China Information World (中國計算機報) in June 2006 as one of the PRC's top 100 dominant information products distributors. In addition, the Distribution Business was ranked the 5th place in June 2006 by Smart Partner (計算機產品與流通) among the top 10 most excellent information products distributors in the PRC.

EMPLOYEES

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

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

In the current financial year, the moderate decrease in the headcount for the Group is mainly due to the partial disposal of EC-Founder in July 2006. At 31 December 2006, the number of employees of the Group was approximately 1,603 (31 December 2005: 1,882).

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Liquidity, financial resources and capital commitments

At 31 December 2006, the Group recorded total assets of HK$792.0 million which were financed by liabilities of HK$383.1 million, minority interests of HK$5.6 million and equity of HK$403.3 million. The Group's net asset value per share as at 31 December 2006 amounted to HK$0.36 (31 December 2005: HK$0.33).

The Group had a total cash and bank balance of HK$265.6 million as at 31 December 2006 (31 December 2005: HK$487.4 million). The Group had no borrowings as at 31 December 2006 (31 December 2005: HK$40.6 million) and recorded a net cash balance of HK$265.6 million as at 31 December 2006 as compared to HK$446.8 million as at 31 December 2005. The Group's borrowings, which are subject to little seasonality, consist of mainly short term revolving trust receipt loans. As at 31 December 2006, the Group's gearing ratio, measured on the basis of total borrowings as a percentage of total equity attributable to equity holders of the parent, was zero (31 December 2005: 0.11) while the Group's working capital ratio was 1.58 (31 December 2005: 1.39).

At 31 December 2006, the Group did not have any material capital expenditure commitments.

Treasury policies

The Group adopts conservative treasury policies and controls tightly over its cash and risk management. The Group's cash and cash equivalents are held mainly in Hong Kong dollars, Renminbi and United States dollars. Surplus cash is generally placed in short term deposits denominated in Hong Kong dollars, Renminbi and United States dollars.

Exposure to fluctuations in exchange rates and related hedges

Most of the Group's borrowings are denominated in Hong Kong dollars and United States dollars while the sales of the Group are mainly denominated in Renminbi and United States dollars. The sales and purchases made by the subsidiaries of the Group in the PRC are conducted in Renminbi and hence, the transactional currency exposure is minimal. As the exchange rates of United States dollars against Hong Kong dollars was relatively stable during the year under review, the Group's exposure to fluctuations in exchange rates is considered minimal and no financial instruments have been used for hedging purposes.

Contracts

At 31 December 2006, the major contracts in hand for the software development and systems integration business amounted to approximately HK$187.5 million (31 December 2005: HK$148.1 million), which are all expected to be completed within one year time.

Material acquisitions and disposals of subsidiaries and associates

On 26 May 2006, the Company entered into a sales and purchase agreement to partially dispose of its 21.85% equity interest in EC-Founder for a cash consideration of approximately HK$68.5 million. After the partial disposal, EC-Founder is a 33% owned associated company of the Company. The disposal was completed in July 2006 and a gain of approximately HK$17.8 million was recorded.

MANAGEMENT DISCUSSION AND ANALYSIS

Charges on assets

At 31 December 2006, the Group's land and buildings and investment properties in Hong Kong of approximately HK$54.6 million and bank deposits of approximately HK$35.6 million were pledged to banks to secure banking facilities granted.

Contingent liabilities

At 31 December 2006, the Group did not have any significant contingent liabilities.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The Company is firmly committed to the overall standards of corporate governance and has always recognised the importance of accountability and communication with shareholders. The Company adopted all the code provisions of the Code on Corporate Governance Practices (the "Code"), as set out in Appendix 14 of 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 applied the principles in the Code through the adoption of the code provisions of the Code and has complied with the code provisions of the Code throughout the year ended 31 December 2006.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules (the "Model Code") to regulate the directors' securities transactions. Following specific enquiry by the Company, all directors have confirmed that they have complied with the Model Code regarding directors' securities transactions during the year ended 31 December 2006.

BOARD OF DIRECTORS

As at the date of this Corporate Governance Report, the board of directors of the Company (the "Board") comprises ten directors, namely, Mr Cheung Shuen Lung (Chairman), Professor Xiao Jian Guo (Deputy Chairman), Mr Liu Xiao Kun (President), Professor Wei Xin, Mr Zhang Zhao Dong, Mr Chen Geng and Mr Xie Ke Hai as executive directors, Dr Hu Hung Lick, Henry, Mr Li Fat Chung and Ms Wong Lam Kit Yee as independent non-executive directors. The biographical details of each director are disclosed on pages 17 to 18 of this Annual Report.

The Company has three independent non-executive directors, two of them are professional accountants, which 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. Save as disclosed herein, 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 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 acquisition and disposal, major capital investments, dividend policy, significant changes in accounting policies, material contracts, appointment and retirement of directors, remuneration policy and other major operational and financial matters. The Board members have access to appropriate business documents and information about the Group on a timely basis. All directors and Board committees have recourse

CORPORATE GOVERNANCE REPORT

to external legal counsel and other professionals for independent advice at the Group's expense upon their request. The Company has received acknowledgements from the directors of their responsibilities for preparing the financial statements and a statement by the external auditors of the Company about their reporting responsibilities.

The Board held four regular board meetings at approximately quarterly interval during the year ended 31 December 2006. Additional board meetings were held when necessary. Due notice and board papers were given to all directors prior to the meeting in accordance with the Listing Rules and the Code. The individual attendance of each director at the board meetings is as follows:

Name of director	Number of attendance/Number of meetings
Executive Directors	
Mr Cheung Shuen Lung	4/4
Professor Xiao Jian Guo	3/4
Professor Wei Xin	3/4
Mr Zhang Zhao Dong	4/4
Mr Xia Yang Jun	3/4
Mr Chen Geng	0/0
Mr Xie Ke Hai	0/0
Independent Non-executive Directors	
Dr Hu Hung Lick, Henry	0/4
Mr Li Fat Chung	2/4
Ms Wong Lam Kit Yee	2/4

There are also two board committees under the Board, which are the audit committee and the remuneration committee.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The roles of the chairman and the chief executive officer are segregated and are not exercised by the same individual. Mr Cheung Shuen Lung is the Chairman of the Board. The primary role of the Chairman is to provide leadership for the Board and to ensure that it works effectively in the discharge of its responsibilities. Mr Liu Xiao Kun is the President of the Company, who acts as the chief executive officer of the Company. The President is responsible for the day-to-day management of the Group's business. Their respective role and responsibilities are set out in writing which have been approved by the Board.

CORPORATE GOVERNANCE REPORT

NON-EXECUTIVE DIRECTORS

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

REMUNERATION OF DIRECTORS

The Board has established a remuneration committee in 2005. As at the date of this Corporate Governance Report, the remuneration committee comprises Mr Cheung Shuen Lung (Chairman), Mr Li Fat Chung and Ms Wong Lam Kit Yee. The role and function of the remuneration committee include formulating the remuneration policy, determining the remuneration packages of all executive directors and senior management, making recommendations to the Board of the remuneration of non-executive directors, reviewing and approving performance-based remuneration, and ensuring that no director or any of his associates is involved in deciding his own remuneration. The terms of reference of the remuneration committee are available on the Company's website.

In 2006, 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 individual attendance of the members of the remuneration committee at the meeting is as follows:

Name of member	**Number of attendance/Number of meetings**
Mr Cheung Shuen Lung *(Chairman)*	1/1
Mr Li Fat Chung	1/1
Ms Wong Lam Kit Yee	1/1

NOMINATION OF DIRECTORS

The Board has not established a nomination committee. The power to nominate or appoint additional directors is vested in the Board according to the Bye-laws of the Company, in addition to the power of the shareholders to nominate any person to become a director of the Company in accordance with the Bye-laws of the Company and all applicable laws.

The Board from time to time considers replenishing the composition of the Board whenever the Company requires to meet the business demand, opportunities and challenges and to comply with the applicable laws and regulations. The nomination procedure basically follows Bye-laws 102(B) of the Bye-laws of the Company, which empowers the Board from time to time and at any time to appoint any person as a director either to fill a casual vacancy or as an addition to the Board. The directors will select and evaluate the balance of skills, qualifications, knowledge and experience of the candidate to the directorship as may be required by the Company from time to time by such means as the Company may deem fit. The directors shall consider the candidate from a wide range of backgrounds, on his merits and against objective criteria set out by the Board and taking into consideration his time devoted to the position.

CORPORATE GOVERNANCE REPORT

During the year, appointment of Mr Chen Geng and Mr Xie Ke Hai as new directors was put to the full Board for approval and will be subject to re-election at the forthcoming annual general meeting. The individual attendance of each director at the board meeting is as follows:

Name of director	Number of attendance/Number of meetings
Executive Directors	
Mr Cheung Shuen Lung	1/1
Professor Xiao Jian Guo	1/1
Professor Wei Xin	1/1
Mr Zhang Zhao Dong	1/1
Mr Xia Yang Jun	1/1
Independent Non-executive Directors	
Dr Hu Hung Lick, Henry	0/1
Mr Li Fat Chung	0/1
Ms Wong Lam Kit Yee	0/1

AUDITORS' REMUNERATION

The Company engaged Ernst & Young as the statutory auditors of the Company. The principal services provided by Ernst & Young in 2006 include the review of interim condensed consolidated financial statements of the Group, the audit of annual consolidated financial statements of the Group, and the audit of the financial statements of certain subsidiaries of the Group.

Apart from the above-mentioned audit services, associates of Ernst & Young were also engaged in providing taxation services and other advisory services to the Group.

CORPORATE GOVERNANCE REPORT

The remuneration in respect of audit and non-audit services provided by Ernst & Young and its associates to the Company in 2006 is summarised as follows:

	HK$'000
Audit fees	3,095
Non-audit fees:	
Interim review service	590
Taxation services	77
Other advisory services	412
	1,079
Total	4,174

AUDIT COMMITTEE

The Company has established the audit committee since 1998, which is comprised solely of independent non-executive directors, namely, Mr Li Fat Chung (Chairman), Dr Hu Hung Lick, Henry, and Ms Wong Lam Kit Yee. A majority of the committee members possesses appropriate professional accounting and financial qualifications. The primary responsibilities of the audit committee include making recommendation to the Board on the appointment, reappointment and removal of the external auditors, approving the remuneration and terms of engagement of the external auditors, reviewing and monitoring the external auditors' independence and objectivity and the effectiveness of the audit process in accordance with applicable standard, developing and implementing policy on the engagement of external auditors to supply non-audit services, monitoring the integrity of the financial statements and the reports of the Company, and overseeing the Company's financial reporting system and internal control procedures. The terms of reference of the audit committee are available on the Company's website.

In 2006, the audit committee met four times. In these meetings, the audit committee reviewed reports from the external auditors regarding their audit on annual financial statements, review on interim financial results and performance of agreed upon auditing procedures on connected transactions, discussed the internal control of the Group, and met with the external auditors. The individual attendance of the members of the audit committee at the meetings is as follows:

Name of member	**Number of attendance/Number of meetings**
Mr Li Fat Chung *(Chairman)*	4/4
Dr Hu Hung Lick, Henry	1/4
Ms Wong Lam Kit Yee	4/4

CORPORATE GOVERNANCE REPORT

INTERNAL CONTROL

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

During the year, the Company has engaged the external auditors, Shinewing (HK) CPA Limited, to carry out an overview on the effectiveness of the internal control system of the Group. The review covers all material controls, including financial, operational and compliance controls and risk management functions of the Group. No material internal control aspects of any significant problems were noted. Both of the Audit Committee and the Board were satisfied that the internal control system of the Group has been functioned effectively during the review year.

