EC-FOUNDER (HOLDINGS) COMPANY LIMITED
方正數碼(控股)有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 0618)

2005
ANNUAL REPORT

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive directors

Mr Zhang Zhao Dong *(Chairman)*
Mr Cheung Shuen Lung
Professor Wei Xin
Mr Xia Yang Jun
Mr Xie Ke Hai

Non-executive director

Mr Yung Chih Shin, Richard *(Honorary Chairman)*

Independent non-executive directors

Mr Li Fat Chung
Ms Wong Lam Kit Yee
Ms Cao Qian

COMMITTEES

Audit Committee

Mr Li Fat Chung *(Chairman)*
Ms Wong Lam Kit Yee
Ms Cao Qian

Remuneration Committee

Mr Cheung Shuen Lung *(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
Mr Cheung Shuen Lung

AUDITORS

Ernst & Young
Certified Public Accountants

LEGAL ADVISERS

Norton Rose
Morrison & Foerster

PRINCIPAL BANKERS

Agricultural Bank of China
Bank of China (Hong Kong) Limited
BNP Paribas Hong Kong Branch
China Merchants Bank

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

Tengis Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Hong Kong

LISTING INFORMATION

Main board of The Stock Exchange of Hong Kong Limited
Stock code: 0618
Board Lot: 2,000 shares

COMPANY WEBSITE

www.ecfounder.com.hk

FINANCIAL HIGHLIGHTS

Year	**2005**	2004	2003	2002 (Restated)	2001 (Restated)
Turnover *(HK$' million)*	**1,901**	1,258	625	312	331
Total assets *(HK$' million)*	**792**	561	458	224	379
Total liabilities *(HK$' million)*	**577**	376	282	85	192
Net assets *(HK$' million)*	**215**	185	176	139	187
Net assets per share *(HK$)*	**0.20**	0.17	0.16	0.17	0.22
Current ratio	**1.30**	1.41	1.50	1.79	1.49
Long term debt to equity ratio	**N/A**	N/A	N/A	0.004	0.011

MANAGEMENT DISCUSSION AND ANALYSIS

OVERALL PERFORMANCE

The Group has achieved satisfactory results for the year ended 31 December 2005. Turnover has increased by 51.1% to approximately HK$1,900.7 million compared to last year's turnover of HK$1,257.6 million and gross profit has increased by 27.7% to HK$94.5 million. However, gross profit ratio has dropped from 5.9% in 2004 to 5.0% in 2005 as a result of the absence of the discontinued operation of the provision of software solutions and services business during the year and the strong competition in the distribution of information products business.

Despite having recorded a large leap in turnover and net profit for the year, total administrative expenses and selling and distribution costs have recorded a decrease of 4.1%.

The Group's audited consolidated profit for the year attributable to the shareholders was HK$26.6 million (2004: HK$9.2 million).

The encouraging improvement in operating results for the year was mainly due to :

a. segment results of the distribution of information products business has increased by 1.8 times to HK$20.8 million (2004: HK$7.4 million); and

b. an increase in the share of profits of associates by 1.2 times to HK$11.6 million (2004: HK$5.2 million).

Basic earnings per share for the year was HK2.4 cents (2004: HK0.8 cents).

OPERATION REVIEW AND PROSPECTS

Continuing operations

Distribution of information products ("Distribution Business")

The Group recorded a turnover of HK$1,900.7 million for the year which was 58.3% higher than last year and segment results also increased by 1.8 times to HK$20.8 million for the current year (2004: HK$7.4 million). Gross profit has recorded an increase of 45.5% to HK$94.5 million (2004: HK$64.9 million) while gross profit ratio has decreased from 2004's 5.4% to the current year's 5.0%.

The Distribution Business is mainly focused on the distribution of information products such as switches, networking products, servers, storage devices, workstations, notebook computers and screen projectors of a number of internationally famed and branded information product manufacturers such as HP, Huawei-3Com, Apple Computer, IBM, Netgear, CommScope and SGI. With the continued effort to enrich and explore the depth of products for distribution, the Group is also dedicated to develop a closer relationship with the vendors for greater understanding of the market situation. The Group believes that the success in operation was mainly attributable by the close relationship developed between both the upstream vendors and the downstream customers such as the second tier distributors and systems integrators. The Distribution Business has been awarded by various upstream vendors such as HP and Huawei-3Com for the excellent distribution services in terms of distribution channel, coverage, sales growth and overall performance in the PRC.

MANAGEMENT DISCUSSION AND ANALYSIS

The Distribution Business was ranked the 5th place in 2005 by Computer Partner World (電腦商報) of the PRC among the top 200 information products distribution enterprises in the PRC's information products distribution business. In addition, the Distribution Business was also ranked the 6th and 7th places by China Information World (中國計算機報) in 2005 as one of PRC's top 100 largest and top 100 dominant information products distributors respectively.

At present, the Distribution Business has developed an efficient and effective distribution channel and network with branch offices/representative offices spanning 14 major cities in the PRC.

Although the Group has recorded a large increase in the sales of information products, the operation is still faced with severe competition and recorded a gross profit ratio for the year of 5.0% compared with 5.4% of last year. In addition, selling and distribution costs for the year has also recorded an increase of 57.0% which is in line with the increase in turnover for the current year of 58.3%. However, the Group's continued effort to control operating costs was proved to be successful, administrative expenses for the year has recorded a decrease of 1.4% when compared to 2004. As a result, the Distribution Business has recorded an increase in its segment results to turnover ratio from 2004's 0.6% to 1.1% for the current year.

Operating in a strong competition environment, the drive to maintain a high rate of growth would require more working capital to support the distribution chain. The Group's working capital ratio has dropped from 2004's 1.41 to 1.30 for the current year and total liabilities to equity ratio also increased to 2.69 from 2004's 2.03. In order to support the expected future growth, the Distribution Business also plans to open up more branch offices/representative offices in the PRC. Therefore, the Group envisaged that working capital management and costs control will be vital to the future growth of the Distribution Business.

Discontinued operation

Software solutions and services business ("Software Business")

The Software Business was disposed of and terminated during the second half of 2004. As a result, no turnover was recorded for the year and the segment results for the year was approximately HK$59,000. The 2004 segment results of HK$1.8 million were mainly due to the gain on disposal of EC-Founder Co., Ltd. of HK$3.3 million and the gain on compensation received for the termination of advertising agency services carried out by Beijing AdTargeting Inc. of HK$4.6 million.

Employee

The Group has developed its human resources policies and procedures based on performance and merit. The Group ensures that the pay level 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.

MANAGEMENT DISCUSSION AND ANALYSIS

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 year.

Due to the increase in the size of operation of the Distribution Business, the Group has approximately 415 employees as at 31 December 2005 (31 December 2004: 330).

FINANCIAL REVIEW

Liquidity, financial resources and capital commitments

As at 31 December 2005, the Group recorded total assets of HK$792.1 million (2004: HK$561.3 million) which were financed by liabilities of HK$577.3 million (2004: HK$376.0 million) and equity of HK$214.8 million (2004: HK$185.3 million). The Group's net asset value as at 31 December 2005 increased by 15.9% to HK$214.8 million as compared to approximately HK$185.3 million as at 31 December 2004.

The Group had total cash and bank balances of HK$292.7 million as at 31 December 2005 (2004: HK$189.7 million). The Group had bank loan as at 31 December 2005 of HK$38.4 million (2004: Nil), hence the Group recorded a net cash balance of HK$254.3 million as at 31 December 2005 as compared to HK$189.7 million as at 31 December 2004. As at 31 December 2005, the Group's current ratio was 1.30 (2004: 1.41) and the Group had no long term debt as at 31 December 2005 and 31 December 2004.

As at 31 December 2005, 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 payables and borrowings are denominated in Hong Kong dollars, Renminbi and United States dollars while the sales of the Group are mainly denominated in Renminbi and United States dollars. As the exchange rates of United States dollars and Renminbi against Hong Kong dollars were 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.

MANAGEMENT DISCUSSION AND ANALYSIS

Material acquisitions and disposals of subsidiaries and associates

The Group had no material acquisition or disposals of subsidiaries and associates in 2005.

In December 2004, the Group completed the disposal of EC-Founder Co., Ltd. for a total cash consideration of RMB13.4 million (equivalent to approximately HK$12.6 million) and recorded a gain on disposal of subsidiary of approximately HK$3.3 million.

Charges on assets

As at 31 December 2005, bank deposits of approximately HK$38.9 million were pledged to banks to secure general banking facilities granted.

Contingent liabilities

The Group did not have any significant contingent liabilities as at 31 December 2005 (2004: Nil).

CORPORATE GOVERNANCE REPORT

INTRODUCTION

The Company is firmly committed to the overall standards of corporate governance and has always recognised the importance of accountability and communication with shareholders. Following the issue of the Code on Corporate Governance Practices (the "Code") set out in Appendix 14 to The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), the Company adopted the code provisions of the Code as its own corporate governance code on 30 June 2005.

COMPLIANCE WITH THE CODE PROVISIONS OF THE CODE

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 2005, except for those deviations detailed below.

BOARD OF DIRECTORS

The board of directors of the Company (the "Board") currently comprises nine directors, namely, Mr Zhang Zhao Dong (Chairman), Mr Cheung Shuen Lung, Professor Wei Xin, Mr Xia Yang Jun and Mr Xie Ke Hai as executive directors, Mr Yung Chih Shin, Richard as non-executive director, Mr Li Fat Chung, Ms Wong Lam Kit Yee and Ms Cao Qian as independent non-executive directors. The roles of the Chairman and the President (equivalent to Chief Executive Officer) are segregated and are not exercised by the same individual. All the independent non-executive directors are professional accountant, which is in compliance with the requirement of the Listing Rules. There are also two board committees under the Board, which are the audit committee and the remuneration committee.

