# EC-FOUNDER (HOLDINGS) COMPANY LIMITED

# 方正數碼(控股)有限公司

*(Incorporated in Bermuda with limited liability)*

Stock Code : 0618


# ANNUAL REPORT 2006

# Contents

# Corporate Information

## BOARD OF DIRECTORS

### Executive directors

Mr Zhang Zhao Dong *(Chairman)*
Mr Chen Geng *(President)*
Mr Xia Yang Jun
Mr Xie Ke Hai
Mr Zheng Fu Shuang

### 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 Chen Geng *(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 Chen Geng

## AUDITORS

Ernst & Young
Certified Public Accountants

## LEGAL ADVISERS

Morrison & Foerster

## PRINCIPAL BANKERS

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

## REGISTERED OFFICE

Canon's Court
22 Victoria Street
Hamilton HM12
Bermuda

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

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

## SHARE REGISTRARS AND TRANSFER OFFICE

### Principal registrars

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

### Hong Kong branch share registrars and transfer office

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 WEBSITES

www.ecfounder.com.hk
www.irasia.com/listco/hk/ecfounder

# Financial Highlights

| Year | **2006** | 2005 | 2004 | 2003 | 2002 *(Restated)* |
|---|---|---|---|---|---|
| Turnover *(HK$' million)* | **2,315** | 1,901 | 1,258 | 625 | 312 |
| Total assets *(HK$' million)* | **900** | 792 | 561 | 458 | 224 |
| Total liabilities *(HK$' million)* | **663** | 577 | 376 | 282 | 85 |
| Net assets *(HK$' million)* | **237** | 215 | 185 | 176 | 139 |
| Net assets per share *(HK$)* | **0.22** | 0.20 | 0.17 | 0.16 | 0.17 |
| Current ratio | **1.30** | 1.30 | 1.41 | 1.50 | 1.79 |
| Long term debt to equity ratio | **0.002** | N/A | N/A | N/A | 0.004 |

## OVERALL PERFORMANCE

The Group reported a profit attributable to equity holders of the parent for the year ended 31 December 2006 of approximately HK$14.9 million (year ended 31 December 2005: HK$26.6 million). The Group's revenue for the current year has increased by 21.8% to approximately HK$2,314.8 million compared to HK$1,900.7 million for the year ended 31 December 2005. With an increase in the gross profit margin from last year's 4.97% to the current year's 5.34%, gross profit has increased by 30.7% to approximately HK$123.5 million (year ended 31 December 2005: HK$94.5 million).

Though revenue has recorded a moderate 21.8% growth in the current year, total selling and distribution costs and administrative expenses for the current year has increased by 42.9% compared to the year ended 31 December 2005.

The decrease in the Group's consolidated profit for the year attributable to the equity holders of the parent was mainly the net results of:

a. a decrease in the segment profit of the distribution of information products business by 22.1% to approximately HK$16.2 million (year ended 31 December 2005: HK$20.8 million);

b. an increase in segment loss for the corporate and others segment by 88.9% to approximately HK$8.5 million (year ended 31 December 2005: HK$4.5 million);

c. a decrease in the share of profits and losses of associates by 23.3% to approximately HK$8.9 million (year ended 31 December 2005: HK$11.6 million).

Basic earnings per share attributable to equity holders of the parent for the year was HK1.4 cents (year ended 31 December 2005: HK2.4 cents).

## OPERATING REVIEW AND PROSPECTS

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

The Group's principal operating activity during the year is the distribution of information products business. The Distribution Business recorded a turnover of approximately HK$2,314.8 million representing an increase of 21.8% comparing to the last financial year, which exceeded the estimated average growth of the PRC information products and segment results for the year ended 31 December 2006 has decreased by 22.1% to HK$16.2 million (year ended 31 December 2005: HK$20.8 million). However, gross profit for the Distribution Business has recorded an increase of 30.7% to HK$123.5 million for the year ended 31 December 2006 (year ended 31 December 2005: HK$94.5 million) and gross profit ratio has increased to 5.34% for the current year comparing to 4.97% for the year ended 31 December 2005.

The Distribution Business is mainly focused on the distribution of information products such as servers, printers, switches, networking products, storage devices, workstations and screen projectors of a number of internationally famed and branded information products manufacturers such as HP, Huawei-3Com, Apple, Netgear, CommScope, Barco, Epson and Miscrosoft.