ON BEHALF OF THE BOARD

Cheung Shuen Lung
Chairman

Hong Kong
20 April 2007

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr Zhang Zhao Dong, aged 57, is an executive director of the Company. He is also an executive director and the Chairman of EC-Founder (Holdings) Company Limited, an executive director and the President of Peking University Founder Group Company Limited, and a director of Founder Technology Group Corporation. Mr Zhang graduated from the Department of Geophysics at Peking University in 1977 and is a research fellow at Peking University. Mr Zhang is appointed as Chairman of the Company on 23 April 2007.

Mr Cheung Shuen Lung, aged 50, is an executive director and the Chairman of the Company. He is also an executive director of Peking University Founder Group Company Limited, the executive chairman of PUC Founder (MSC) Berhad. He is a research fellow of the Enterprise Research Institute at Peking University and one of the founders of the Group. Mr Cheung is famed for his prestige in the China's information technology industry and has made valuable and indispensable contributions to the Group over the years. Mr Cheung tenders his resignation as Executive Director and Chairman of the Company on 23 April 2007.

Professor Xiao Jian Guo, aged 50, is an executive director and the Deputy Chairman of the Company. He is also an executive director and Chief Technical Officer of Peking University Founder Group Company Limited, and a director of Founder Technology Group Corporation. He is a professor and a supervisor of PhD students of Peking University. He graduated from the Department of Computer Science at the College of Dalian Ocean Communication with a bachelor degree in 1982 and obtained a master degree in Computer Science at Peking University.

Mr Liu Xiao Kun, aged 47, is an executive director and the President of the Company. He is also the Chairman and President of Beijing Founder Electronics Co., Ltd, Beijing Founder Order Computer System Co., Ltd. and Beijing Founder Century Information System Co., Ltd.. He also holds directorships in certain subsidiaries and associated companies of the Group and certain associated companies of Peking University Founder Group Company Limited. Mr Liu graduated from Sichuan University and holds a master degree in Economics. He joined the Group in 2001 and has extensive experience in the distribution business of information products. Mr Liu is mainly responsible for the overall operation of the Group's software development and systems integration business and information products distribution business.

Professor Wei Xin, aged 51, is an executive director of the Company. He is also the Chairman of Peking University Founder Group Company Limited, an non-executive director of PUC Founder (MSC) Berhad, and a director of Founder Technology Group Corporation. Professor Wei obtained a master degree from the College of Economics at Peking University. He is also the Executive Dean of College of Education at Peking University.

Mr Chen Geng, aged 36, is an executive director of the Company. He is also an executive director and the President of EC-Founder (Holdings) Company Limited. Mr Chen graduated from Northwest University with a bachelor degree in Executive Management and obtained an EMBA degree from Peking University Guanghua School of Management. Mr Chen is also an Economist in the People's Republic of China. Before joining EC-Founder (Holdings) Company Limited in 2005, he was a Vice-President of a subsidiary of Peking University Founder Group Company Limited and worked in various investment companies in the People's Republic of China and has extensive experience in finance and management. Mr Chen is responsible for the overall strategic planning and development of EC-Founder (Holdings) Company Limited.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS *(continued)*

Mr Xie Ke Hai, aged 41, is an executive director of the Company. He is also an executive director of EC-Founder (Holdings) Company Limited and a Vice-President and Chief Human Resources Officer of Peking University Founder Group Company Limited. Mr Xie graduated from University of Science & Technology Beijing and obtained a master degree. He is also the director of a number of associated companies of Peking University Founder Group Company Limited. He has over 10 years of experience in human resources.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr Hu Hung Lick, Henry, G.B.S., O.B.E., PhD, J.P., aged 87, is an independent non-executive director of the Company. Dr Hu has been practicing as barrister for over 50 years and is currently the President of Hong Kong Shue Yan University. Dr Hu is also an independent non-executive director of Air China Limited, a public company listed on the Main Board of The Stock Exchange of Hong Kong Limited.

Mr Li Fat Chung, aged 46, is an independent non-executive director of the Company and EC-Founder (Holdings) Company Limited. Mr Li is a partner of Chan, Li, Law & Co., Certified Public Accountants, in Hong Kong. Mr Li is a Certified Public Accountant (Practising) in Hong Kong. He is also a fellow member of the Association of Chartered Certified Accountants in the United Kingdom, the Hong Kong Institute of Certified Public Accountants and the Taxation Institute of Hong Kong. Mr Li received a master degree in Business Administration from University of Warwick, England. Mr Li has extensive experience in auditing, taxation and accounting.

Ms Wong Lam Kit Yee, aged 43, is an independent non-executive director of the Company and EC-Founder (Holdings) Company Limited. Ms 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 a member of the Hong Kong Institute of Certified Public Accountants. Ms Wong has extensive experience in auditing and accounting.

SENIOR MANAGEMENT

Mr Lau Fai Lawrence, aged 35, is the Group Financial Controller and the Qualified Accountant of the Company and EC-Founder (Holdings) Company Limited. Mr Lau graduated from The University of Hong Kong with a bachelor degree in Business Administration. Mr Lau is a Certified Public Accountant (Practising) in Hong Kong, a member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants in the United Kingdom. Mr Lau has extensive experience in financial management and corporate finance and had worked with an international accounting firm before joining the Group. Mr Lau is currently responsible for the accounting and financial management and corporate finance of the Group.

REPORT OF THE DIRECTORS

The directors present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2006.

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 16 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 2006 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 28 to 93.

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

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited financial statements and restated/reclassified as appropriate, is set out on page 96 of the Annual Report. This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

Details of movements in the property, plant and equipment and investment properties of the Group during the year are set out in notes 13 and 14 to the financial statements, respectively. Further details of the Group's investment properties are set out on pages 94 to 95 of the Annual Report.

SHARE CAPITAL AND SHARE OPTIONS

There were no movements in either the Company's authorised or issued share capital during the year. Details of movements in the Company's share options during the year are set out in note 28 to the financial statements.

PRE-EMPTIVE RIGHTS

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 29 to the financial statements.

REPORT OF THE DIRECTORS

DISTRIBUTABLE RESERVES

As at 31 December 2006, the Company's reserves available for distribution amounted to approximately HK$191,095,000. In addition, the Company's share premium account, in the amount of approximately HK$27,660,000, may be distributed in the form of fully paid bonus shares.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for less than 30% of the total sales for the year. Purchases from the Group's five largest suppliers accounted for approximately 66% (2005: 69%) of the total purchases for the year and purchases from the largest supplier included therein amounted to approximately 43% (2005: 39%).

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

DIRECTORS

The directors of the Company during the year were:

Executive directors:

Mr Cheung Shuen Lung	
Professor Xiao Jian Guo	
Professor Wei Xin	
Mr Zhang Zhao Dong	
Mr Xia Yang Jun	
Mr Chen Geng	(appointed on 15 December 2006)
Mr Xie Ke Hai	(appointed on 15 December 2006)

Independent non-executive directors:

Dr Hu Hung Lick, Henry
Mr Li Fat Chung
Ms Wong Lam Kit Yee

REPORT OF THE DIRECTORS

DIRECTORS *(continued)*

Subsequent to the balance sheet date, on 25 January 2007, Mr Xia Yang Jun resigned as an executive director of the Company. On the same date, Mr Liu Xiao Kun was appointed as an executive director of the Company.

In accordance with the Bye-laws of the Company, Dr Hu Hung Lick, Henry, Mr Li Fat Chung, Ms Wong Lam Kit Yee, Mr Chen Geng, Mr Xie Ke Hai and Mr Liu Xiao Kun 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 Dr Hu Hung Lick, Henry, Mr Li Fat Chung and Ms Wong Lam Kit Yee, and still considers them to be independent.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

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

DIRECTORS' SERVICE CONTRACTS

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

DIRECTORS' REMUNERATION

The directors' fees are subject to shareholders' approval at general meetings. Other emoluments are determined by the Company's board of directors with reference to directors' duties, responsibilities and performance and the results of the Group.

DIRECTORS' INTERESTS IN CONTRACTS

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

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 31 December 2006, the interests and short positions of the directors in the share capital and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), were as follows:

Long positions in ordinary shares of associated corporations:

EC-Founder (Holdings) Company Limited ("EC-Founder"), an associate of the Company

Name of director	**Number of ordinary shares held, capacity and nature of interest**	**Percentage of the associated corporation's issued share capital**
	Directly beneficially owned	
Mr Cheung Shuen Lung	36,890,100	3.35
Professor Xiao Jian Guo	8,703,300	0.79
Professor Wei Xin	3,956,000	0.36
Mr Zhang Zhao Dong	3,956,000	0.36

Long positions in underlying shares of associated corporations:

EC-Founder

Name of director	**Number of share options at 1 January 2006 and 31 December 2006**	**Date of grant of share options**	**Exercise period of share options**	**Exercise price of share options** *HK$ per share*
Mr Cheung Shuen Lung	2,000,000	18.5.2001	18.5.2001 to 17.5.2011	0.450
Mr Cheung Shuen Lung	8,000,000	6.2.2004	7.2.2004 to 5.2.2014	0.381
Professor Wei Xin	2,000,000	18.5.2001	18.5.2001 to 17.5.2011	0.450
Professor Wei Xin	8,000,000	6.2.2004	7.2.2004 to 5.2.2014	0.381
Mr Zhang Zhao Dong	8,000,000	6.2.2004	7.2.2004 to 5.2.2014	0.381
	28,000,000			

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES *(continued)*

The interests of the directors in the share options of the Company are separately disclosed in note 28 to the financial statements.

In addition to the above, Mr Cheung Shuen Lung has non-beneficial personal equity interests in certain subsidiaries held for the benefit of the Company solely for the purpose of complying with the minimum company membership requirements.

Save as disclosed above, as at 31 December 2006, 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' RIGHTS TO ACQUIRE SHARES

Save as disclosed under the heading "Directors' interests and short positions in shares and underlying shares" above and in the share option scheme disclosures in note 28 to the financial statements, at no time during the year were rights to acquire benefits by means of the acquisition of shares in the Company granted to any director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES

At 31 December 2006, 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	Capacity and nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital
北京北大資產經營有限公司 (Peking University Asset Management Company Limited*) *(Note)*	Through a controlled corporation	367,179,610	32.67
北大方正集團有限公司 (Peking University Founder Group Company Limited*) ("Peking Founder")	Directly beneficially owned	367,179,610	32.67

* *For identification purpose only*

Note: 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.

REPORT OF THE DIRECTORS

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES *(continued)*

Save as disclosed above, as at 31 December 2006, no person, other than the directors of the Company, whose interests are set out in the section "Directors' interests and short positions in shares and underlying shares" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

Connected transactions

Details of the connected transactions are set out in notes 33(I)(b), 33(I)(c), 33(I)(d), 33(I)(f) and 33(I)(g) to the financial statements.

Continuing connected transactions

The independent non-executive directors of the Company have reviewed the continuing connected transactions as set out in notes 33(I)(b), 33(I)(c) and 33(I)(d) and have confirmed that the continuing connected transactions have been entered into (i) in the ordinary course of the business of the Group; (ii) either 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 independent third party; 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.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of its directors, the directors confirmed that the Company has maintained the amount of public float as required under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited during the year.

POST BALANCE SHEET EVENT

Details of the significant post balance sheet event of the Group are set out in note 35 to the financial statements.