The key responsibilities of the Board include, among other things, formulating the Group's overall strategies, setting management targets, regulating internal controls, formulating the Company's corporate governance practices, and supervising the management's performance while the day-to-day operations and management of the Group are delegated by the Board to the management. The Company has received acknowledgements from the directors of their responsibility for preparing the financial statements and a statement by the external auditors of the Company about their reporting responsibilities.

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS *(Continued)*

The Board convened four board meetings during the year ended 31 December 2005. The attendance of the directors at the board meetings is as follows:

Directors	**Number of attendance**
Mr Zhang Zhao Dong	2
Mr Cheung Shuen Lung	4
Professor Wei Xin	2
Mr Xia Yang Jun	3
Mr Xie Ke Hai	1
Mr Yung Chih Shin, Richard	1
Mr Li Fat Chung	4
Ms Wong Lam Kit Yee	4
Ms Cao Qian	4
Mr Yang Lin, Richard*	0

* *Independent non-executive director resigned on 31 March 2005*

The Board has four scheduled meetings a year at quarterly interval and meets as and when required. Board minutes are kept by the Company Secretary of the Company and are sent to the directors for endorsement.

Under code provision A.4.1 of the Code, non-executive directors should be appointed for a specific term and be subject to re-election. None of the existing non-executive directors of the Company was appointed for a specific term when they were appointed, which constitutes a deviation from code provision A.4.1 of the Code. To comply with the code provision A.4.1 of the Code, the Company has entered into service contracts with all existing non-executive directors for a fixed term of one year on 30 June 2005.

Under code provision A.4.2 of the Code, all directors appointed to fill a causal vacancy should be subject to election by shareholders at the first general meeting after their appointment, and every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. However, according to the then Bye-laws of the Company, one third of the directors are subject to retirement by rotation at each annual general meeting and the Chairman or Managing Director of the Company is not subject to retirement by rotation, which constitutes a deviation from code provision A.4.2 of the Code. To comply with code provision A.4.2 of the Code, relevant amendments to the Bye-laws of the Company were approved by the shareholders in the special general meeting on 4 January 2006.

Under code provision E.1.2 of the Code, the Chairman of the Board should attend the annual general meeting of the Company. The Chairman of the Board had not attended the annual general meeting of the Company held on 27 May 2005. The Chairman will endeavour to attend all future annual general meetings of the Company unless unexpected or special circumstances prevent him from doing so.

CORPORATE GOVERNANCE REPORT

NOMINATION OF DIRECTORS

The Company does not have 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-law 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, qualification, 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.

The Board appointed Ms Cao Qian as an independent non-executive director to fill the casual vacancy caused by the resignation of Mr Yang Lin, Richard on 31 March 2005.

REMUNERATION COMMITTEE

Under code provision B.1.1 of the Code, a remuneration committee should be established with specific written terms of reference which deal clearly with its authority and duties. To comply with code provision B.1.1 of the Code, the Company has established a remuneration committee and adopted its terms of reference on 30 June 2005.

The remuneration committee currently comprises Mr Cheung Shuen Lung (Chairman), Mr Li Fat Chung and Ms Wong Lam Kit Yee. The primary responsibilities of the remuneration committee include, among other things, 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 2005, 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. All members of the remuneration committee attended the meeting.

CORPORATE GOVERNANCE REPORT

AUDIT COMMITTEE

The Company has established an audit committee since 1998, which is comprised solely of independent non-executive directors, namely, Mr Li Fat Chung (Chairman), Ms Wong Lam Kit Yee and Ms Cao Qian. All committee members possess appropriate professional accounting and financial qualifications. The primary responsibilities of the audit committee include, among other things, 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 2005, the audit committee met four times. During these meetings, the audit committee reviewed reports from the external auditors regarding their audit on annual financial statements, review on interim financial results and review on connected transactions, discussed the internal control of the Group, and met with the external auditors. The attendance of the members of the audit committee at the meetings is as follows:

Director	**Number of attendance**
Mr Li Fat Chung	4
Ms Wong Lam Kit Yee	4
Ms Cao Qian	4
Mr Yang Lin, Richard*	0

** Independent non-executive director resigned on 31 March 2005*

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to 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 2005.

AUDITORS' REMUNERATION

The Company engaged Ernst & Young as statutory auditors of the Company. The principal services provided by Ernst & Young in 2005 include the review of interim 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.

CORPORATE GOVERNANCE REPORT

AUDITORS' REMUNERATION *(Continued)*

Apart from the aforementioned audit services, associates of Ernst & Young were also engaged in providing taxation services and corporate finance advisory services to the Group.

The remuneration in respect of audit and non-audit services provided by Ernst & Young and its associates to the Group in 2005 is summarised as follows:

	HK$'000
Audit fees	1,030
Non-audit fees:	
Accounts review service	240
Taxation service	95
Corporate finance advisory service	150
	485
Total	1,515

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr Zhang Zhao Dong, aged 56, is the Chairman and an executive director of the Company. He is also an executive director of Founder Holdings Limited, the President and an executive director of Peking University Founder Group Company Limited, and an executive 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 Cheung Shuen Lung, aged 49, is an executive director of the Company. He is also the Chairman and an executive director of Founder Holdings Limited, an executive director of Peking University Founder Group Company Limited, the executive Chairman of PUC Founder (MSC) Berhad, and a director of China Hi-Tech Group Co., Ltd. He is a research fellow of the Enterprise Research Institute at Peking University and has extensive experience in the information technology industry.

Professor Wei Xin, aged 50, is an executive director of the Company and Founder Holdings Limited. He is also the Chairman of Peking University Founder Group Company Limited, a non-executive director of PUC Founder (MSC) Berhad, and an executive 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 Xia Yang Jun, aged 33, is an executive director of the Company. He is also the President and an executive director of Founder Holdings Limited, a Vice-President of Peking University Founder Group Company Limited and a director of Guangdong Development Bank Company Limited. Mr Xia graduated from Peking University Guanghua School of Management with an EMBA degree. He is also an Economist and Certified Public Accountant in the People's Republic of China.

Mr Xie Ke Hai, aged 40, is an executive director of the Company and a Vice-President 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 corporations of Peking University Founder Group Company Limited. He has over 10 years of experience in human resources.

NON-EXECUTIVE DIRECTOR

Mr Yung Chih Shin, Richard, aged 71, is the Honorary Chairman of the Company. Mr Yung graduated in electrical engineering from Massachusetts Institute of Technology. He founded Management Investment & Technology Company Limited in 1975 and has extensive experience in marketing, product design, factory planning and production management in the electronic industry.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr Li Fat Chung, aged 45, is a partner of Chan, Li, Law & Co., Certified Public Accountants, in Hong Kong. He is a fellow member of the Association of Chartered Certified Accountants in the United Kingdom, the Hong Kong Institute of Certified Public Accountants and the Taxation Institute of Hong Kong. Mr Li received a master degree in Business Administration from University of Warwick, England.

Ms Wong Lam Kit Yee, aged 42, is a Certified Public Accountant (Practicing) 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.

Ms Cao Qian, aged 42, is a Certified Public Accountant in the People's Republic of China. Ms Cao graduated from the Central University of Finance & Economics and obtained a bachelor degree in finance and revenue professional. Ms Cao also received her EMBA degree from Peking University Guanghua School of Management. Ms Cao is currently the Chief Financial Officer of China Travel Service Hotel Corporation. Ms Cao has extensive experience in auditing, accounting and financial management.

SENIOR MANAGEMENT

Mr Liu Xiao Kun, aged 46, is the Managing Director of Beijing Founder Century Information System Co., Ltd.. Mr Liu graduated from Sichuan University and holds a master degree in Economics. He has extensive experience in the distribution business of information products. Mr Liu is currently responsible for the overall operation of the Group's information products distribution business.

Mr Chen Geng, aged 35, is the President of the Company. 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 a Financial Economist in the People's Republic of China. Before joining the Group in 2005, he 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 the Company.

Mr Lau Fai Lawrence, aged 34, is the Group Financial Controller and the Qualified Accountant of the Company. Mr Lau graduated from The University of Hong Kong with a bachelor degree in Business Administration. Mr Lau is a Certified Public Accountant (Practicing) 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 accounting and financial management and had worked with an international accounting firm and Founder Holdings Limited. Mr Lau is currently responsible for the accounting and corporate financial management 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 2005.

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 2005 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 24 to 87.

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 88 of the Annual Report. This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Company and the Group during the year are set out in note 14 to the financial statements.

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 26(a) 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.

REPORT OF THE DIRECTORS

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 27 to the financial statements.

DISTRIBUTABLE RESERVES

At 31 December 2005, the Company had no reserves available for distribution. However, the Company's share premium account, in the amount of approximately HK$154,699,000, 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 83% (2004: 92%) of the total purchases for the year and purchases from the largest supplier included therein amounted to approximately 30% (2004: 50%).

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 Zhang Zhao Dong
Mr Cheung Shuen Lung
Professor Wei Xin
Mr Xia Yang Jun
Mr Xie Ke Hai

Non-executive directors:
Mr Yung Chih Shin, Richard
Mr Li Fat Chung*
Ms Wong Lam Kit Yee*

Ms Cao Qian*	(appointed on 31 March 2005)
Mr Yang Lin, Richard*	(resigned on 31 March 2005)

* *Independent non-executive directors*

REPORT OF THE DIRECTORS

DIRECTORS *(Continued)*

In accordance with the Company's Bye-laws, Mr Zhang Zhao Dong, Mr Cheung Shuen Lung and Professor Wei Xin will retire at the forthcoming annual general meeting. Mr Zhang Zhao Dong offers himself for re-election at the forthcoming annual general meeting. However, as Mr Cheung Shuen Lung and Professor Wei Xin have given notice in writing to the Company that they will not offer themselves for re-election at the forthcoming annual general meeting, the Board has proposed to nominate Mr Chen Geng, the President of the Company, to be elected as director of the Company at the forthcoming annual general meeting.

The Company has received annual confirmations of independence from Mr Li Fat Chung, Ms Wong Lam Kit Yee and Ms Cao Qian, 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 13 to 14 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, its holding company, or any of its subsidiaries and fellow subsidiaries was a party during the year.

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 31 December 2005, the interests and short positions of the directors in the share capital and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), were as follows:

Long positions in ordinary shares of the Company:

	Number of ordinary shares held, capacity and nature of interest			Percentage of the Company's issued share capital
Name of director	**Directly beneficially owned**	**Through controlled corporation**	**Total**	
Mr Cheung Shuen Lung	36,890,100	–	36,890,100	3.35
Mr Zhang Zhao Dong	3,956,000	–	3,956,000	0.36
Professor Wei Xin	3,956,000	–	3,956,000	0.36
Mr Yung Chih Shin, Richard *(Note)*	–	87,680,000	87,680,000	7.97

Note: Mr Yung Chih Shin, Richard is interested in these shares through Ricwinco Investment Limited ("Ricwinco"), a company which is beneficially owned by Mr Yung Chih Shin, Richard.

The interests of the directors in the share options of the Company and its associated corporations are separately disclosed in note 26 to the financial statements.

REPORT OF THE DIRECTORS

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

In addition to the above, Mr Cheung Shuen Lung had 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 2005, 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 section "Directors' interests and short positions in shares and underlying shares" above and in the share option schemes disclosures in note 26 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, its holding company, or any of its subsidiaries and fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

REPORT OF THE DIRECTORS

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES

At 31 December 2005, the following interests of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions:

Name	*Notes*	Capacity and nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital
北京北大資產經營有限公司 (Peking University Asset Management Company Limited*)	*1*	Through a controlled corporation	603,609,000	54.85
北大方正集團有限公司 (Peking University Founder Group Company Limited*) (formerly known as Peking University Founder Group Corporation) ("Peking Founder")	*2*	Through a controlled corporation	603,609,000	54.85
Founder Holdings Limited ("FHL")		Directly beneficially owned	603,609,000	54.85
Peking University Education Foundation		Directly beneficially owned	93,240,000	8.47
Peking University Education Foundation		Beneficiary of a trust	2,330,000	0.21
Ricwinco	*3*	Directly beneficially owned	87,680,000	7.97
F2 Consultant Limited	*4*	Owned as nominee	60,671,600	5.51
HSBC International Trustee Limited	*5*	Through a controlled corporation	60,500,000	5.50
Sun Hung Kai Properties Limited	*5*	Through a controlled corporation	60,500,000	5.50
Sunco Resources Limited	*5*	Through a controlled corporation	60,500,000	5.50
SUNeVision Holdings Ltd.	*5*	Through a controlled corporation	60,500,000	5.50
Hugh Profit Investments Ltd.	*5*	Through a controlled corporation	60,500,000	5.50
Well Drive Holdings Limited		Directly beneficially owned	60,500,000	5.50

* *For identification purpose only*

Notes:

1. Peking University Asset Management Company Limited is deemed to be interested in the 603,609,000 shares of the Company under the SFO by virtue of its interest in Peking Founder.

2. Peking Founder is deemed to be interested in the 603,609,000 shares of the Company under the SFO by virtue of its interest in FHL.

REPORT OF THE DIRECTORS

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

Notes: (Continued)

3. Mr Yung Chih Shin, Richard is interested in these shares through Ricwinco.

4. F2 Consultant Limited holds the shares of the Company as nominee on behalf of the directors of Founder Data Corporation International Limited ("FDC") who are acting in their capacity as the trustees of a discretionary trust for the employees of FDC and its subsidiaries.

5. Each of HSBC International Trustee Limited, Sun Hung Kai Properties Limited, Sunco Resources Limited, SUNeVision Holdings Ltd. and Hugh Profit Investments Ltd. is deemed to be interested in the 60,500,000 shares of the Company under the SFO by virtue of its, direct or indirect, interest in Well Drive Holdings Limited.

Save as disclosed above, as at 31 December 2005, 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

Details of the connected transactions and continuing connected transactions are set out in notes 31(I)(a), 31(I)(b), 31(I)(d) and 31(I)(g) to the financial statements.

The independent non-executive directors of the Company have reviewed the continuing connected transactions as set out in note 31(I)(a) to the financial statements, and have confirmed that these continuing connected transactions were (i) entered into in the ordinary and usual course of the business of the Group; (ii) entered into on terms that are fair and reasonable so far as the interests of the shareholders of the Company as a whole are concerned; (iii) carried out in accordance with the terms of the lease agreement and (iv) within the prescribed limit as set out in the waiver letter in respect of the connected transactions issued by the Stock Exchange.

The independent non-executive directors of the Company have reviewed the continuing connected transactions as set out in note 31(I)(b) to the financial statements, and have confirmed that these continuing connected transactions were (i) entered into in the ordinary and usual course of the business of the Group; (ii) entered into either on normal commercial terms or on terms that are fair and reasonable so far as the interests of the shareholders of the Company as a whole are concerned; (iii) carried out in accordance with the terms of the relevant agreements; and (iv) within the prescribed limit as set out in the waiver letter in respect of the connected transactions issued by the Stock Exchange.

REPORT OF THE DIRECTORS

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 of The Stock Exchange of Hong Kong Limited during the year.

POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in note 33 to the financial statements.

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

Zhang Zhao Dong
Chairman

Hong Kong
21 April 2006

REPORT OF THE AUDITORS

ERNST & YOUNG
安永會計師事務所

To the members
EC-Founder (Holdings) Company Limited
(Incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 24 to 87 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion 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.

BASIS OF OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our 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 2005 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants

Hong Kong
21 April 2006

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2005

	Notes	2005 HK$'000	2004 HK$'000 (Restated)
REVENUE	5		
Continuing operations		**1,900,652**	1,200,752
Discontinued operation	12	**–**	56,798
		1,900,652	1,257,550
Cost of sales		**(1,806,164)**	(1,183,573)
Gross profit		**94,488**	73,977
Other income and gains	5	**1,802**	8,186
Selling and distribution costs		**(41,348)**	(39,720)
Administrative expenses		**(34,922)**	(39,793)
Other expenses, net		**(2,438)**	(612)
Gain on disposal of a discontinued operation	12	**–**	3,255
Finance costs	7	**(814)**	(45)
Share of profits of associates		**11,621**	5,172
PROFIT BEFORE TAX	6		
Continuing operations		**28,233**	8,581
Discontinued operation	12	**156**	1,839
		28,389	10,420
Tax	10	**(1,833)**	(1,235)
PROFIT FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT	11		
Continuing operations		**26,400**	8,576
Discontinued operation	12	**156**	609
		26,556	9,185
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT – BASIC	13		
For profit for the year		**2.4 cents**	0.8 cents
For profit from continuing operations		**2.4 cents**	0.8 cents

CONSOLIDATED BALANCE SHEET

31 December 2005

	Notes	2005 HK$'000	2004 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**5,918**	6,324
Goodwill	15	**2,892**	2,892
Interests in associates	17	**30,921**	22,972
Total non-current assets		**39,731**	32,188
CURRENT ASSETS			
Inventories	18	**129,199**	108,010
Trade and bills receivables	19	**255,159**	195,356
Prepayments, deposits and other receivables		**75,308**	36,076
Pledged deposits	20	**38,903**	32,805
Cash and cash equivalents	21	**253,839**	156,907
Total current assets		**752,408**	529,154
CURRENT LIABILITIES			
Trade and bills payables	22	**406,907**	308,548
Other payables and accruals		**130,976**	67,479
Interest-bearing bank borrowings	23	**38,400**	–
Tax payable		**1,008**	–
Total current liabilities		**577,291**	376,027
NET CURRENT ASSETS		**175,117**	153,127
Net assets		**214,848**	185,315
EQUITY			
Issued capital	25	**110,056**	110,056
Reserves	27(a)	**104,792**	75,259
Total equity		**214,848**	185,315

Zhang Zhao Dong
Director

Cheung Shuen Lung
Director

CONSOLIDATED SUMMARY STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2005

	Notes	2005 HK$'000	2004 HK$'000
Total equity at 1 January		**185,315**	176,126
Exchange differences on translation of the financial statements of foreign entities	*27(a)*	**2,977**	320
Net income recognised directly in equity		**2,977**	320
Realisation of exchange fluctuation reserve upon disposal of a subsidiary	*27(a)*	**–**	(316)
Profit for the year	*27(a)*	**26,556**	9,185
Total recognised income and expenses for the year		**29,533**	9,189
Total equity at 31 December		**214,848**	185,315

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2005

	Notes	2005 HK$'000	2004 HK$'000 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax:			
From continuing operations		**28,233**	8,581
From discontinued operation	12	**156**	1,839
Adjustments for:			
Finance costs	7	**814**	45
Share of profits of associates		**(11,621)**	(5,172)
Interest income	5	**(1,281)**	(794)
Depreciation	6	**1,591**	3,414
Loss on disposal of items of property, plant and equipment	6	**45**	272
Gain on disposal of a discontinued operation	28	**–**	(3,255)
Operating profit before working capital changes		**17,937**	4,930
Increase in inventories		**(21,189)**	(28,466)
Increase in systems integration contracts		**–**	(501)
Increase in trade and bills receivables		**(59,803)**	(46,212)
Increase in prepayments, deposits and other receivables		**(41,986)**	(5,164)
Increase in trade and bills payables		**98,359**	86,498
Increase in other payables and accruals		**63,497**	14,968
Exchange difference		**(878)**	654
Cash generated from operations		**55,937**	26,707
Interest received		**1,281**	794
Interest paid		**(814)**	(45)
Hong Kong profits tax paid		**(69)**	(30)
Mainland of the People's Republic of China ("Mainland China" or the "PRC") corporate income tax paid		**(756)**	–
Net cash inflow from operating activities		**55,579**	27,426