REPORT OF THE DIRECTORS

AUDITORS

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

ON BEHALF OF THE BOARD

Cheung Shuen Lung
Chairman

Hong Kong
20 April 2007

INDEPENDENT AUDITORS' REPORT

ERNST & YOUNG
安永會計師事務所

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

We have audited the financial statements of Founder Holdings Limited set out on pages 28 to 93, which comprise the consolidated and company balance sheets as at 31 December 2006, and the consolidated income statement, the consolidated summary statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITORS' RESPONSIBILITY

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

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

INDEPENDENT AUDITORS' REPORT *(continued)*

AUDITORS' RESPONSIBILITY *(continued)*

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

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

OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2006 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
18/F, Two International Finance Centre
8 Finance Street, Central
Hong Kong

20 April 2007

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2006

	Notes	2006 HK$'000	2005 HK$'000
REVENUE	5	**2,115,920**	2,593,915
Cost of sales		**(1,816,879)**	(2,284,040)
Gross profit		**299,041**	309,875
Other income and gains	5	**70,978**	88,693
Selling and distribution costs		**(178,547)**	(186,765)
Administrative expenses		**(94,621)**	(107,374)
Other expenses, net		**(61,283)**	(47,241)
Finance costs	7	**(1,480)**	(1,142)
Share of profits and losses of associates		**3,194**	10,250
PROFIT BEFORE TAX	6	**37,282**	66,296
Tax	10	**(1,027)**	(5,052)
PROFIT FOR THE YEAR		**36,255**	61,244
Attributable to:			
Equity holders of the parent	11	**25,911**	47,929
Minority interests		**10,344**	13,315
		36,255	61,244
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT — BASIC	12	**2.3 cents**	4.3 cents

CONSOLIDATED BALANCE SHEET

31 December 2006

	Notes	2006 HK$'000	2005 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**67,769**	63,329
Investment properties	14	**25,360**	23,110
Goodwill	15	**—**	7,055
Interests in associates	17	**95,446**	44,184
Total non-current assets		**188,575**	137,678
CURRENT ASSETS			
Inventories	18	**34,609**	171,076
Systems integration contracts	19	**70,735**	44,743
Trade and bills receivables	20	**181,022**	360,297
Prepayments, deposits and other receivables		**49,087**	119,312
Equity investments at fair value through profit or loss	21	**2,350**	1,981
Pledged deposits	22	**35,581**	72,536
Cash and cash equivalents	23	**230,057**	414,886
Total current assets		**603,441**	1,184,831
CURRENT LIABILITIES			
Trade and bills payables	24	**95,295**	438,263
Other payables and accruals		**287,836**	371,726
Interest-bearing bank borrowings	25	**—**	40,614
Tax payable		**4**	1,012
Total current liabilities		**383,135**	851,615
NET CURRENT ASSETS		**220,306**	333,216
Net assets		**408,881**	470,894
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital	27	**112,380**	112,380
Reserves	29(a)	**290,913**	255,873
		403,293	368,253
Minority interests	29(a)	**5,588**	102,641
Total equity		**408,881**	470,894

Cheung Shuen Lung
Director

Liu Xiao Kun
Director

CONSOLIDATED SUMMARY STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2006

	Notes	2006 HK$'000	2005 HK$'000
Total equity at 1 January		**470,894**	409,391
Changes in equity during the year:			
Exchange differences on translation of the financial statements of foreign entities	*29(a)*	**9,725**	1,804
Revaluation surplus of land and buildings	*29(a)*	**997**	—
Net income recognised directly in equity		**10,722**	1,804
Share of general reserve of associates	*29(a)*	**575**	23
Partial disposal of subsidiaries	*29(a)*	**(109,565)**	—
Deemed partial disposal of subsidiaries	*29(a)*	**—**	16,850
Disposal of subsidiaries	*29(a)*	**—**	(18,418)
Profit for the year	*29(a)*	**36,255**	61,244
Total recognised income and expense for the year		**(62,013)**	61,503
Attributable to:			
Equity holders of the parent		**35,040**	52,658
Minority interests		**(97,053)**	8,845
		(62,013)	61,503
Total equity at 31 December		**408,881**	470,894

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2006

	Notes	2006 HK$'000	2005 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**37,282**	66,296
Adjustments for:			
Finance costs	7	**1,480**	1,142
Share of profits and losses of associates		**(3,194)**	(10,250)
Interest income	5	**(3,002)**	(3,008)
Gain on partial disposal of subsidiaries	5	**(17,810)**	—
Gain on disposal of subsidiaries	5	**—**	(21,939)
Gain on deemed partial disposal of subsidiaries	5	**—**	(10,652)
Loss on disposal of items of property, plant and equipment	6	**126**	216
Depreciation	6	**13,070**	12,692
Fair value losses/(gains) on equity investments at fair value through profit or loss	6	**(162)**	129
Revaluation surplus of land and buildings	5	**(5,121)**	(9,498)
Fair value gains of investment properties	5	**(2,250)**	(7,400)
		20,419	17,728
Increase in inventories		**(22,237)**	(9,804)
Increase in systems integration contracts		**(25,992)**	(146)
Increase in trade and bills receivables		**(154,500)**	(48,991)
Increase in prepayments, deposits and other receivables		**(7,961)**	(46,102)
Increase in equity investments at fair value through profit or loss		**(207)**	(368)
Increase in trade and bills payables		**112,647**	88,395
Increase in other payables and accruals		**11,202**	94,824
Exchange differences		**(5,989)**	(2,576)
Cash generated from/(used in) operations		**(72,618)**	92,960
Interest received		**3,002**	3,008
Interest paid		**(1,438)**	(1,142)
Interest element on finance lease rental payments		**(42)**	—
Hong Kong profits tax refunded/(paid)		**17**	(69)
Overseas taxes paid		**(48)**	(1,524)
Mainland of the People's Republic of China ("Mainland China" or the "PRC") corporate income tax paid		**(2,070)**	(756)
Net cash inflow/(outflow) from operating activities		**(73,197)**	92,477

CONSOLIDATED CASH FLOW STATEMENT *(continued)*

Year ended 31 December 2006

	Notes	2006 HK$'000	2005 HK$'000
Net cash inflow/(outflow) from operating activities		**(73,197)**	92,477
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(16,974)**	(11,480)
Proceeds from disposal of items of property, plant and equipment		**292**	484
Proceeds from deemed partial disposal of subsidiaries		**—**	22,400
Dividends received from associates		**—**	6,780
Decrease in amounts due from associates		**863**	313
Acquisition of a subsidiary	*30(a)*	**—**	15,267
Disposal/partial disposal of subsidiaries	*30(b)*	**(74,490)**	8,954
Decrease/(increase) in time deposits with original maturity of more than three months when acquired		**(59,871)**	1,521
Increase in pledged deposits		**(34,074)**	(10,687)
Net cash inflow/(outflow) from investing activities		**(184,254)**	33,552
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans		**—**	38,400
Decrease in trust receipt loans		**(2,214)**	(13,718)
Capital element of finance lease rental payments		**149**	—
Net cash inflow/(outflow) from financing activities		**(2,065)**	24,682
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**(259,516)**	150,711
Cash and cash equivalents at beginning of year		**412,874**	258,079
Effect of foreign exchange rate changes, net		**14,816**	4,084
CASH AND CASH EQUIVALENTS AT END OF YEAR		**168,174**	412,874
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	*23*	**94,310**	405,304
Non-pledged time deposits with original maturity of less than three months when acquired		**73,864**	7,570
		168,174	412,874

BALANCE SHEET

31 December 2006

	Notes	2006 HK$'000	2005 HK$'000
NON-CURRENT ASSETS			
Interests in subsidiaries	*16*	**248,181**	328,287
Interests in associates	*17*	**82,824**	—
Total non-current assets		**331,005**	328,287
CURRENT ASSETS			
Other receivables		**363**	299
Cash and bank balances	*23*	**245**	48
Total current assets		**608**	347
CURRENT LIABILITIES			
Accruals		**478**	331
NET CURRENT ASSETS		**130**	16
Net assets		**331,135**	328,303
EQUITY			
Issued capital	*27*	**112,380**	112,380
Reserves	*29(b)*	**218,755**	215,923
Total equity		**331,135**	328,303

Cheung Shuen Lung
Director

Liu Xiao Kun
Director

NOTES TO FINANCIAL STATEMENTS

31 December 2006

1. CORPORATE INFORMATION

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

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

- software development and systems integration
- distribution of information products

2.1 BASIS OF PREPARATION

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2006. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The acquisition of subsidiaries during the year has been accounted for using the purchase method of accounting. This method involves allocating the cost of the business combinations to the fair value of the identifiable assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements. Except for in certain cases, giving rise to new and revised accounting policies and additional disclosures, the adoption of these new and revised standards and interpretation has had no material effect on these financial statements.

HKAS 21 Amendment	Net Investment in a Foreign Operation
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease

The principal changes in accounting policies are as follows:

(a) HKAS 21 *The Effects of Changes in Foreign Exchange Rates*

Upon the adoption of the HKAS 21 Amendment regarding a net investment in a foreign operation, all exchange differences arising from a monetary item that forms part of the Group's net investment in a foreign operation are recognised in a separate component of equity in the consolidated financial statements irrespective of the currency in which the monetary item is denominated. This change has had no material impact on these financial statements as at 31 December 2006 or 31 December 2005.

(b) HKAS 39 *Financial Instruments: Recognition and Measurement*

(i) *Amendment for financial guarantee contracts*

This amendment has revised the scope of HKAS 39 to require financial guarantee contracts issued that are not considered insurance contracts, to be recognised initially at fair value and to be remeasured at the higher of the amount determined in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 *Revenue*. The adoption of this amendment has had no material impact on these financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2006

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

(b) HKAS 39 *Financial Instruments: Recognition and Measurement* *(continued)*

(ii) *Amendment for the fair value option*

This amendment has changed the definition of a financial instrument classified as fair value through profit or loss and has restricted the use of the option to designate any financial asset or any financial liability to be measured at fair value through the income statement. The Group had not previously used this option, and hence the amendment has had no effect on the financial statements.

(iii) *Amendment for cash flow hedge accounting of forecast intragroup transactions*

This amendment has revised HKAS 39 to permit the foreign currency risk of a highly probable intragroup forecast transaction to qualify as a hedged item in a cash flow hedge, provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and that the foreign currency risk will affect the consolidated income statement. As the Group currently has no such transactions, the amendment has had no effect on these financial statements.

(c) HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*

The Group has adopted this interpretation as of 1 January 2006, which provides guidance in determining whether arrangements contain a lease to which lease accounting must be applied. This interpretation has had no material impact on these financial statements.

2.3 IMPACT OF 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.

HKAS 1 Amendment	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HKFRS 8	Operating Segments
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 *Financial Reporting in Hyperinflationary Economies*
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment
HK(IFRIC)-Int 11	HKFRS 2 — Group and Treasury Share Transactions
HK(IFRIC)-Int 12	Service Concession Arrangements

NOTES TO FINANCIAL STATEMENTS

31 December 2006

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

The HKAS 1 Amendment shall be applied for annual periods beginning on or after 1 January 2007. The revised standard will affect the disclosures about qualitative information about the Group's objective, policies and processes for managing capital; quantitative data about what the Company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

HKFRS 7 shall be applied for annual periods beginning on or after 1 January 2007. The standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments and also incorporates many of the disclosure requirements of HKAS 32.

HKFRS 8 shall be applied for annual periods beginning on or after 1 January 2009. The standard requires the disclosures of information about the operating segments of the Group, the products and services provided by the segments, the geographical areas in which the Group operates, and revenues from the Group's major customers. This standard will supersede HKAS 14 *Segment Reporting*.

HK(IFRIC)-Int 7, HK(IFRIC)-Int 8, HK(IFRIC)-Int 9, HK(IFRIC)-Int 10, HK(IFRIC)-Int 11 and HK(IFRIC)-Int 12 shall be applied for annual periods beginning on or after 1 March 2006, 1 May 2006, 1 June 2006, 1 November 2006, 1 March 2007 and 1 January 2008, respectively.

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that while the adoption of the HKAS 1 Amendment and HKFRS 7 may result in new or amended disclosures, these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

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

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

Associates

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

NOTES TO FINANCIAL STATEMENTS

31 December 2006

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Associates *(continued)*

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement 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 arising from the acquisition of associates is included as part of the Group's interests in associate. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

The results of associates are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in associates are treated as non-current assets and are stated at cost less any impairment losses.

Goodwill

Goodwill arising on acquisition of subsidiaries and associates represents the excess of the cost of the business combination over the Group's interest in the net fair value of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheets as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses. In the case of associates, goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with HKAS 14 *Segment Reporting*.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised.

NOTES TO FINANCIAL STATEMENTS

31 December 2006

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Goodwill *(continued)*

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

An impairment loss recognised for goodwill is not reversed in a subsequent period.

Prior to the adoption of the HKICPA's Statement of Standard Accounting Practice 30 "Business Combinations" ("SSAP 30") in 2001, goodwill arising on acquisition was eliminated against consolidated reserves in the year of acquisition. On the adoption of HKFRS 3, such goodwill remains eliminated against consolidated reserves and is not recognised in the income statement when all or part of the business to which the goodwill relates is disposed of or when a cash-generating unit to which the goodwill relates becomes impaired.

Impairment of non-financial assets other than goodwill

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2006

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of non-financial assets other than goodwill *(continued)*

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill and certain financial assets is reversed only if there has been a change in the estimates used to determine the recoverable amount of that 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 such impairment loss is credited to the income statement 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, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a member of the key management personnel of the Group or its parent;

(d) the party is a close member of the family of any individual referred to in (a) or (c); or

(e) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (c) or (d).

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 income statement 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 an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

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

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

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

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

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

Investment properties

Investment properties are interests in land and buildings (including the leasehold interest under an operating lease for 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 balance sheet date.

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

NOTES TO FINANCIAL STATEMENTS

31 December 2006

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investment properties *(continued)*

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

Intangible assets (other than goodwill)

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are 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 balance sheet date.

Research and development costs

All research costs are charged to the income statement 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.

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the income statement so as to provide a constant periodic rate of charge over the lease terms.

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2006

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets

Financial assets in the scope of HKAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group considers whether a contract contains an embedded derivative when the Group first becomes a party to it. The embedded derivatives are separated from the host contract which is not measured at fair value through profit or loss when the analysis shows that the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract.

The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

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.

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 are classified as held for trading if they are acquired for the purpose of sale in the near term. Gains or losses on investments held for trading are recognised in the income statement.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortised cost using the effective interest method. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business at the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models.

NOTES TO FINANCIAL STATEMENTS

31 December 2006

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) 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 either directly or through the use of an allowance account. The amount of the impairment loss is recognised in income statement.

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

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of an invoice. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Derecognition of financial assets *(continued)*

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. 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.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities at amortised cost (including interest-bearing loans and borrowings)

Financial liabilities including trade and other payables and interest-bearing loans and borrowings are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

Financial guarantee contracts

Financial guarantee contracts in the scope of HKAS 39 are accounted for as financial liabilities. A financial guarantee contract is recognised initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial guarantee contract, except when such contract is recognised at fair value through profit or loss. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 *Revenue*.

NOTES TO FINANCIAL STATEMENTS

31 December 2006

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Derecognition of financial liabilities

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

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

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax

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

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

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, 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 credits 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 credits 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

- 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 reassessed at each balance sheet date and 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2006

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax *(continued)*

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.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income 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 relevant contracts;

(d) from the disposal of items of property, plant and equipment, 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 an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Employee benefits

Share-based payment transactions

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

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company ("market conditions"), if applicable.

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

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

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

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

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

The Group has adopted the transitional provisions of HKFRS 2 in respect of equity settled awards that were granted on or before 7 November 2002, or granted after 7 November 2002 but have already vested before 1 January 2005.

NOTES TO FINANCIAL STATEMENTS

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Employee benefits *(continued)*

Paid leave carried forward

The Group provides paid annual leave to its employees under their employment contracts on a calendar year basis. Under certain circumstances, such leave which remains untaken as at the balance sheet date is permitted to be carried forward and utilised by the respective employees in the following year. An accrual is made at the balance sheet date for the expected future cost of such paid leave earned during the year by the employees and carried forward.

Retirement benefits schemes

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

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

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

Borrowing costs

Borrowing costs are recognised as expenses in the income statement in the period in which they are incurred.

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 and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to the income statement. 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.

The functional currencies of certain overseas subsidiaries and associates are currencies other than the Hong Kong dollar. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Company at exchange rates ruling at the balance sheet date, and their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are included in the exchange fluctuation reserve. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

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.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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 that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

NOTES TO FINANCIAL STATEMENTS

31 December 2006

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

Judgements *(continued)*

Classification between investment properties and owner-occupied properties

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

Estimation uncertainty

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

Impairment assessment for trade receivables

The policy for impairment assessment for trade receivables of the Group is based on the evaluation of collectability and aging analysis of trade receivables and on management's estimation. A considerable amount of estimation is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each debtor. If the financial conditions of debtors are to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

Provision for obsolete inventories

Management reviews the aging analysis of inventories of the Group at each balance sheet date, 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. The Group carries out an inventory review on a product-by-product basis at each balance sheet date and makes provision for obsolete items.

Percentage of completion of systems integration contracts

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

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

Estimation uncertainty *(continued)*

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill arising from acquisition of associates as at 31 December 2006 was approximately HK$4,245,000 (2005: Nil). The carrying amount of goodwill arising from acquisition of subsidiaries as at 31 December 2005 was approximately HK$7,055,000. More details are given in notes 15 and 17.

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses and other deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The amount of unrecognised deductible temporary differences at 31 December 2006 was approximately HK$438,057,000 (2005: HK$472,867,000). Further details are contained in note 26 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

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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:

(a) the software development and systems integration for media business segment provides electronic publishing and broadcasting systems to media companies;

(b) the software development and systems integration for non-media business segment provides banking and information systems to financial institutions, enterprises and government departments;

(c) the distribution of information products segment engages in the distribution of computer hardware;

(d) the corporate segment comprises corporate income and expense items; and

(e) the "others" segment comprises principally the Group's editing services for newspapers and magazines.

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2006

4. SEGMENT INFORMATION *(continued)*

(a) Business segments

The following tables present revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's business segments for the years ended 31 December 2006 and 2005.

Group

	Software development and systems integration for media business		Software development and systems integration for non-media business		Distribution of information products		Corporate		Others		Eliminations		Consolidated	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue:														
Sales to external customers	**511,634**	510,054	**306,859**	186,626	**1,289,258**	1,876,749	**–**	–	**8,169**	20,486	**–**	–	**2,115,920**	2,593,915
Intersegment sales	**2,077**	3,227	**–**	–	**41,448**	23,903	**–**	–	**–**	–	**(43,525)**	(27,130)	**–**	–
Other income and gains	**34,252**	40,173	**5,545**	5,057	**299**	293	**9,765**	18,105	**305**	118	**–**	–	**50,166**	63,746
Total	**547,963**	553,454	**312,404**	191,683	**1,331,005**	1,900,945	**9,765**	18,105	**8,474**	20,604	**(43,525)**	(27,130)	**2,166,086**	2,657,661
Segment results	**1,251**	15,143	**4,045**	(1,577)	**20,361**	20,773	**(11,300)**	(3,217)	**399**	1,119			**14,756**	32,241
Interest income and unallocated gains													**20,812**	24,947
Finance costs													**(1,480)**	(1,142)
Share of profits and losses of associates	**–**	–	**–**	–	**(1,542)**	–	**–**	–	**–**	–	**–**	–	**3,194**	10,250
Profit before tax													**37,282**	66,296
Tax													**(1,027)**	(5,052)
Profit for the year													**36,255**	61,244

NOTES TO FINANCIAL STATEMENTS

31 December 2006

4. SEGMENT INFORMATION *(continued)*

(a) Business segments *(continued)*

Group

	Software development and systems integration for media business		Software development and systems integration for non-media business		Distribution of information products		Others		Eliminations		Consolidated	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Assets and liabilities												
Segment assets	**366,256**	330,541	**265,990**	135,486	**—**	750,430	**7,411**	8,946	**(427)**	(5,691)	**639,230**	1,219,712
Interests in associates	**13,060**	13,259	**—**	—	**66,008**	—	**—**	—	**—**	—	**95,446**	44,184
Corporate and other unallocated assets	**—**	—	**—**	—	**—**	—	**—**	—	**—**	—	**57,340**	58,613
Total assets											**792,016**	1,322,509
Segment liabilities	**175,350**	155,706	**205,742**	119,280	**—**	538,823	**1,477**	2,780	**—**	(5,361)	**382,569**	811,228
Corporate and other unallocated liabilities	**—**	—	**—**	—	**—**	—	**—**	—	**—**	—	**566**	40,387
Total liabilities											**383,135**	851,615
Other segment information:												
Depreciation	**9,379**	7,925	**1,678**	1,852	**1,249**	1,528	**764**	1,387			**13,070**	12,692
Capital expenditure	**14,112**	7,793	**970**	1,066	**2,452**	1,266	**146**	1,355			**17,680**	11,480

NOTES TO FINANCIAL STATEMENTS

31 December 2006

4. SEGMENT INFORMATION *(continued)*

(b) Geographical segments

The following tables present revenue and certain asset and expenditure information for the Group's geographical segments for the years ended 31 December 2006 and 2005.

Group

	Hong Kong		Mainland China		Overseas		Eliminations		Consolidated	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005
	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	**147,572**	210,335	**1,956,250**	2,311,594	**12,098**	71,986	**–**	–	**2,115,920**	2,593,915
Intersegment sales	**284,576**	314,912	**–**	140	**–**	–	**(284,576)**	(315,052)	**–**	–
Other income and gains	**10,890**	29,117	**37,709**	30,515	**1,567**	4,114	**–**	–	**50,166**	63,746
Total	**443,038**	554,364	**1,993,959**	2,342,249	**13,665**	76,100	**(284,576)**	(315,052)	**2,166,086**	2,657,661

Group

	Hong Kong		Mainland China		Overseas		Consolidated	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Other segment information:								
Segment assets	**148,342**	207,056	**618,656**	1,088,953	**25,018**	26,500	**792,016**	1,322,509
Capital expenditure	**146**	62	**17,532**	9,062	**2**	2,356	**17,680**	11,480

NOTES TO FINANCIAL STATEMENTS

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5. REVENUE, OTHER INCOME AND GAINS

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

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

		Group	
		2006	2005
	Notes	***HK$'000***	*HK$'000*
Revenue			
Software development and systems integration		**818,493**	696,680
Distribution of information products		**1,289,258**	1,876,749
Others		**8,169**	20,486
		2,115,920	2,593,915
Other income			
Bank interest income		**3,002**	3,008
Gross rental income		**1,965**	1,545
Government grants *(Note)*		**35,974**	26,014
Others		**4,564**	5,346
		45,505	35,913
Gains			
Revaluation surplus of land and buildings		**5,121**	9,498
Fair value gains on investment properties	*14*	**2,250**	7,400
Gain on partial disposal of subsidiaries	*30(b)*	**17,810**	—
Gain on disposal of subsidiaries	*30(b)*	**—**	21,939
Gain on deemed partial disposal of subsidiaries		**—**	10,652
Others		**292**	3,291
		25,473	52,780
		70,978	88,693

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 sale of approved software and completion of the development of related software, respectively. There are no unfulfilled conditions or contingencies relating to these grants.