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2005

	Notes	2005 HK$'000	2004 HK$'000 (Restated)
Net cash inflow from operating activities		**55,579**	27,426
CASH FLOWS FROM INVESTING ACTIVITIES			
Dividend received from an associate		**6,426**	918
Purchases of items of property, plant and equipment		**(1,287)**	(5,476)
Proceeds from disposal of items of property, plant and equipment		**189**	192
Disposal of a subsidiary	28	**–**	7,547
Increase in pledged deposits		**(6,098)**	(15,406)
Net cash outflow from investing activities		**(770)**	(12,225)
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loan	23	**38,400**	–
Net cash inflow from financing activities		**38,400**	–
NET INCREASE IN CASH AND CASH EQUIVALENTS		**93,209**	15,201
Cash and cash equivalents at beginning of year		**156,907**	142,070
Effect of foreign exchange rate changes, net		**3,723**	(364)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**253,839**	156,907
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	21	**252,163**	135,654
Non-pledged time deposits with original maturity of less than three months when acquired	21	**1,676**	21,253
		253,839	156,907

BALANCE SHEET

31 December 2005

	Notes	2005 HK$'000	2004 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**117**	142
Interests in subsidiaries	16	**213,770**	184,260
Total non-current assets		**213,887**	184,402
CURRENT ASSETS			
Prepayments, deposits and other receivables		**483**	403
Cash and cash equivalents	21	**1,824**	2,972
Total current assets		**2,307**	3,375
CURRENT LIABILITIES			
Other payables and accruals		**1,603**	2,462
NET CURRENT ASSETS		**704**	913
Net assets		**214,591**	185,315
EQUITY			
Issued capital	25	**110,056**	110,056
Reserves	27(b)	**104,535**	75,259
Total equity		**214,591**	185,315

Zhang Zhao Dong
Director

Cheung Shuen Lung
Director

NOTES TO FINANCIAL STATEMENTS

31 December 2005

1. CORPORATE INFORMATION

EC-Founder (Holdings) Company 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 principally engaged in the distribution of information products.

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

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, 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. 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 2005. 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2005

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The following new and revised HKFRSs affect the Group and are adopted for the first time for the current year's financial statements:

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 20	Accounting for Government Grants and Disclosure of Government Assistance
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 Amendment	Transition and Initial Recognition of Financial Assets and Financial Liabilities
HKFRS 2	Share-based Payment
HKFRS 5	Non-current Assets Held for Sale and Discontinued Operations

The adoption of HKASs 2, 7, 8, 10, 12, 14, 16, 17, 18, 19, 20, 23, 27, 28, 32, 33, 37, 39 and HKFRS 5 has had no material impact on the accounting policies of the Group and the Company and the methods of computation in the Group's and the Company's financial statements.

HKAS 1 has affected certain presentation in the consolidated income statement and other disclosures. In prior years, the Group's share of tax attributable to associates was presented as a component of the Group's total tax charge in the consolidated income statement. Upon the adoption of HKAS 1, the Group's share of the post-acquisition results of associates is presented net of the Group's share of tax attributable to associates.

NOTES TO FINANCIAL STATEMENTS

31 December 2005

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

HKAS 21 had no material impact on the Group. As permitted by the transitional provisions of HKAS 21, goodwill arising in a business combination prior to 1 January 2005 and fair value adjustments arising on that acquisition are deemed to be in the currency of the Company. In respect of acquisitions subsequent to 1 January 2005, any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of the assets and liabilities are treated as assets and liabilities of the foreign operation and are translated at the closing rate in accordance with HKAS 21.

HKAS 24 has expanded the definition of related parties and affected the Group's related party disclosures.

The adoption of HKFRS 2 has resulted in a change in the accounting policy for share-based payment. In prior years, no recognition and measurement of share-based payment transactions in which employees (including directors) were granted share options over shares in the Company were required until such options were exercised by employees, at which time the share capital and share premium were credited with the proceeds received.

Upon the adoption of HKFRS 2, when employees (including directors) render services as consideration for equity instruments ("equity-settled transactions"), the cost of the equity-settled transactions with employees is measured by reference to the fair value at the date at which the instruments are granted.

The main impact of HKFRS 2 on the Group is the recognition of the cost of these transactions and a corresponding entry to equity for employee share options. The revised accounting policy for share-based payment transactions is described in more details in note 2.5 "Summary of significant accounting policies" below.

The Group has adopted the transitional provisions of HKFRS 2 under which the new measurement policies have not been applied to (i) options granted to employees on or before 7 November 2002; and (ii) options granted to employees after 7 November 2002 but which had vested before 1 January 2005.

As the Group did not have any employee share options which were granted during the period from 7 November 2002 to 31 December 2004 but had not yet vested as at 1 January 2005, the adoption of HKFRS 2 has had no material impact to the financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2005

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. Unless otherwise stated, these HKFRSs are effective for annual periods beginning on or after 1 January 2006:

HKAS 1 Amendment	Capital Disclosures
HKAS 19 Amendment	Employee Benefits – Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 21 Amendment	The Effect of Changes in Foreign Exchange Rates – Net Investment in a Foreign Operation
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HKAS 39 & HKFRS 4 Amendments	Financial Instruments: Recognition and Measurement and Insurance Contracts – Financial Guarantee Contracts
HKFRSs 1 & 6 Amendments	First-time Adoption of Hong Kong Financial Reporting Standards and Exploration for and Evaluation of Mineral Resources
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease
HK(IFRIC)-Int 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
HK(IFRIC)-Int 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies

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 will replace HKAS 32 and has modified the disclosure requirements of HKAS 32 relating to financial instruments. This HKFRS shall be applied for annual periods beginning on or after 1 January 2007.

In accordance with the amendments to HKAS 39 regarding financial guarantee contracts, financial guarantee contracts are initially recognised at fair value and are subsequently measured at the higher of (i) the amount determined in accordance with HKAS 37 and (ii) the amount initially recognised, less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18.

NOTES TO FINANCIAL STATEMENTS

31 December 2005

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

The HKAS 19 Amendment, HKAS 39 Amendment regarding cash flow hedge accounting of forecast intragroup transactions, HKFRSs 1 and 6 Amendments, HKFRS 6, HK(IFRIC)-Int 5 and HK(IFRIC)-Int 6 do not apply to the activities of the Group. HK(IFRIC)-Int 6 shall be applied for annual periods beginning on or after 1 December 2005.

Except as stated above, the Group expects that the adoption of the other pronouncements listed above will not have any significant impact on the Group's financial statements in the period of initial application.

2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES

	Effect of adopting HKAS 1 Share of post-tax profits of associates Year ended 31 December	
Effect of new policies	**2005**	2004
	HK$'000	*HK$'000*
Decrease in share of profits of associates	**(2,753)**	(1,248)
Decrease in tax	**2,753**	1,248
Total change in profit	**–**	–

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

NOTES TO FINANCIAL STATEMENTS

31 December 2005

2.5 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

Goodwill arising on acquisition of subsidiaries 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 the acquisition is recognised in the consolidated balance sheet as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses.

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 units (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 2005

2.5 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 circumstances 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 Statement of Standard Accounting Practice ("SSAP") 30 "Business Combinations" in 2001, goodwill arising on acquisition was eliminated against the consolidated reserves in the year of acquisition. On the adoption of HKFRS 3, such goodwill remains eliminated against the consolidated reserves and is not recognised in profit or loss 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 assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, systems integration contracts, deferred tax assets, financial assets 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.

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 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 an impairment loss is credited to the income statement in the period in which it arises.

NOTES TO FINANCIAL STATEMENTS

31 December 2005

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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, an individual referred to in (c) or (d).

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost 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.

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2005

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

Where parts of an item of property, plant and equipment have different useful lives, the cost 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.

Operating leases

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

Financial assets

Applicable to the year ended 31 December 2005:

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 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, i.e., the date that the Group commits to purchase 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2005

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial assets *(Continued)*

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. 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.

Impairment of financial assets (applicable to the year ended 31 December 2005)

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 profit or loss.

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2005

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Derecognition of financial assets (applicable to the year ended 31 December 2005)

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.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risk 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 that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the fair value of the transferred asset and the option exercise price.

Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in net profit or loss when the liabilities are derecognised as well as through the amortisation process.

NOTES TO FINANCIAL STATEMENTS

31 December 2005

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Derecognition of financial liabilities (applicable to the year ended 31 December 2005)

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 difference 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 the recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2005

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 sheets, cash and cash equivalents comprise cash on hand and at banks, including short term deposits, and assets similar in nature to cash, which are not restricted as to use.

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2005

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax *(Continued)*

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.

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 when there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

NOTES TO FINANCIAL STATEMENTS

31 December 2005

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition

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

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) from systems integration contracts, on the percentage of completion basis, as further explained in the accounting policy for "Systems integration contracts" above;

(c) from the rendering of services, when the transactions have been completed in accordance with the terms of the contracts;

(d) from the disposal of 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.

Employee benefits

Share-based payment transactions

The Company operates share option schemes for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2005

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Employee benefits *(Continued)*

Share-based payment transactions (Continued)

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 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 satisfied, 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 vested already before 1 January 2005.

NOTES TO FINANCIAL STATEMENTS

31 December 2005

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Employee benefits *(Continued)*

Retirement benefits schemes

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

The employees of the Group's subsidiaries which operate in 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.

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 profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency rate are translated using the exchange rates at the date when the fair value was determined.

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 the 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 a separate component of equity, 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2005

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies *(Continued)*

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. ACCOUNTING JUDGEMENTS AND ESTIMATES

In the process of applying the Group's accounting policies, management has made the following judgements which have the most significant effect on the amounts recognised in the financial statements. 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 also discussed below.

Impairment assessment of trade receivables

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

Provision for obsolete inventories

The management reviews the aging analysis of inventories of the Group at each balance sheet date, and makes general provision for obsolete and slow-moving inventory items identified that are no longer suitable for sale. The 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 specific provision for obsolete items.