NOTES TO FINANCIAL STATEMENTS

31 December 2006

6. PROFIT BEFORE TAX

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

	Group	
	2006	2005
	HK$'000	*HK$'000*
Auditors' remuneration	**3,095**	3,766
Cost of inventories sold	**1,701,794**	2,184,362
Cost of services provided	**41,567**	33,530
Depreciation (note 13)	**13,070**	12,692
Loss on disposal of items of property, plant and equipment	**126**	216
Operating lease rentals in respect of land and buildings	**18,824**	24,634
Impairment of trade receivables*	**7,466**	4,468
Provision and write-off/(reversal of provision) of obsolete inventories**	**(973)**	1,010
Research and development costs:		
Current year expenditure*	**53,817**	42,457
Employee benefits expense (including directors' remuneration — note 8):		
Wages and salaries	**145,480**	158,182
Pension schemes contributions	**21,827**	16,743
Less: Forfeited contributions	**—**	(25)
Net pension schemes contributions***	**21,827**	16,718
	167,307	174,900
Direct operating expenses (including repair and maintenance) arising on rental-earning investment properties	**1,018**	930
Fair value losses/(gains) on equity investments at fair value through profit or loss	**(162)**	129
Foreign exchange differences, net	**2,002**	(1,325)
Write off of other receivables	**—**	169

* These items are included in "Other expenses, net" on the face of the consolidated income statement.

** This item is included in "Cost of sales" on the face of the consolidated income statement.

*** At 31 December 2006, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (2005: HK$25,000).

NOTES TO FINANCIAL STATEMENTS

31 December 2006

7. FINANCE COSTS

	Group 2006 HK$'000	Group 2005 HK$'000
Interest on bank loans and overdrafts	**1,438**	1,142
Interest on finance lease	**42**	—
	1,480	1,142

8. DIRECTORS' REMUNERATION

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

	Group 2006 HK$'000	Group 2005 HK$'000
Fees	**1,124**	1,237
Other emoluments:		
Salaries, bonuses and benefits in kind	**1,466**	1,370
Pension schemes contributions	**60**	60
	1,526	1,430
	2,650	2,667

(a) Independent non-executive directors

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

	2006 HK$'000	2005 HK$'000
Dr Hu Hung Lick, Henry	**132**	141
Mr Li Fat Chung	**202**	261
Ms Wong Lam Kit Yee	**190**	240
	524	642

There were no other emoluments payable to the independent non-executive directors during the year (2005: Nil).

8. DIRECTORS' REMUNERATION *(continued)*

(b) Executive directors

	Fees	Salaries, bonuses and benefits in kind	Pension schemes contributions	Total remuneration
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
2006				
Mr Cheung Shuen Lung	**120**	**1,200**	**60**	**1,380**
Professor Xiao Jian Guo	**120**	**266**	**—**	**386**
Professor Wei Xin	**120**	**—**	**—**	**120**
Mr Zhang Zhao Dong	**120**	**—**	**—**	**120**
Mr Xia Yang Jun	**120**	**—**	**—**	**120**
Mr Chen Geng	**—**	**—**	**—**	**—**
Mr Xie Ke Hai	**—**	**—**	**—**	**—**
	600	**1,466**	**60**	**2,126**
2005				
Mr Cheung Shuen Lung	120	1,200	60	1,380
Professor Xiao Jian Guo	120	170	—	290
Professor Wei Xin	120	—	—	120
Mr Zhang Zhao Dong	120	—	—	120
Mr Xia Yang Jun	115	—	—	115
	595	1,370	60	2,025

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

NOTES TO FINANCIAL STATEMENTS

31 December 2006

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included one (2005: one) director, details of whose remuneration are set out in note 8 to the financial statements above. Details of the remuneration of the remaining four (2005: four) non-director, highest paid employees for the year are as follows:

	Group	
	2006	2005
	HK$'000	*HK$'000*
Salaries, allowances and benefits in kind	**3,929**	3,733
Performance related bonuses	**—**	1,069
Pension schemes contributions	**64**	163
	3,993	4,965

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

	Number of employees	
	2006	2005
Nil — HK$1,000,000	**3**	1
HK$1,000,001 — HK$1,500,000	**1**	2
HK$1,500,001 — HK$2,000,000	**—**	1
	4	4

10. TAX

	Group	
	2006	2005
	HK$'000	*HK$'000*
Current — Hong Kong	**8**	16
Current — Elsewhere	**1,019**	2,645
Deferred (note 26)	**—**	2,391
Total tax charge for the year	**1,027**	5,052

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 17.5%) on the estimated assessable profits arising in Hong Kong during the year.

NOTES TO FINANCIAL STATEMENTS

31 December 2006

10. TAX *(continued)*

Taxes on overseas profits have been calculated at the applicable rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

The PRC corporate income tax provision in respect of operations in the PRC is calculated at the applicable tax rates on the estimated assessable profits for the year based on existing legislation, interpretations and practices in respect thereof.

北京方正阿帕比技術有限公司(Beijing Founder Apabi Technology Co., Ltd.*)("PRC Apabi"), a wholly-owned PRC subsidiary of the Group, is exempted from PRC corporate income tax for the three fiscal years which commenced in 2006 and ending on 31 December 2008 and, thereafter, will be taxed at 50% of its standard tax rate in the fourth to sixth years, inclusive. At present, the standard tax rate applicable to PRC Apabi is 15%.

The share of tax attributable to associates amounting to approximately HK$1,819,000 (2005: HK$2,853,000) is included in "Share of profits and losses of associates" on the face of the consolidated income statement.

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

Group — 2006

	Hong Kong		Mainland China		Overseas		Total	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Profit/(loss) before tax	4,294		33,457		(469)		37,282	
Tax at the statutory tax rate	752	17.5	11,041	33.0	(188)	40.0	11,605	31.1
Lower tax rate for specific provinces or local authority	—	—	(7,159)	(21.4)	(96)	20.5	(7,255)	(19.5)
Profits and losses attributable to associates	(511)	(11.9)	—	—	(25)	5.4	(536)	(1.4)
Income not subject to tax	(6,041)	(140.7)	(6,574)	(19.6)	(134)	28.6	(12,749)	(34.2)
Expenses not deductible for tax	3,241	75.5	2,682	8.0	491	(104.7)	6,414	17.2
Tax losses utilised from previous years	(418)	(9.7)	(1,767)	(5.3)	—	—	(2,185)	(5.8)
Tax losses not recognised	2,985	69.5	2,748	8.2	—	—	5,733	15.4
Tax charge at the Group's effective rate	8	0.2	971	2.9	48	(10.2)	1,027	2.8

** For identification purpose only*

NOTES TO FINANCIAL STATEMENTS

31 December 2006

10. TAX *(continued)*

Group — 2005

	Hong Kong		Mainland China		Overseas		Total	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Profit/(loss) before tax	37,610		30,932		(2,246)		66,296	
Tax at the statutory tax rate	6,582	17.5	10,208	33.0	(898)	40.0	15,892	24.0
Lower tax rate for specific provinces or local authority	—	—	(7,179)	(23.2)	(148)	6.5	(7,327)	(11.0)
Profits and losses attributable to associates	(2,034)	(5.4)	—	—	377	(16.7)	(1,657)	(2.5)
Income not subject to tax	(7,048)	(18.7)	(4,059)	(13.1)	(598)	26.6	(11,705)	(17.7)
Expenses not deductible for tax	1,231	3.3	4,290	13.9	2,065	(91.9)	7,586	11.4
Tax losses utilised from previous years	(1,259)	(3.4)	(1,413)	(4.6)	—	—	(2,672)	(4.0)
Tax losses not recognised	2,544	6.8	2,391	7.7	—	—	4,935	7.4
Tax charge at the Group's effective rate	16	0.1	4,238	13.7	798	(35.5)	5,052	7.6

11. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The consolidated profit attributable to equity holders of the parent for the year ended 31 December 2006 includes a profit of approximately HK$2,832,000 (2005: HK$12,708,000) which has been dealt with in the financial statements of the Company (note 29(b)).

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

The calculation of basic earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent of approximately HK$25,911,000 (2005: HK$47,929,000), and the weighted average number of approximately 1,123,800,000 (2005: 1,123,800,000) ordinary shares in issue during the year.

Diluted earnings per share amounts for the years ended 31 December 2006 and 2005 have not been calculated as the impact of the outstanding share options did not have a dilutive effect for both years presented.

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13. PROPERTY, PLANT AND EQUIPMENT

Group

	Land and buildings in Hong Kong HK$'000	Land and buildings in Mainland China HK$'000	Leasehold improvements HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
31 December 2006						
At 31 December 2005 and 1 January 2006:						
Cost or valuation	25,100	14,268	9,329	67,656	13,479	129,832
Accumulated depreciation	—	(1,850)	(7,990)	(50,347)	(6,316)	(66,503)
Net carrying amount	25,100	12,418	1,339	17,309	7,163	63,329
At 1 January 2006, net of accumulated depreciation	25,100	12,418	1,339	17,309	7,163	63,329
Additions	—	320	3,281	13,188	891	17,680
Partial disposal of subsidiaries *(note 30(b))*	—	—	—	(4,324)	(2,852)	(7,176)
Disposals	—	—	—	(194)	(224)	(418)
Surplus on revaluation	6,118	—	—	—	—	6,118
Depreciation provided during the year	(298)	(446)	(1,228)	(9,768)	(1,330)	(13,070)
Exchange realignment	—	479	56	566	205	1,306
At 31 December 2006, net of accumulated depreciation	30,920	12,771	3,448	16,777	3,853	67,769
At 31 December 2006:						
Cost or valuation	30,920	15,138	12,737	64,165	10,359	133,319
Accumulated depreciation	—	(2,367)	(9,289)	(47,388)	(6,506)	(65,550)
Net carrying amount	30,920	12,771	3,448	16,777	3,853	67,769
Analysis of cost or valuation:						
At cost	—	15,138	12,737	64,165	10,359	102,399
At 31 December 2006 valuation	30,920	—	—	—	—	30,920
	30,920	15,138	12,737	64,165	10,359	133,319

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

Group

	Land and buildings in Hong Kong *HK$'000*	Land and buildings in Mainland China *HK$'000*	Leasehold improvements *HK$'000*	Furniture, fixtures and office equipment *HK$'000*	Motor vehicles *HK$'000*	Total *HK$'000*
31 December 2005						
At 1 January 2005:						
Cost or valuation	15,900	13,971	9,229	79,452	14,055	132,607
Accumulated depreciation	—	(1,526)	(7,049)	(51,792)	(5,353)	(65,720)
Net carrying amount	15,900	12,445	2,180	27,660	8,702	66,887
At 1 January 2005, net of accumulated depreciation	15,900	12,445	2,180	27,660	8,702	66,887
Additions	—	—	422	11,058	—	11,480
Acquisition of a subsidiary *(note 30(a))*	—	—	—	656	—	656
Disposal of subsidiaries *(note 30(b))*	—	—	(290)	(11,777)	—	(12,067)
Disposals	—	—	—	(477)	(223)	(700)
Surplus on revaluation	9,498	—	—	—	—	9,498
Depreciation provided during the year	(298)	(291)	(982)	(9,637)	(1,484)	(12,692)
Exchange realignment	—	264	9	(174)	168	267
At 31 December 2005, net of accumulated depreciation	25,100	12,418	1,339	17,309	7,163	63,329
At 31 December 2005:						
Cost or valuation	25,100	14,268	9,329	67,656	13,479	129,832
Accumulated depreciation	—	(1,850)	(7,990)	(50,347)	(6,316)	(66,503)
Net carrying amount	25,100	12,418	1,339	17,309	7,163	63,329
Analysis of cost or valuation:						
At cost	—	14,268	9,329	67,656	13,479	104,732
At 31 December 2005 valuation	25,100	—	—	—	—	25,100
	25,100	14,268	9,329	67,656	13,479	129,832

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

The Group's land and buildings in Hong Kong were revalued on 31 December 2006 by Centaline Surveyors Ltd., independent professionally qualified valuers, on an open market value, existing use basis.