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 at 31 December 2005 was approximately HK$2,892,000 (2004: HK$2,892,000). More details are given in note 15.

NOTES TO FINANCIAL STATEMENTS

31 December 2005

4. SEGMENT INFORMATION

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

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

Continuing operations:

(a) The distribution of information products segment engages in the distribution of computer hardware; and

(b) The corporate segment comprises corporate income and expense items.

Discontinued operation:

The provision of software solutions and services segment engaged in the provision of systems integration solutions and services to financial institutions, enterprises and government departments in the PRC. As further explained in notes 12 and 28 to the financial statements, the Group (i) completed the disposal of the business of the provision of systems integration solutions and services to 方正軟件(蘇州)有限公司 (Founder Software (Suzhou) Company Limited*) ("Founder Suzhou") and 上海方正信息安全技術有限公司 (Shanghai Founder Information Security Technology Company Limited*) ("Shanghai Founder"), associates of 北大方正集團有限公司 (Peking University Founder Group Company Limited*) (formerly known as Peking University Founder Group Corporation) ("Peking Founder"), which is a substantial shareholder of the Company, on 3 December 2004; and (ii) entered into a termination agreement with a subsidiary of a then shareholder which held 8.47% of the shares of the Company, for the termination of the advertising sales representative agreement relating to the provision of internet advertising agency services on 15 October 2004.

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.

* *For identification purpose only*

NOTES TO FINANCIAL STATEMENTS

31 December 2005

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 2005 and 2004.

Group

	Continuing operations						Discontinued operation			
	Distribution of information products		Corporate		Total		Provision of software solutions and services		Consolidated	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
										(Restated)
Segment revenue:										
Sales to external customers	**1,900,652**	1,200,752	**–**	–	**1,900,652**	1,200,752	**–**	56,798	**1,900,652**	1,257,550
Segment results	**20,773**	7,434	**(4,531)**	(4,708)	**16,242**	2,726	**59**	1,773	**16,301**	4,499
Interest income					**1,184**	728	**97**	66	**1,281**	794
Finance costs					**(814)**	(45)	**–**	–	**(814)**	(45)
Share of profits of associates					**11,621**	5,172	**–**	–	**11,621**	5,172
Profit before tax					**28,233**	8,581	**156**	1,839	**28,389**	10,420
Tax					**(1,833)**	(5)	**–**	(1,230)	**(1,833)**	(1,235)
Profit for the year					**26,400**	8,576	**156**	609	**26,556**	9,185

NOTES TO FINANCIAL STATEMENTS

31 December 2005

4. SEGMENT INFORMATION *(Continued)*

(a) Business segments *(Continued)*

Group

	Continuing operations		Discontinued operation			
	Distribution of information products		Provision of software solutions and services		Consolidated	
	2005	2004	**2005**	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Assets and liabilities						
Segment assets	**750,430**	510,074	**5,392**	19,991	**755,822**	530,065
Interests in associates	**–**	–	**–**	–	**30,921**	22,972
Corporate and other unallocated assets	**–**	–	**–**	–	**5,396**	8,305
Total assets					**792,139**	561,342
Segment liabilities	**538,823**	361,591	**384**	11,974	**539,207**	373,565
Corporate and other unallocated liabilities	**–**	–	**–**	–	**38,084**	2,462
Total liabilities					**577,291**	376,027
Other segment information:						
Depreciation	**1,528**	1,048	**35**	2,337	**1,563**	3,385
Corporate and other unallocated amounts	**–**	–	**–**	–	**28**	29
					1,591	3,414
Capital expenditure	**1,266**	4,983	**–**	469	**1,266**	5,452
Corporate and other unallocated amounts	**–**	–	**–**	–	**21**	24
					1,287	5,476

NOTES TO FINANCIAL STATEMENTS

31 December 2005

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 2005 and 2004.

Group

	Mainland China		Hong Kong		Eliminations		Consolidated	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue:								
Sales to external customers	**1,735,682**	1,112,207	**164,970**	145,343	**–**	–	**1,900,652**	1,257,550
Intersegment sales	**–**	–	**253,713**	171,347	**(253,713)**	(171,347)	**–**	–
Attributable to a discontinued operation	**–**	(56,798)	**–**	–	**–**	–	**–**	(56,798)
Revenue from continuing operations	**1,735,682**	1,055,409	**418,683**	316,690	**(253,713)**	(171,347)	**1,900,652**	1,200,752

	Mainland China		Hong Kong		Consolidated	
	2005	2004	**2005**	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Other segment information:						
Segment assets	**672,114**	466,506	**120,025**	94,836	**792,139**	561,342
Capital expenditure	**1,266**	5,445	**21**	31	**1,287**	5,476

NOTES TO FINANCIAL STATEMENTS

31 December 2005

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	
	2005	2004
	HK$'000	*HK$'000*
Revenue		
Distribution of information products	**1,900,652**	1,200,752
Provision of software solutions and services attributable to a discontinued operation	**–**	56,798
	1,900,652	1,257,550
Other income		
Bank interest income	**1,281**	794
Government grants *(Note)*	**138**	2,183
Gross rental income	**–**	245
Others	**155**	4,897
	1,574	8,119
Gains		
Others	**228**	67
	1,802	8,186

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 software respectively. There are no unfulfilled conditions or contingencies relating to these grants.

NOTES TO FINANCIAL STATEMENTS

31 December 2005

6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging:

	Group	
	2005	2004
	HK$'000	*HK$'000*
Auditors' remuneration	**1,030**	860
Cost of inventories sold	**1,683,967**	1,156,949
Cost of services provided	**–**	5,724
Depreciation *(note 14)*	**1,591**	3,414
Provision and write-off of doubtful debts*	**2,394**	385
Provision and write-off of obsolete inventories**	**1,110**	3,417
Operating lease rentals in respect of land and buildings	**4,099**	5,771
Employee benefits expense (including directors' remuneration – *note 8*):		
Wages and salaries	**30,274**	35,823
Pension scheme contributions***	**1,975**	2,341
	32,249	38,164
Foreign exchange differences, net	**1,032**	35
Loss on disposal of items of property, plant and equipment	**45**	272

* This item is 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 2005, the Group had no forfeited contributions available to reduce its contributions to the pension scheme in future years (2004: Nil).

NOTES TO FINANCIAL STATEMENTS

31 December 2005

7. FINANCE COSTS

	Group	
	2005	2004
	HK$'000	*HK$'000*
Interest on bank loans and overdrafts	**814**	45

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	
	2005	2004
	HK$'000	*HK$'000*
Fees	**360**	370
Other emoluments:		
Salaries, allowances and benefits in kind	**–**	142
Performance related bonuses	**–**	63
	–	205
	360	575

(a) Independent non-executive directors

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

	2005	2004
	HK$'000	*HK$'000*
Mr Li Fat Chung	**120**	30
Ms Wong Lam Kit Yee	**120**	30
Ms Cao Qian	**90**	–
Mr Yang Lin, Richard	**30**	120
Mr Lee Ying Biu, Andrew	**–**	90
	360	270

There were no other emoluments payable to the independent non-executive directors during the year (2004: Nil).

NOTES TO FINANCIAL STATEMENTS

31 December 2005

8. DIRECTORS' REMUNERATION *(Continued)*

(b) Executive directors and a non-executive director

No directors' remuneration was paid to executive directors and a non-executive director during the year. The directors' remuneration paid to executive directors and a non-executive director for the year ended 31 December 2004 was as follows:

	Fees *HK$'000*	Salaries, allowances and benefits in kind *HK$'000*	Performance related bonuses *HK$'000*	Total remuneration *HK$'000*
Executive directors:				
Mr Zhang Zhao Dong	–	–	–	–
Mr Cheung Shuen Lung	–	–	–	–
Professor Wei Xin	–	–	–	–
Mr Xia Yang Jun	–	–	–	–
Mr Xie Ke Hai	–	–	–	–
Professor Zou Wei	100	142	63	305
Mr Yung Richard, Jr.	–	–	–	–
	100	142	63	305
Non-executive director:				
Mr Yung Chih Shin, Richard	–	–	–	–
	100	142	63	305

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

NOTES TO FINANCIAL STATEMENTS

31 December 2005

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year did not include any (2004: Nil) directors, details of whose remuneration are set out in note 8 to the financial statements above. Details of the remuneration of the five (2004: five) non-director, highest-paid employees for the year are as follows:

	Group	
	2005	2004
	HK$'000	*HK$'000*
Salaries, bonuses and benefits in kind	**3,193**	3,701
Pension scheme contributions	**224**	25
	3,417	3,726

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

	Number of employees	
	2005	2004
Nil – HK$1,000,000	**4**	4
HK$1,000,001 – HK$1,500,000	**1**	1
	5	5

10. TAX

	Group	
	2005	2004
	HK$'000	*HK$'000*
		(Restated)
Group:		
Current – Hong Kong	**12**	5
Current – Elsewhere	**1,821**	–
Deferred *(note 24)*	**–**	1,230
Total tax charge for the year	**1,833**	1,235

NOTES TO FINANCIAL STATEMENTS

31 December 2005

10. TAX *(Continued)*

Hong Kong profits tax has been provided at the rate of 17.5% (2004: 17.5%) on the estimated assessable profits arising in Hong Kong during the year.

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

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

The share of tax attributable to associates amounting to approximately HK$2,753,000 (2004: HK$1,248,000) is included in "Share of profits of associates" on the face of the consolidated income statement.

NOTES TO FINANCIAL STATEMENTS

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10. TAX *(Continued)*

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

Group – 2005

	Hong Kong		Mainland China		Total	
	HK$'000	%	*HK$'000*	%	*HK$'000*	%
Profit before tax (including profit from a discontinued operation)	6,382		22,007		28,389	
Tax at the statutory tax rate	1,117	17.5	7,262	33.0	8,379	29.5
Lower tax rate for specific provinces or local authority	–	–	(5,572)	(25.3)	(5,572)	(19.6)
Profits attributable to associates	(2,033)	(31.9)	–	–	(2,033)	(7.2)
Income not subject to tax	(92)	(1.4)	(10)	(0.1)	(102)	(0.4)
Expenses not deductible for tax	561	8.8	192	0.9	753	2.6
Tax losses utilised from previous years	–	–	(51)	(0.2)	(51)	(0.1)
Tax losses not recognised	459	7.2	–	–	459	1.6
Tax charge at the Group's effective rate attributable to continuing operations	12	0.2	1,821	8.3	1,833	6.4

NOTES TO FINANCIAL STATEMENTS

31 December 2005

10. TAX *(Continued)*

Group – 2004

	Hong Kong		Mainland China		Total	
	HK$'000	%	*HK$'000*	%	*HK$'000*	%
					(Restated)	
Profit before tax (including profit from a discontinued operation)	8,908		1,512		10,420	
Tax at the statutory tax rate	1,559	17.5	499	33.0	2,058	19.8
Lower tax rate for specific provinces or local authority	–	–	(1,218)	(80.6)	(1,218)	(11.7)
Profits attributable to associates	(905)	(10.1)	–	–	(905)	(8.7)
Income not subject to tax	(768)	(8.6)	(400)	(26.5)	(1,168)	(11.2)
Expenses not deductible for tax	164	1.8	132	8.7	296	2.8
Tax losses utilised from previous years	(48)	(0.5)	(362)	(23.9)	(410)	(3.9)
Tax losses not recognised	3	–	2,579	170.6	2,582	24.8
Tax charge at the Group's effective rate	5	0.1	1,230	81.3	1,235	11.9
Tax charge attributable to a discontinued operation *(note 12)*					(1,230)	
Tax charge attributable to continuing operations					5	

11. PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The profit from ordinary activities attributable to equity holders of the parent for the year ended 31 December 2005 dealt with in the financial statements of the Company was approximately HK$29,276,000 (2004: loss of HK$37,313,000) (note 27(b)).

NOTES TO FINANCIAL STATEMENTS

31 December 2005

12. DISCONTINUED OPERATION

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

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

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

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

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

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

The components of the gain on disposal of the discontinued operation of approximately HK$3,255,000 in 2004 are disclosed in note 28 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2005

12. DISCONTINUED OPERATION *(Continued)*

The revenue, other income and gains, expenses and results of the discontinued operation which have been included in the consolidated income statement are as follows:

	2005	2004
	HK$'000	*HK$'000*
REVENUE	–	56,798
Cost of sales	–	(47,767)
Gross profit	–	9,031
Other income and gains	**325**	6,956
Selling and distribution costs	–	(13,383)
Administrative expenses	**(125)**	(4,457)
Other expenses, net	**(44)**	437
Gain on disposal of a discontinued operation	–	3,255
PROFIT BEFORE TAX	**156**	1,839
Tax	–	(1,230)
PROFIT FOR THE YEAR FROM THE DISCONTINUED OPERATION	**156**	609

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

	2005	2004
	HK$'000	*HK$'000*
Total assets	**7,313**	18,995
Total liabilities	**(10,775)**	(22,539)
Net liabilities	**(3,462)**	(3,544)

NOTES TO FINANCIAL STATEMENTS

31 December 2005

12. DISCONTINUED OPERATION *(Continued)*

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

	2005	2004
	HK$'000	*HK$'000*
Operating activities	(8,693)	760
Investing activities	168	(320)
Net cash inflow/(outflow)	(8,525)	440
Earnings per share – Basic from the discontinued operation	0.01 cents	0.06 cents

The calculation of basic earnings per share amounts from the discontinued operation is based on the profit for the year attributable to ordinary equity holders of the parent from the discontinued operation of approximately HK$156,000 (2004: HK$609,000), and the weighted average number of 1,100,562,040 (2004: 1,100,562,040) ordinary shares in issue during the year.

Diluted earnings per share from the discontinued operation for the years ended 31 December 2005 and 2004 have not been disclosed as the impact of the outstanding share options was anti-dilutive.

13. 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$26,556,000 (2004: HK$9,185,000), and the weighted average number of 1,100,562,040 (2004: 1,100,562,040) ordinary shares in issue during the year.

The calculation of basic earnings per share amounts from continuing operations is based on the profit from continuing operations attributable to ordinary equity holders of the parent of approximately HK$26,400,000 (2004: HK$8,576,000), and the weighted average number of 1,100,562,040 (2004: 1,100,562,040) ordinary shares in issue during the year.

Diluted earnings per share for the years ended 31 December 2005 and 2004 have not been disclosed as the impact of the outstanding share options was anti-dilutive.

NOTES TO FINANCIAL STATEMENTS

31 December 2005

14. PROPERTY, PLANT AND EQUIPMENT

Group

	Furniture, fixtures and office equipment *HK$'000*	Motor vehicles *HK$'000*	Total *HK$'000*
31 December 2005			
At 31 December 2004 and at 1 January 2005:			
Cost	7,665	3,055	10,720
Accumulated depreciation	(4,054)	(342)	(4,396)
Net carrying amount	3,611	2,713	6,324
At 1 January 2005, net of accumulated depreciation	3,611	2,713	6,324
Additions	1,287	–	1,287
Disposals	(21)	(213)	(234)
Depreciation provided during the year	(1,274)	(317)	(1,591)
Exchange realignment	74	58	132
At 31 December 2005, net of accumulated depreciation	3,677	2,241	5,918
At 31 December 2005:			
Cost	9,028	2,845	11,873
Accumulated depreciation	(5,351)	(604)	(5,955)
Net carrying amount	3,677	2,241	5,918

NOTES TO FINANCIAL STATEMENTS

31 December 2005

14. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

Group

	Leasehold improvements HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
31 December 2004				
At 1 January 2004:				
Cost	1,162	18,921	3,099	23,182
Accumulated depreciation	(371)	(12,288)	(902)	(13,561)
Net carrying amount	791	6,633	2,197	9,621
At 1 January 2004, net of accumulated depreciation	791	6,633	2,197	9,621
Additions	–	3,074	2,402	5,476
Disposals	–	(464)	–	(464)
Disposal of a subsidiary *(note 28)*	(624)	(3,065)	(1,236)	(4,925)
Depreciation provided during the year	(170)	(2,588)	(656)	(3,414)
Exchange realignment	3	21	6	30
At 31 December 2004, net of accumulated depreciation	–	3,611	2,713	6,324
At 31 December 2004:				
Cost	–	7,665	3,055	10,720
Accumulated depreciation	–	(4,054)	(342)	(4,396)
Net carrying amount	–	3,611	2,713	6,324

NOTES TO FINANCIAL STATEMENTS

31 December 2005

14. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

Company

	Furniture, fixtures and office equipment *HK$'000*
31 December 2005	
At 31 December 2004 and 1 January 2005:	
Cost	**234**
Accumulated depreciation	**(92)**
Net carrying amount	**142**
At 1 January 2005, net of accumulated depreciation	**142**
Additions	**21**
Disposals	**(18)**
Depreciation provided during the year	**(28)**
At 31 December 2005, net of accumulated depreciation	**117**
At 31 December 2005:	
Cost	**233**
Accumulated depreciation	**(116)**
Net carrying amount	**117**
31 December 2004	
At 1 January 2004:	
Cost	233
Accumulated depreciation	(72)
Net carrying amount	161
At 1 January 2004, net of accumulated depreciation	161
Additions	24
Disposals	(13)
Depreciation provided during the year	(30)
At 31 December 2004, net of accumulated depreciation	142
At 31 December 2004:	
Cost	234
Accumulated depreciation	(92)
Net carrying amount	142

NOTES TO FINANCIAL STATEMENTS

31 December 2005

15. GOODWILL

	Group
	HK$'000
Cost, net of accumulated amortisation, at 1 January 2004, 2005 and 31 December 2004, 2005	2,892

Impairment testing of goodwill

Goodwill acquired through business combination has been allocated to the distribution of information products cash-generating unit, which is one of the reportable segments, for impairment testing. The recoverable amount of the distribution of information products cash-generating unit was determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by the directors. The discount rate applied to cash flow projections is 5% (2004: 5%).

Key assumptions were used in the value in use calculation of the distribution of information products cash-generating unit for 31 December 2005 and 31 December 2004. The cash flow projection was based on the expected gross margin during the budget period. Budgeted gross margin has been determined based on past performance and management's expectation on market development. The discount rate used is before tax and reflect specific risk relating to the cash-generating unit.

As further detailed in note 2.5 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 the consolidated reserves.

The amounts of the goodwill remaining in consolidated reserves as at 31 December 2005, arising from the acquisition of subsidiaries prior to the adoption of SSAP 30 in 2001, are as follows:

	Group Goodwill eliminated against consolidated contributed surplus	
	2005	2004
	HK$'000	*HK$'000*
Cost:		
At 1 January	**537,259**	537,259
Written off	**(141,977)**	–
At 31 December	**395,282**	537,259
Accumulated impairment:		
At 1 January	**537,259**	488,759
Provided during the year	**–**	48,500
Written off	**(141,977)**	–
At 31 December	**395,282**	537,259
Net carrying amount:		
At 31 December	**–**	–

NOTES TO FINANCIAL STATEMENTS

31 December 2005

16. INTERESTS IN SUBSIDIARIES

	Company	
	2005	2004
	HK$'000	*HK$'000*
Unlisted shares, at cost	**450,071**	450,071
Due from subsidiaries	**295,592**	299,583
	745,663	749,654
Impairment	**(531,893)**	(565,394)
	213,770	184,260

The amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment. Although these balances are technically currently repayable under the original terms of the transactions giving rise thereto, they have been deferred or subordinated for the longer term and are therefore classified as non-current assets. The carrying amounts of these amounts due from subsidiaries approximate to their fair values.