Had the Group's land and buildings in Hong Kong been carried at historical cost less accumulated depreciation, their carrying amounts would have been approximately HK$31,332,000 (2005: HK$32,172,000).

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

	Hong Kong	**Mainland China**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
At cost:			
Long term leases	—	15,138	15,138
At valuation:			
Medium term leases	30,920	—	30,920
	30,920	15,138	46,058

At 31 December 2006 and 2005, the Group's land and buildings with a net book value of approximately HK$29,630,000 (2005: HK$25,100,000) in Hong Kong were pledged to banks to secure banking facilities (note 25).

14. INVESTMENT PROPERTIES

	Group	
	2006	2005
	HK$'000	*HK$'000*
Carrying amount at 1 January	**23,110**	15,710
Net profit from a fair value adjustment	**2,250**	7,400
Carrying amount at 31 December	**25,360**	23,110

The Group's investment properties were revalued on 31 December 2006 by Centaline Surveyors Ltd., independent professionally qualified valuers, on an open market value, existing use basis. The investment properties are leased to third parties under operating leases, further summary details of which are included in note 32(a) to the financial statements.

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

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14. INVESTMENT PROPERTIES *(continued)*

At 31 December 2006, certain of the Group's investment properties with an aggregate carrying value of approximately HK$24,930,000 (2005: HK$23,110,000) were pledged to banks to secure banking facilities (note 25).

Further particulars of the Group's investment properties are included on pages 94 to 95 of the Annual Report.

15. GOODWILL

	Group	
	2006	2005
	HK$'000	*HK$'000*
Cost, net of accumulated amortisation:		
At 1 January	**7,055**	9,583
Disposal/partial disposal of subsidiaries	**(7,055)**	(2,528)
At 31 December	**—**	7,055
Accumulated impairment:		
At 1 January	**—**	2,528
Disposal of subsidiaries	**—**	(2,528)
At 31 December	**—**	—
Net carrying amount at 31 December	**—**	7,055

As further detailed in note 2.4 to the financial statements, the Group applied the transitional provisions of HKFRS 3 that permitted goodwill in respect of business combinations which occurred prior to 2001, to remain eliminated against consolidated reserves.

The amount of the goodwill remaining in consolidated contributed surplus as at 31 December 2006 and 2005, arising from the acquisition of subsidiaries prior to the adoption of SSAP 30 in 2001, was approximately HK$284,760,000 which was fully impaired in prior year.

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16. INTERESTS IN SUBSIDIARIES

	Company	
	2006	2005
	HK$'000	*HK$'000*
Unlisted shares, at cost	**559,088**	559,088
Shares listed in Hong Kong, at cost	**—**	388,090
Due to a subsidiary	**(310,907)**	(375,687)
	248,181	571,491
Impairment	**—**	(243,204)
	248,181	328,287
Market value of listed shares	**—**	144,886

The amount due to a subsidiary is unsecured, interest-free and has no fixed terms of repayment. The carrying amount of this amount due to a subsidiary approximates to its fair value.

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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 Direct	Indirect	Principal activities
Founder (Hong Kong) Limited ("Founder HK")	Hong Kong	Ordinary HK$110,879,989	100	—	Systems integration and investment holding
Beijing Founder Electronics Co., Ltd. ("Founder Electronics")#	Mainland China	Registered HK$230 million	—	100	Software development and systems integration
北京方正印捷數碼技術有限公司 (Beijing Founder EasiPrint Digital Technology Co., Ltd.@)#	Mainland China	Registered RMB10 million	—	100	Provision of digital printing services
Founder Apabi International Limited**	British Virgin Islands/ Hong Kong	Ordinary US$1	—	100	Investment holding
PRC Apabi#**	Mainland China	Registered HK$60 million	—	100	Software development
Founder Electronics (HK) Limited	Hong Kong	Ordinary HK$2	—	100	Systems integration
Sparkling Idea Limited	British Virgin Islands/ Hong Kong	Ordinary US$1	—	100	Investment holding

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16. INTERESTS IN SUBSIDIARIES *(continued)*

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Beijing Founder Order Computer System Co., Ltd. ("Founder Order")#	Mainland China	Registered HK$100 million	—	100	Software development and systems integration
Founder Systems (BVI) Limited	British Virgin Islands/ Mainland China	Ordinary US$1	—	100	Systems integration
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
Founder Technology (Canada) Corp.*	Canada	Ordinary CAN$67,633	—	100	Systems integration
PUC Founder (M) Sdn. Bhd.*	Malaysia	Ordinary RM500,0000	—	100	Investment holding

@ *For identification purpose only*

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

** Incorporated during the year

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

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

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17. INTERESTS IN ASSOCIATES

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Share listed in Hong Kong, at cost	**—**	—	**233,529**	—
Share of net assets	**90,026**	42,146	**—**	—
Goodwill on acquisition	**4,245**	—	**—**	—
Due from associates	**1,175**	2,038	**—**	—
	95,446	44,184	**233,529**	—
Provision for impairment	**—**	—	**(150,705)**	—
	95,446	44,184	**82,824**	—
Market value of listed shares	**—**	—	**82,824**	—

Impairment testing of goodwill

Goodwill acquired through business combination has been allocated to the distribution of information products cash-generating unit for impairment testing. The recoverable amount of the distribution of information products cash-generating unit was determined based on the fair value less costs to sell which was based on the market value of listed shares of an associate less the costs of disposal.

The amounts due from associates are unsecured, interest-free and have no fixed terms of repayment, except for an amount due from an associate of approximately HK$859,000 (2005: HK$807,000) which bears interest at 3.7% per annum.

The Group's trade receivables and payables balances with the associates are disclosed in notes 20 and 24 to the financial statements, respectively.

17. INTERESTS IN ASSOCIATES *(continued)*

Particulars of the principal associates are as follows:

Name	Particulars of issued share/registered capital held	Place of incorporation/ registration and operations	Percentage of ownership interest attributable to the Group 2006	2005	Principal activities
EC-Founder (Holdings) Company Limited ("EC-Founder")**	Ordinary shares of HK$0.10 each	Bermuda/ Hong Kong	**33.00**	54.85	Investment holding
Beijing Founder Century Information System Co., Ltd.@	RMB150,000,000	Mainland China	**33.00**	54.85	Distribution of information products
Founder Century (Hong Kong) Limited	Ordinary shares of HK$1 each	Hong Kong	**33.00**	54.85	Distribution of information products
PUC Founder (MSC) Berhad*#	Ordinary shares of RM0.1 each	Malaysia	**35.70**	35.90	Software development and systems integration
Founder Globaltech Limited*	Ordinary shares of HK$1 each	Hong Kong	**35.70**	35.90	Systems integration

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

** Listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange")

\# Listed on MESDAQ Market of Bursa Malaysia Securities Berhad

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

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17. INTERESTS IN ASSOCIATES *(continued)*

During the year, the Group partially disposed of certain equity interest in EC-Founder, the then subsidiary of the Group. EC-Founder becomes an associate of the Group thereafter. Further details of this partial disposal are included in note 30(b) to the financial statements.

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.

Except for EC-Founder, which is held directly by the Company, the shareholdings in the other associates are held through subsidiaries.

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

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

	2006	2005
	HK$'000	*HK$'000*
		(Restated)
Assets	**314,533**	91,955
Liabilities	**224,516**	49,807
Revenue	**779,406**	474,436
Profit after tax	**3,194**	10,250

18. INVENTORIES

	Group	
	2006	2005
	HK$'000	*HK$'000*
Trading stocks	**34,609**	171,076

19. SYSTEMS INTEGRATION CONTRACTS

	Group	
	2006	2005
	HK$'000	*HK$'000*
Gross amount due from contract customers	**70,735**	44,743
Gross amount due to contract customers	**—**	—
	70,735	44,743
Contract costs incurred plus recognised profits less recognised losses and foreseeable losses to date	**136,207**	77,636
Less: Progress billings	**(65,472)**	(32,893)
	70,735	44,743

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. Trade and bills receivables are settled in accordance with the terms of the respective contracts. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

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

	Group	
	2006	2005
	HK$'000	*HK$'000*
Within 6 months	**155,925**	326,949
7-12 months	**12,232**	18,775
13-24 months	**12,033**	13,201
Over 24 months	**832**	1,372
	181,022	360,297

Included in the Group's trade and bills receivables are amounts due from the Group's related companies and associates of approximately HK$61,000 (2005: HK$1,585,000) and HK$2,579,000 (2005: HK$2,970,000), respectively, which are repayable on similar credit terms to those offered to the major customers of the Group.

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21. EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group	
	2006	2005
	HK$'000	*HK$'000*
Overseas listed equity investments, at market value	**2,350**	1,718
Overseas mutual fund, at market value	**—**	263
	2,350	1,981

The above equity investments at 31 December 2005 and 2006 were classified as held for trading.

22. PLEDGED DEPOSITS

The Group's bank deposits were pledged to banks to secure the banking facilities granted to the Group. The carrying amounts of the pledged deposits approximate to their fair values.

23. CASH AND CASH EQUIVALENTS

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Cash and bank balances	**94,310**	405,304	**245**	48
Time deposits	**135,747**	9,582	**—**	—
	230,057	414,886	**245**	48

At the balance sheet date, the cash and cash equivalents of the Group denominated in Renminbi ("RMB") amounted to approximately HK$218,296,000 (2005: HK$384,068,000). 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.

Cash at bank 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 carrying amounts of the cash and cash equivalents approximate to their fair values.

24. TRADE AND BILLS PAYABLES

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

	Group	
	2006	2005
	HK$'000	*HK$'000*
Within 6 months	**90,693**	433,201
7-12 months	**938**	1,326
13-24 months	**2,525**	1,935
Over 24 months	**1,139**	1,801
	95,295	438,263

Included in the Group's trade and bills payables are amounts due to the Group's related companies and associates of approximately HK$5,521,000 (2005: HK$3,318,000) and HK$11,647,000 (2005: HK$349,000), respectively, which are repayable on similar credit terms to those obtained from the major suppliers of the Group.

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

25. INTEREST-BEARING BANK BORROWINGS

Group

		2005		
	2006	**Effective interest rate**		
	HK$'000	**(%)**	**Maturity**	**HK$'000**
Trust receipt loans, secured	—	5.580 - 5.674	2006 or on demand	2,214
Bank loan, unsecured	—	5.859	2006	38,400
	—			40,614

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

Notes:

(a) The Group's trade finance facilities at the balance sheet date were secured by:

(i) charges over certain of the Group's investment properties which had an aggregate carrying value at the balance sheet date of approximately HK$24,930,000 (2005: HK$23,110,000);

(ii) charges over certain of the Group's land and buildings in Hong Kong which had an aggregate net book value at the balance sheet date of approximately HK$29,630,000 (2005: HK$25,100,000); and

(iii) the pledge of the Group's bank deposits amounting to approximately HK$35,581,000 (2005: HK$72,536,000).

(b) The trust receipt loans and bank loan of the Group borne interests at floating interest rates and fixed interest rate respectively.

26. 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

	HK$'000
At 1 January 2005	2,366
Deferred tax charged to the income statement during the year (note 10)	(2,391)
Exchange realignment	25
Gross and net deferred tax assets at 31 December 2005 and 2006	—

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

	Group	
	2006	2005
	HK$'000	*HK$'000*
Depreciation allowances in excess of related depreciation	**(2,193)**	1,803
Tax losses	**440,025**	468,038
General provision for obsolete inventories	**46**	1,114
Impairment of trade receivables	**179**	1,912
	438,057	472,867

26. DEFERRED TAX *(continued)*

The unused tax losses include an amount of approximately HK$164,308,000 (2005: HK$153,320,000) arising in Mainland China that is due to expire within one 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 not generated any assessable profits for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

At 31 December 2006, there was no significant unrecognised deferred tax liability (2005: 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.

27. SHARE CAPITAL

	Group and Company	
	2006	2005
	HK$'000	*HK$'000*
Authorised:		
2,100,000,000 ordinary shares of HK$0.10 each	**210,000**	210,000
Issued and fully paid:		
1,123,799,893 ordinary shares of HK$0.10 each	**112,380**	112,380

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28. SHARE OPTION SCHEME

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

The purpose of the scheme is to recognise and acknowledge the contributions or potential contributions made or to be made by the participants to the Group, to motivate the participants to optimise their performance and efficiency for the benefit of the Group, and to maintain or attract business relationships with participants whose contributions are or may be beneficial to the growth of the Group. Eligible participants of the scheme include (i) any part-time or full-time employee or officer of any member of the Group or of any substantial shareholder of the Company or of any associated company of the Company; (ii) any substantial shareholder of the Company; (iii) the chief executive or director (executive, non-executive or independent non-executive) of any member of the Group or of any substantial shareholder of the Company or of any associated company of the Company; and (iv) any supplier, agent, customer, partner or business associate of, or adviser or consultant to any member of the Group. The scheme became effective on 24 May 2002 and, 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 as at the date when the scheme was approved by the shareholders of the Company in a general meeting. The maximum number of shares issuable under share options to each eligible participant in the scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

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

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

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

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28. SHARE OPTION SCHEME *(continued)*

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

The following share options were outstanding under the share option scheme at 1 January 2006 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 **
	At 1 January 2006	Lapsed during the year	At 31 December 2006			*HK$ per share*
Directors						
Mr Cheung Shuen Lung	8,000,000	—	8,000,000	5.2.2004	6.2.2004 to 4.2.2014	1.104
Professor Xiao Jian Guo	8,000,000	—	8,000,000	5.2.2004	6.2.2004 to 4.2.2014	1.104
Professor Wei Xin	8,000,000	—	8,000,000	5.2.2004	6.2.2004 to 4.2.2014	1.104
Mr Zhang Zhao Dong	8,000,000	—	8,000,000	5.2.2004	6.2.2004 to 4.2.2014	1.104
Subtotal	32,000,000	—	32,000,000			
Other employees						
In aggregate	51,500,000	(26,000,000)	25,500,000	2.1.2004	3.1.2004 to 31.12.2013	0.840
Total	83,500,000	(26,000,000)	57,500,000			

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

* 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.

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28. SHARE OPTION SCHEME *(continued)*

At the balance sheet date, the Company had 57,500,000 share options outstanding under the share option scheme. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 57,500,000 additional ordinary shares of the Company and additional share capital of HK$5,750,000 and share premium of HK$50,998,000 (before issue expenses).

29. RESERVES

(a) Group

	Attributable to equity holders of the parent									
	Share premium account HK$'000	Contributed surplus HK$'000	Capital reserve HK$'000	Land and buildings revaluation reserve HK$'000	Exchange fluctuation reserve HK$'000	General reserve HK$'000	Retained profits/ (accumulated losses) HK$'000	Total HK$'000	Minority interests HK$'000	Total HK$'000
At 1 January 2005	27,660	867,910	74,942	601	(387)	43,179	(810,690)	203,215	93,796	297,011
Exchange realignment	—	—	—	—	1,610	—	—	1,610	194	1,804
Disposal of subsidiaries	—	—	(81,909)	—	3,253	—	81,909	3,253	(21,671)	(18,418)
Deemed partial disposal of subsidiaries	—	—	—	—	(157)	—	—	(157)	17,007	16,850
Share of general reserve of associates	—	—	—	—	—	23	—	23	—	23
Profit for the year	—	—	—	—	—	—	47,929	47,929	13,315	61,244
Transfer to general reserve	—	—	—	—	—	1,597	(1,597)	—	—	—
Transfer to capital reserve	—	—	10,652	—	—	—	(10,652)	—	—	—
At 31 December 2005 and beginning of year	27,660	867,910	3,685	601	4,319	44,799	(693,101)	255,873	102,641	358,514
Exchange realignment	—	—	—	—	8,813	—	—	8,813	912	9,725
Partial disposal of subsidiaries	—	—	—	—	(1,256)	(624)	624	(1,256)	(108,309)	(109,565)
Share of general reserve of associates	—	—	—	—	—	575	—	575	—	575
Profit for the year	—	—	—	—	—	—	25,911	25,911	10,344	36,255
Revaluation surplus	—	—	—	997	—	—	—	997	—	997
Transfer to general reserve	—	—	—	—	—	68	(68)	—	—	—
At 31 December 2006	27,660	867,910	3,685	1,598	11,876	44,818	(666,634)	290,913	5,588	296,501

The contributed surplus of the Group represented the difference between 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.

The capital reserve of the Group arose from the increase in the non-distributable reserve of an associate.

NOTES TO FINANCIAL STATEMENTS

31 December 2006

29. RESERVES *(continued)*

(a) Group *(continued)*

In accordance with the relevant PRC regulations, each of the Group's PRC subsidiaries and associates is required to transfer not less than 10% of its profit after tax, as determined in accordance with PRC accounting standards and regulations, to the general reserve until such reserve reaches 50% of its registered capital. The quantum of the annual transfer is subject to the approval of the board of directors of the PRC subsidiaries and associates in accordance with their articles of association. During the year, a PRC associate transferred approximately HK$557,000, which represented the share of 10% of the PRC associate's profit after tax for the year ended 31 December 2006 as determined in accordance with the PRC accounting standards, to the general reserve.

In accordance with the relevant Taiwanese regulations, each of the Group's Taiwanese subsidiaries and associates is required to transfer not less than 10% of its profit after tax, as determined in accordance with Taiwanese accounting standards and regulations, to the general reserve. During the year, the Taiwanese subsidiaries and associates transferred in total approximately HK$86,000, which represented 10% of their profit after tax, to the general reserve.

(b) Company

	Share premium account	Contributed surplus	Retained profits/ (accumulated losses)	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2005	27,660	448,209	(272,654)	203,215
Profit for the year	—	—	12,708	12,708
At 31 December 2005 and beginning of year	27,660	448,209	(259,946)	215,923
Profit for the year	—	—	2,832	2,832
At 31 December 2006	27,660	448,209	(257,114)	218,755

The contributed surplus of the Company 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2006

30. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Acquisition of a subsidiary

	2005 Fair value recognised on acquisition and carrying amount *HK$'000*
Property, plant and equipment	656
Inventories	429
Trade and bills receivables	7,561
Prepayments, deposits and other receivables	6,381
Cash and bank balances	15,267
Trade payables	(6,320)
Other payables and accruals	(18,872)
Minority interests	(2,569)
	2,533
Satisfied by:	
Issue of shares by a subsidiary	2,533

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

	2005 *HK$'000*
Cash and bank balances acquired	15,267

Since its acquisition in 2005, the subsidiary contributed approximately HK$4,496,000 to the Group's consolidated revenue and approximately HK$227,000 to the Group's consolidated profit after tax for the year ended 31 December 2005.

The impact on consolidated revenue and profit after tax of the Group was immaterial had the acquisition taken place at the beginning of the year 2005.

NOTES TO FINANCIAL STATEMENTS

31 December 2006

30. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(continued)*

(b) Disposal/partial disposal of subsidiaries

	2006	2005
	HK$'000	*HK$'000*
Net assets disposed of:		
Property, plant and equipment	**7,176**	12,067
Interests in associates	**34,946**	387
Inventories	**158,704**	1,251
Systems integration contracts	**—**	11,229
Trade and bills receivables	**333,775**	25,798
Prepayments, deposits and other receivables	**78,186**	13,596
Tax recoverable	**66**	—
Pledged deposits	**71,029**	—
Cash and cash equivalents	**143,011**	35,600
Trade and bills payables	**(455,615)**	(14,974)
Other payables and accruals	**(95,092)**	(43,921)
Interest-bearing bank borrowings	**(39,000)**	—
Finance lease payable	**(557)**	—
Exchange fluctuation reserve	**(1,256)**	3,253
Minority interests	**(108,309)**	(21,671)
Net assets	**127,064**	22,615
Goodwill arising on acquisition	**2,810**	—
	129,874	22,615
Gain on disposal/partial disposal of subsidiaries *(note 5)*	**17,810**	21,939
	147,684	44,554
Satisfied by:		
Cash	**68,521**	44,554
Interests in associates	**79,163**	—
	147,684	44,554

NOTES TO FINANCIAL STATEMENTS

31 December 2006

30. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(continued)*

(b) Disposal/partial disposal of subsidiaries *(continued)*

An analysis of the net inflow/(outflow) of cash and cash equivalents in respect of the disposal/partial disposal of subsidiaries is as follows:

	2006	2005
	HK$'000	*HK$'000*
Cash consideration	**68,521**	44,554
Cash and cash equivalents disposed of	**(143,011)**	(35,600)
Net inflow/(outflow) of cash and cash equivalents in respect of the disposal/partial disposal of subsidiaries	**(74,490)**	8,954

The results of the subsidiaries partially disposed of during the year ended 31 December 2006 contributed approximately HK$1,289,258,000 to the Group's consolidated turnover and profit of approximately HK$12,155,000 to the Group's consolidated profit after tax for that year.

The results of the subsidiaries disposed of during the year ended 31 December 2005 contributed approximately HK$61,925,000 to the Group's consolidated turnover and loss of approximately HK$567,000 to the Group's consolidated profit after tax for that year.

(c) Major non-cash transaction

During the year, the Group entered into a finance lease arrangement in respect of property, plant and equipment with a total capital value at the inception of the lease of approximately HK$706,000 (2005: Nil).

31. CONTINGENT LIABILITIES

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

	Company	
	2006	2005
	HK$'000	*HK$'000*
Guarantees given to banks in connection with facilities granted to subsidiaries	**58,000**	50,000
Guarantees given to suppliers in connection with credit facilities granted to subsidiaries	**12,761**	—
	70,761	50,000

NOTES TO FINANCIAL STATEMENTS

31 December 2006

31. CONTINGENT LIABILITIES *(continued)*

As at 31 December 2006, the banking facilities granted to the subsidiaries subject to guarantees given to the banks by the Company were utilised to the extent of approximately HK$21,805,000 (2005: HK$16,651,000).