Particulars of the principal subsidiaries are as follows:

Name	**Place of incorporation/ registration and operations**	**Nominal value of issued ordinary/ registered share capital**	**Percentage of equity attributable to the Company**		**Principal activities**
			Direct	**Indirect**	
FDC	British Virgin Islands/ Hong Kong	Ordinary US$20,000	100	–	Investment holding
PRC Century*	Mainland China	Registered RMB150,000,000	–	100	Distribution of information products
Founder Century (Hong Kong) Limited	Hong Kong	Ordinary HK$2	–	100	Distribution of information products

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

NOTES TO FINANCIAL STATEMENTS

31 December 2005

16. INTERESTS IN SUBSIDIARIES *(Continued)*

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

17. INTERESTS IN ASSOCIATES

	Group	
	2005	2004
	HK$'000	*HK$'000*
Share of net assets	**30,921**	22,972

Particulars of the principal associates are as follows:

Name	**Particulars of issued shares held**	**Place of incorporation and operations**	**Percentage of ownership interest attributable to the Group**	**Principal activities**
MC.Founder Limited*	Ordinary shares of HK$1 each	Hong Kong	36.69	Investment holding and distribution of mobile phones and data products
MC.Founder (Distribution) Limited*	Ordinary shares of HK$1 each	Hong Kong	36.69	Distribution of mobile phones and accessories, and provision of repair services
MC.Founder (Technology) Limited*	Ordinary shares of HK$1 each	Hong Kong	36.69	Sale of data products

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

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

NOTES TO FINANCIAL STATEMENTS

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17. INTERESTS IN ASSOCIATES *(Continued)*

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

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 extracted from their management accounts:

	2005	2004
	HK$'000	*HK$'000*
Assets	**202,163**	162,884
Liabilities	**117,798**	100,277
Revenue	**1,233,816**	1,066,335
Profit after tax	**31,672**	14,093

18. INVENTORIES

	Group	
	2005	2004
	HK$'000	*HK$'000*
Trading stocks	**129,199**	108,010

19. TRADE AND BILLS RECEIVABLES

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally for a period of one month, extending up to three months for major customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. 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.

NOTES TO FINANCIAL STATEMENTS

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19. TRADE AND BILLS RECEIVABLES *(Continued)*

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

	Group	
	2005	2004
	HK$'000	*HK$'000*
Within 6 months	**241,600**	178,545
7 – 12 months	**6,425**	15,306
13 – 24 months	**7,134**	1,435
Over 24 months	**–**	70
	255,159	195,356

Included in the Group's trade and bills receivables are amounts due from fellow subsidiaries and related companies of approximately HK$6,389,000 (2004: HK$1,896,000) and HK$1,243,000 (2004: HK$1,094,000), respectively, which are repayable on similar credit terms to those offered to the major customers of the Group.

20. 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.

21. CASH AND CASH EQUIVALENTS

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Cash and bank balances	**252,163**	135,654	**148**	519
Time deposits	**1,676**	21,253	**1,676**	2,453
	253,839	156,907	**1,824**	2,972

At the balance sheet date, the cash and cash equivalents of the Group denominated in Renminbi ("RMB") amounted to approximately HK$241,885,000 (2004: HK$137,730,000). 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.

NOTES TO FINANCIAL STATEMENTS

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21. CASH AND CASH EQUIVALENTS *(Continued)*

Cash at bank earns interest at floating rates based on daily bank deposits rates. Short term time deposit is made for seven days, and earns interest at its short term time deposit rate. The carrying amounts of the cash and cash equivalents approximate to their fair values.

22. TRADE AND BILLS PAYABLES

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

	Group	
	2005	2004
	HK$'000	*HK$'000*
Within 6 months	**405,802**	306,497
Over 6 months	**1,105**	2,051
	406,907	308,548

The trade payables are non-interest-bearing and are normally settled on terms of 45 to 90 days.

23. INTEREST-BEARING BANK BORROWINGS

	Effective interest rate (%)	**Maturity**	**Group 2005** ***HK$'000***	**Group** 2004 *HK$'000*
Bank loan – unsecured	5.859	2006	**38,400**	–

The unsecured bank loan is repayable within one year and is guaranteed by Peking Founder. It is denominated in RMB.

The carrying amount of the Group's bank borrowing approximates to its fair value.

NOTES TO FINANCIAL STATEMENTS

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24. DEFERRED TAX

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

	Group
	HK$'000
At 1 January 2004	1,230
Deferred tax charged to the income statement during the year	(1,230)
Gross and net deferred tax assets at 31 December 2004, 1 January 2005 and 31 December 2005	–

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

	Group	
	2005	2004
	HK$'000	*HK$'000*
Tax losses	**59,447**	58,456
Impairment for doubtful debts	**1,557**	862
General provision for obsolete inventories	**38**	610
	61,042	59,928

The unused tax losses include an amount of approximately HK$2,331,000 (2004: HK$2,976,000) arising in Mainland China which is due to expire within one to five years for offsetting against future taxable profits of the company 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.

At 31 December 2005, there was no significant unrecognised deferred tax liability (2004: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries and associates as the Group has no liability to additional tax should such amounts be remitted due to the availability of double tax relief.

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

NOTES TO FINANCIAL STATEMENTS

31 December 2005

25. SHARE CAPITAL

	Group and Company	
	2005	2004
	HK$'000	*HK$'000*
Authorised:		
3,000,000,000 ordinary shares of HK$0.10 each	**300,000**	300,000
Issued and fully paid:		
1,100,562,040 ordinary shares of HK$0.10 each	**110,056**	110,056

26. SHARE OPTION SCHEMES

(a) Share option schemes of the Company

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

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

NOTES TO FINANCIAL STATEMENTS

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26. SHARE OPTION SCHEMES *(Continued)*

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

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2005

26. SHARE OPTION SCHEMES *(Continued)*

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

The following share options were outstanding under the 1991 Scheme, the 2001 Scheme and the 2002 Scheme at 1 January 2005 and at the end of the year:

Name or category of participant	Number of share options: At 1 January 2005	Lapsed during the year	At 31 December 2005	Date of grant of share options*	Exercise period of share options	Exercise price of share options** HK$
1991 Scheme						
Other employees						
In aggregate	2,700,000	–	2,700,000	18.5.2001	15.12.2001 to 14.12.2006	0.450
2001 Scheme						
Directors						
Mr Cheung Shuen Lung	2,000,000	–	2,000,000	18.5.2001	18.5.2001 to 17.5.2011	0.450
Professor Wei Xin	2,000,000	–	2,000,000	18.5.2001	18.5.2001 to 17.5.2011	0.450
Subtotal	4,000,000	–	4,000,000			
Other employees						
In aggregate	1,900,000	(1,600,000)	300,000	18.5.2001	18.5.2001 to 17.5.2011	0.450
Total under the 2001 Scheme	5,900,000	(1,600,000)	4,300,000			

NOTES TO FINANCIAL STATEMENTS

31 December 2005

26. SHARE OPTION SCHEMES *(Continued)*

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

Name or category of participant	Number of share options: At 1 January 2005	Lapsed during the year	At 31 December 2005	Date of grant of share options*	Exercise period of share options	Exercise price of share options** HK$
2002 Scheme						
Directors						
Mr Zhang Zhao Dong	8,000,000	–	8,000,000	6.2.2004	7.2.2004 to 5.2.2014	0.381
Mr Cheung Shuen Lung	8,000,000	–	8,000,000	6.2.2004	7.2.2004 to 5.2.2014	0.381
Professor Wei Xin	8,000,000	–	8,000,000	6.2.2004	7.2.2004 to 5.2.2014	0.381
Subtotal	24,000,000	–	24,000,000			
Other employees of the ultimate holding company						
In aggregate	16,500,000	–	16,500,000	2.1.2004	3.1.2004 to 31.12.2013	0.340
Other employees of the Group						
In aggregate	21,500,000	(11,000,000)	10,500,000	2.1.2004	3.1.2004 to 31.12.2013	0.340
Total under the 2002 Scheme	62,000,000	(11,000,000)	51,000,000			

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2005

26. SHARE OPTION SCHEMES *(Continued)*

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

1991 Scheme

At the balance sheet date, the Company had 2,700,000 share options outstanding under the 1991 Scheme. The exercise in full of the remaining share options under the 1991 Scheme would, under the present capital structure of the Company, result in the issue of 2,700,000 additional ordinary shares of the Company and additional share capital of HK$270,000 and share premium of HK$945,000 (before issue expenses).

2001 Scheme

At the balance sheet date, the Company had 4,300,000 share options outstanding under the 2001 Scheme. The exercise in full of the remaining share options under the 2001 Scheme would, under the present capital structure of the Company, result in the issue of 4,300,000 additional ordinary shares of the Company and additional share capital of HK$430,000 and share premium of HK$1,505,000 (before issue expenses).

2002 Scheme

At the balance sheet date, the Company had 51,000,000 share options outstanding under the 2002 Scheme. The exercise in full of the remaining share options under the 2002 Scheme would, under the present capital structure of the Company, result in the issue of 51,000,000 additional ordinary shares of the Company and additional share capital of HK$5,100,000 and share premium of HK$13,224,000 (before issue expenses).

(b) Share option scheme of FHL

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

NOTES TO FINANCIAL STATEMENTS

31 December 2005

26. SHARE OPTION SCHEMES *(Continued)*

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

The following share options were outstanding in respect of options granted to the directors of the Company under the Scheme at 1 January 2005 and at the end of the year:

Name of director	Number of share options outstanding at 1 January 2005 and at 31 December 2005	Date of grant of share options*	Exercise period of share options	Exercise price of share options**
				HK$
Mr Zhang Zhao Dong	8,000,000	5.2.2004	6.2.2004 to 4.2.2014	1.104
Mr Cheung Shuen Lung	8,000,000	5.2.2004	6.2.2004 to 4.2.2014	1.104
Professor Wei Xin	8,000,000	5.2.2004	6.2.2004 to 4.2.2014	1.104
	24,000,000			

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 share capital of FHL.