As at 31 December 2006, the credit facilities granted to the subsidiaries subject to guarantees given to the suppliers by the Company were utilised to the extent of approximately HK$1,371,000 (2005: Nil).

The Group did not have any significant contingent liabilities as at 31 December 2006 (2005: Nil).

32. OPERATING LEASE ARRANGEMENTS

(a) As lessor

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

At 31 December 2006, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2006	2005
	HK$'000	*HK$'000*
Within one year	**986**	569
In the second to fifth years, inclusive	**1,331**	85
	2,317	654

(b) As lessee

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

At 31 December 2006, the Group had total future minimum lease payments under the non-cancellable operating leases falling due as follows:

	Group	
	2006	2005
	HK$'000	*HK$'000*
Within one year	**14,591**	3,192
In the second to fifth years, inclusive	**15,623**	973
	30,214	4,165

NOTES TO FINANCIAL STATEMENTS

31 December 2006

33. RELATED PARTY TRANSACTIONS

(I) Transactions with related parties

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

(a)

		Group	
		2006	2005
	Notes	***HK$'000***	*HK$'000*
Sale of goods to associates	*(i)*	**1,984**	3,559
Sale of goods to a company in which three directors of the Company were directors	*(i)*	**—**	1,185
Purchase of goods from associates	*(ii)*	**1,404**	245
Purchase of goods from a company in which three directors of the company were directors	*(ii)*	**5,907**	—
Purchase of goods from a company in which one director of the subsidiary was a shareholder	*(iii)*	**—**	59,662
Purchase of goods from an associate of 北大方正集團有限公司 (Peking University Founder Group Company Limited*) ("Peking Founder"), a substantial shareholder of the Company	*(ii)*	**604**	—
Purchase of goods from subsidiaries of Peking Founder	*(ii)*	**2,468**	—
Service fee paid to an associate of Peking Founder	*(ii)*	**—**	5,192
Agency fee received from a company in which three directors of the Company were directors	*(ii)*	**493**	—
Banking facilities guarantees given by Peking Founder	*(iv)*	**99,700**	417,697
Bank loan guarantee given by Peking Founder	*(v)*	**—**	38,400

** For identification purpose only*

33. RELATED PARTY TRANSACTIONS *(continued)*

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

(a) *(continued)*

Notes:

(i) The sale of goods were made according to the published prices and conditions similar to those offered to other customers of the Group.

(ii) These transactions were conducted on the basis of rates agreed between the Company and the related companies.

(iii) The purchase prices were determined based on actual costs incurred.

(iv) The banking facilities guarantees were given to PRC banks for credit facilities granted to subsidiaries of the Company and utilised to the extent of approximately HK$15,927,000 at 31 December 2006 (2005: HK$306,817,000).

(v) The bank loan guarantee was given to a PRC bank for the loan granted to a subsidiary of the Company.

(b) On 10 January 2006, the Group entered into lease agreements with Peking Founder to lease from Peking Founder certain office premises in Beijing, the PRC, effective from 1 January 2006 to 31 December 2008. On 14 March 2006, Founder Order entered into a supplemental agreement with Peking Founder, to cease the lease, with effect from 1 April 2006, of a total area of 240.45 square metres of the leased premises (the "Terminated Area"). Since then, Founder Order is not obliged to pay relevant portion of the rental and management fee in respect of the Terminated Area under the original lease agreement but would continue to lease the remaining area of the premises from Peking Founder at the same terms under the original lease agreement. During the year, rental and management fee expenses of approximately HK$12,403,000 (2005: HK$21,206,000) were paid by the Group to Peking Founder. The directors consider that the rental and management fee expenses were paid in accordance with the terms of the lease agreements.

(c) On 7 February 2005, Founder Electronics entered into an agreement (the "Japan Software Agreement") with a subsidiary of Peking Founder, for the sale of printing software developed by Founder Electronics and the provision of other related services to the related company.

During the year, sale of products and provision of product related services in an aggregate amount of approximately HK$6,578,000 (2005: HK$3,862,000) to the related company were made by the Group. The directors consider that the sale of products and provision of services were made in accordance with the terms of the Japan Software Agreement.

NOTES TO FINANCIAL STATEMENTS

31 December 2006

33. RELATED PARTY TRANSACTIONS *(continued)*

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

(d) On 5 January 2006, EC-Founder entered into a master agreement with Peking Founder to govern the sale of information products to Peking Founder and its subsidiaries (collectively "Peking Founder Group") for a term of three years from 1 January 2006 to 31 December 2008. During the year, products of approximately HK$361,000 (2005: Nil) were sold to Peking Founder Group prior to the partial disposal of shares of EC-Founder by the Group. The sales of products were made according to published prices and conditions similar to those offered to other customers of the Group.

(e) On 5 January 2006, the Company entered into a master agreement with EC-Founder to govern the purchase of information products from EC-Founder and its subsidiaries (collectively "EC-Founder Group") for a term of three years from 1 January 2006 to 31 December 2008. During the year, products of approximately HK$33,914,000 (2005: Nil) were purchased from EC-Founder Group after the partial disposal of shares of EC-Founder by the Group.

(f) On 7 February 2005, Founder HK entered into a conditional sale and purchase agreement with Founder Information (Hong Kong) Limited ("Founder Information"), a subsidiary of Peking Founder, and Peking Founder to dispose of its entire equity interest in True Luck Group Limited ("True Luck") and to assign the loan of JPY70 million due to Founder HK by True Luck to Founder Information at a total cash consideration of JPY693,520,600. The disposal was completed on 30 June 2005.

(g) On 31 October 2005, Founder Order entered into a software development agreement with Beijing Founder International Co., Limited ("Beijing Founder International"), a subsidiary of True Luck which is a subsidiary of Peking Founder, to engage Beijing Founder International for the development of a software at a consideration of RMB10 million.

The related party transactions in respect of items (b), (c), (d), (f) and (g) above also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

(II) Outstanding balances with related parties

(a) The balance due to Peking Founder included in other payables and accruals as at 31 December 2006 is approximately HK$1,431,000 (2005: HK$10,089,000). The balance is unsecured, interest-free and has no fixed terms of repayment.

33. RELATED PARTY TRANSACTIONS *(continued)*

(II) Outstanding balances with related parties *(continued)*

(b) The balance due to a company in which three directors of the Company were directors included in other payables and accruals as at 31 December 2006 is approximately HK$4,173,000 (2005: HK$8,101,000). The balance due from a subsidiary of a company in which three directors of the Company were directors included in prepayments, deposits and other receivables as at 31 December 2006 is approximately HK$4,332,000 (2005: Nil). The balances are unsecured, interest-free and have no fixed terms of repayment.

(c) The balance due to an associate of Peking Founder included in other payables and accruals as at 31 December 2006 is approximately HK$199,000. The balances due from associates of Peking Founder included in prepayments, deposits and other receivables as at 31 December 2005 are approximately HK$4,359,000. The balances are unsecured, interest-free and have no fixed terms of repayment.

(d) The balance due to Beijing Founder International included in other payables and accruals as at 31 December 2006 is approximately HK$2,096,000 (2005: Nil). The balance due from Beijing Founder International included in systems integration contracts as at 31 December 2006 is approximately HK$9,970,000 (2005: Nil). The balance due from Beijing Founder International included in prepayments, deposits and other receivables as at 31 December 2005 was approximately HK$3,807,000. The balances are unsecured, interest-free and have no fixed terms of repayment.

(e) Details of the Group's amounts due from its associates as at the balance sheet date are included in note 17 to the financial statements.

(f) Details of the Group's trade balances with its associates and related companies as at the balance sheet date are disclosed in notes 20 and 24 to the financial statements.

(III) Compensation of key management personnel of the Group

	2006	2005
	HK$'000	*HK$'000*
Short term employee benefits	**5,589**	7,593
Post-employment benefits	**86**	221
Total compensation paid to key management personnel	**5,675**	7,814

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

NOTES TO FINANCIAL STATEMENTS

31 December 2006

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing bank loans 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 cash flow interest rate risk, foreign currency risk, credit risk and liquidity risk. The board reviews and agrees policies for managing each of these risks and they are summarised below.

Cash flow interest rate risk

The Group's exposure to the risk of changes in market interest rates related primarily to the Group's debt obligations. The Group does not use derivative financial instruments to hedge its debt obligations.

Foreign currency risk

The sales and purchases made by the subsidiaries of the Group in Mainland China are conducted in the local currency and hence, the transactional currency exposure is minimal. The sales and purchases made by the subsidiaries of the Group in Hong Kong are conducted in Hong Kong dollars and United States dollars ("US$"). As the exchange rate of US$ against Hong Kong dollars was relatively stable during the year, the Group's exposure to fluctuations in exchange rates is considered minimal and no financial instruments have been used for hedging purposes.

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.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral.

The Group places its cash deposits with major international banks in Hong Kong and state-owned banks in Mainland China. This investment policy limits the Group's exposure to concentrations of credit risk.

Liquidity risk

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 purpose.

NOTES TO FINANCIAL STATEMENTS

31 December 2006

35. POST BALANCE SHEET EVENT

During the Fifth Session of the Tenth National People's Congress, which was concluded on 16 March 2007, the PRC Corporate Income Tax Law (the "New Corporate Income Tax Law") was approved and will become effective on 1 January 2008. The New Corporate Income Tax Law introduces a wide range of changes which include, but are not limited to, the unification of the income tax rate for domestic-invested and foreign-invested enterprises at 25%. Since the detailed implementation and administrative rules and regulations have not yet been announced, the future financial impact of the New Corporate Income Tax Law to the Group cannot be reasonably estimated at this stage.

36. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified and restated to confirm with the current year's presentation and accounting treatment.

37. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 20 April 2007.

PARTICULARS OF INVESTMENT PROPERTIES

31 December 2006

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

PARTICULARS OF INVESTMENT PROPERTIES

31 December 2006

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

FIVE YEAR FINANCIAL SUMMARY

31 December 2006

A summary of the results and of the assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the published audited financial statements and restated/reclassified as appropriate, is set out below. The amounts in 2002 have been adjusted for the effects of the retrospective change in accounting policy affecting income tax.

RESULTS

	Year ended 31 December				
	2006	2005	2004	2003	2002
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
					(Restated)
REVENUE	**2,115,920**	2,593,915	2,013,831	1,553,796	1,442,015
PROFIT/(LOSS) FOR THE YEAR	**36,255**	61,244	(25,792)	(7,615)	(281,001)
Attributable to:					
Equity holders of the parent	**25,911**	47,929	(27,183)	7,215	(275,844)
Minority interests	**10,344**	13,315	1,391	(14,830)	(5,157)
	36,255	61,244	(25,792)	(7,615)	(281,001)

ASSETS, LIABILITIES AND MINORITY INTERESTS

	31 December 2006	31 December 2005	31 December 2004	31 December 2003	31 December 2002
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
					(Restated)
TOTAL ASSETS	**792,016**	1,322,509	1,086,496	960,702	820,195
TOTAL LIABILITIES	**(383,135)**	(851,615)	(677,105)	(532,051)	(471,936)
MINORITY INTERESTS	**(5,588)**	(102,641)	(93,796)	(86,667)	(15,713)
	403,293	368,253	315,595	341,984	332,546