NOTES TO FINANCIAL STATEMENTS

31 December 2005

27. RESERVES

(a) Group

	Share premium account	Contributed surplus	Exchange fluctuation reserve	General reserve	Retained profits/ (accumulated losses)	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2004	154,699	471,656	(111)	–	(560,174)	66,070
Impairment of goodwill	–	48,500	–	–	(48,500)	–
Realisation upon disposal of a subsidiary	–	–	(316)	–	–	(316)
Exchange realignment	–	–	320	–	–	320
Profit for the year	–	–	–	–	9,185	9,185
At 31 December 2004 and beginning of year	154,699	520,156	(107)	–	(599,489)	75,259
Exchange realignment	–	–	2,977	–	–	2,977
Profit for the year	–	–	–	–	26,556	26,556
Transfer to general reserve	–	–	–	2,867	(2,867)	–
At 31 December 2005	**154,699**	**520,156**	**2,870**	**2,867**	**(575,800)**	**104,792**

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

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 subsidiary transferred approximately RMB3 million (HK$2.9 million), which represented 10% of the PRC subsidiary's profit after tax for the year ended 31 December 2005 as determined in accordance with the PRC accounting standards and regulations, to the general reserve.

NOTES TO FINANCIAL STATEMENTS

31 December 2005

27. RESERVES *(Continued)*

(b) Company

	Share premium account HK$'000	Contributed surplus HK$'000	Retained profits/ (accumulated losses) HK$'000	Total HK$'000
At 1 January 2004	154,699	528,980	(571,107)	112,572
Loss for the year	–	–	(37,313)	(37,313)
At 31 December 2004 and beginning of year	154,699	528,980	(608,420)	75,259
Profit for the year	–	–	29,276	29,276
At 31 December 2005	**154,699**	**528,980**	**(579,144)**	**104,535**

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

NOTES TO FINANCIAL STATEMENTS

31 December 2005

28. DISPOSAL OF A SUBSIDIARY

	2005	2004
	HK$'000	*HK$'000*
Net assets disposed of:		
Property, plant and equipment	–	4,925
Inventories	–	177
Systems integration contracts	–	2,481
Trade and bills receivables	–	2,869
Prepayments, deposits and other receivables	–	1,388
Cash and bank balances	–	5,049
Trade payables	–	(1,896)
Other payables and accruals	–	(5,336)
Exchange fluctuation reserve	–	(316)
	–	9,341
Gain on disposal of a subsidiary *(note 12)*	–	3,255
	–	12,596
Satisfied by:		
Cash	–	12,596

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

	2005	2004
	HK$'000	*HK$'000*
Cash consideration	–	12,596
Cash and bank balances disposed of	–	(5,049)
Net inflow of cash and cash equivalents in respect of the disposal of a subsidiary	–	7,547

The subsidiary disposed of in prior year contributed approximately HK$23,691,000 to the Group's consolidated revenue and loss of approximately HK$7,208,000 to the consolidated profit after tax for that year.

NOTES TO FINANCIAL STATEMENTS

31 December 2005

29. CONTINGENT LIABILITIES

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

	Company	
	2005	2004
	HK$'000	*HK$'000*
Guarantees given to suppliers in connection with credit facilities granted to subsidiaries	**9,600**	19,740

As at 31 December 2005, the guarantees given to suppliers in connection with credit facilities granted to a subsidiary by the Company were utilised to the extent of approximately HK$4,800,000 (2004: HK$9,116,000).

The Group did not have any significant contingent liabilities as at 31 December 2005 (2004: Nil).

30. OPERATING LEASE ARRANGEMENTS AS LESSEE

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

At 31 December 2005, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2005	2004
	HK$'000	*HK$'000*
Within one year	**1,179**	2,850
In the second to fifth years, inclusive	**485**	818
	1,664	3,668

NOTES TO FINANCIAL STATEMENTS

31 December 2005

31. 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) On 29 April 2003, the Group entered into lease agreements with Peking Founder to lease from Peking Founder certain premises in Beijing, the PRC, as its office. During the year, rental and management fee expenses of approximately HK$1,935,000 (2004: HK$4,288,000) were paid to Peking Founder. The directors considered that the rental and management fee expenses were paid in accordance with the terms of the lease agreements governing such transaction.

(b) During the year, products of approximately HK$24,063,000 (2004: HK$13,286,000) were sold to fellow subsidiaries. The sales of products were made according to published prices and conditions similar to those offered to other customers of the Group.

(c) During the year, products of approximately HK$59,662,000 (2004: HK$48,687,000) were purchased from a company in which one director of a subsidiary was a shareholder. The purchase prices were determined based on actual costs incurred.

(d) During the year, software of approximately HK$1,410,000 (2004: Nil) was purchased from a then fellow subsidiary. The directors considered that the transactions were conducted at rates agreed between the Group and the then fellow subsidiary.

(e) As at 31 December 2005, Peking Founder guaranteed banking facilities given by the PRC banks to the Group of approximately HK$340,897,000 (2004: HK$295,630,000) which were utilised to the extent of approximately HK$306,817,000 (2004: HK$266,858,000).

(f) As at 31 December 2005, Peking Founder guaranteed bank loan given by a PRC bank to the Group of approximately HK$38,400,000 (2004: Nil).

(g) On 20 October 2004, FDC entered into a conditional disposal agreement with Founder Suzhou, Shanghai Founder and Peking Founder. Further details of the transaction are set out in note 12(a) to the financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2005

31. RELATED PARTY TRANSACTIONS *(Continued)*

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

(h) During the year ended 31 December 2004, the Group received commission income of approximately HK$4,546,000 from a subsidiary of a then shareholder which held 8.47% of the shares of the Company, prior to the disposal of shares of the Company by the shareholder, for the provision of internet advertising agency services.

The related party transactions in respect of items (a), (b), (d) 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 was approximately HK$820,000 (2004: HK$478,000). The balance due from Peking Founder included in prepayments, deposits and other receivables as at 31 December 2004 was approximately HK$319,000. These balances are unsecured, interest-free and have no fixed term of repayment.

(b) The balance due from the related company in which one director of a subsidiary was a shareholder included in prepayments, deposits and other receivables as at 31 December 2004 was approximately HK$4,220,000. The balance was unsecured, interest-free and repaid during the year.

(c) The balance due from a fellow subsidiary included in prepayments, deposits and other receivables was approximately HK$1,751,000 (2004: Nil). The balance is unsecured, interest-free and has no fixed term of repayment.

(III) Compensation of key management personnel of the Group

	2005	2004
	HK$'000	*HK$'000*
Short term employee benefits	**2,382**	3,243
Post-employment benefits	**67**	25
Total compensation paid to key management personnel	**2,449**	3,268

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

NOTES TO FINANCIAL STATEMENTS

31 December 2005

32. 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 relates primarily to the Group's debt obligations. The Group does not use derivative financial instruments to hedge its debt obligations.

Foreign currency risk

Most of the Group's payables and borrowings are denominated in Hong Kong dollars, RMB and United States dollars ("USD") and the sales of the Group are mainly denominated in RMB and USD. As the exchange rates of RMB and USD against Hong Kong dollars were 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 trade 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2005

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

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.

33. POST BALANCE SHEET EVENTS

(a) In January 2006, PRC Century entered into a lease agreement with Peking Founder to lease from Peking Founder certain premises in Beijing, the PRC, as its office for an aggregate annual rental and management fees of approximately RMB1,807,000 (equivalent to approximately HK$1,737,000) effective from 1 January 2006 to 31 December 2008. Further details of the transaction were set out in the joint announcement of the Company and FHL dated 21 November 2005.

(b) On 5 January 2006, the Company entered into a master agreement with Peking Founder to govern the sale of information products to Peking Founder and its subsidiaries for a term of three years from 1 January 2006 to 31 December 2008. Further details of the transaction were set out in the joint announcement of the Company and FHL dated 21 November 2005 and the circular of the Company dated 12 December 2005.

(c) On 5 January 2006, the Company entered into a master agreement with FHL to govern the sale of information products to FHL and its subsidiaries for a term of three years from 1 January 2006 to 31 December 2008. Further details of the transaction were set out in the joint announcement of the Company and FHL dated 21 November 2005 and the circular of the Company dated 12 December 2005.

NOTES TO FINANCIAL STATEMENTS

31 December 2005

34. COMPARATIVE AMOUNTS

As further explained in notes 2.2 and 2.4 to the financial statements, due to the adoption of new HKFRSs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been reclassified and restated to conform with the current year's presentation and accounting treatment.

35. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 21 April 2006.

FIVE YEAR FINANCIAL SUMMARY

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 2001 and 2002 have been adjusted for the effects of the retrospective change in accounting policy affecting income tax whose arose in the prior year.

	Year ended 31 December				
	2005	2004	2003	2002	2001
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Restated)	(Restated)
RESULTS					
REVENUE	**1,900,652**	1,257,550	624,972	311,933	331,455
PROFIT/(LOSS) FOR THE YEAR	**26,556**	9,185	(22,827)	(86,299)	(69,960)
Attributable to:					
Equity holders of the parent	**26,556**	9,185	(22,827)	(85,964)	(68,290)
Minority interests	**–**	–	–	(335)	(1,670)
	26,556	9,185	(22,827)	(86,299)	(69,960)

ASSETS, LIABILITIES AND MINORITY INTERESTS

	31 December 2005	31 December 2004	31 December 2003	31 December 2002	31 December 2001
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Restated)	(Restated)
TOTAL ASSETS	**792,139**	561,342	457,944	223,960	378,634
TOTAL LIABILITIES	**(577,291)**	(376,027)	(281,818)	(85,338)	(189,389)
MINORITY INTERESTS	**–**	–	–	–	(2,336)
	214,848	185,315	176,126	138,622	186,909