During the second half of the current year, the Distribution Business segment has recorded a higher gross profit ratio of 5.82% comparing to 4.86% for the six months ended 30 June 2006. However, the higher gross profit ratio for the second half of the current year was offset by the moderate 35.6% increase in the second half of the current financial year in total selling and distribution costs and administrative expenses from the first half of the current financial year, segment results for the second half of the current financial year was HK$7.4 million comparing to HK$8.8 million for the six months ended 30 June 2006. The increase in total selling and distribution costs and administrative expenses was mainly due to the increase in the number of headcount and increased marketing and selling effort for keeping a growth in turnover during the second half of the current year.

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

During the year under review, 5 major cities, namely Chong Qing, Zheng Zhou, Kun Ming, Chang Sha and Dalian have been added to the distribution channel and network of the Distribution Business. At present, the Distribution Business operates its nation-wide distribution channel and network in 21 major cities in the PRC.

The operating environment of the Distribution Business in the PRC was very competitive, total selling and distribution costs for the Distribution Business as a percentage to turnover has increased from 2.31% for the first half of the current financial year to 3.09% for the second half of the current financial year. With the opening up of additional branch offices/representative offices, selling and distribution costs and administrative expenses for the Distribution Business for the current financial year also increased by 51.1% and 33.1% respectively compared to the year ended 31 December 2005. To strike for continued expansion in operation, the Group has placed much effort on current assets management. The Group's trade and bills receivables and inventory turnover periods have improved from 2005's 49.0 days and 26.1 days to the current year's 43.6 days and 20.1 days respectively. The working capital ratio for the Group as at 31 December 2006 was 1.30 (31 December 2005: 1.30).

To fuel for future growth, the Group is dedicated for a medium to long term development plan which is feasible, sustainable and flexible. The Distribution Business will continuously refine its product structure to avoid product overlapping and minimize market risk. The Group will focus on the distribution of information products with higher margin and exploring the more profitable value-added service business. In addition to imposing efficient and effective internal control measures and the continuing provision of staff development programs, the Group is committed to strive for leadership in the information products distribution business in the PRC. Nevertheless, to enrich and widen the product range and improving the Group's profitability, the Group will continue to look for alliance with other international information products suppliers and investment opportunities. The Board and the management team are also devoted to sustain the Group's future growth and widen the revenue base for a better reward to the shareholders.

## EMPLOYEE

The Group has developed its human resources policies and procedures based on performance and merits. 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.

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

Due to the increase in the size of operation of the Distribution Business, the Group has approximately 526 employees as at 31 December 2006 (31 December 2005: 415).

## FINANCIAL REVIEW

### Liquidity, financial resources and capital commitments

As at 31 December 2006, the Group recorded total assets of HK$900.0 million (31 December 2005: HK$792.1 million) which were financed by liabilities of HK$663.2 million (31 December 2005: HK$577.3 million) and equity of HK$236.8 million (31 December 2005: HK$214.8 million). The Group's net asset value as at 31 December 2006 increased by 10.2% to HK$236.8 million as compared to approximately HK$214.8 million as at 31 December 2005.

The Group had total cash and bank balances of HK$356.9 million as at 31 December 2006 (31 December 2005: HK$292.7 million). The Group had bank and other borrowings as at 31 December 2006 of HK$40.4 million (31 December 2005: HK$38.4 million), of which approximately HK$40.0 million (31 December 2005: HK$38.4 million) was repayable within one year and approximately HK$0.4 million (31 December 2005: Nil) was repayable within two to five years. Hence the Group recorded a net cash balance of HK$316.5 million as at 31 December 2006 as compared to HK$254.3 million as at 31 December 2005. As at 31 December 2006, the Group's current ratio was 1.30 (31 December 2005: 1.30).

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

### Treasury policies

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

### Exposure to fluctuations in exchange rates and related hedges

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

### Material acquisitions and disposals of subsidiaries and associates

The Group had no material acquisition or disposals of subsidiaries and associates in 2006.

### Charges on assets

As at 31 December 2006, bank deposits of approximately HK$88.5 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 2006 (2005: Nil).

## CORPORATE GOVERNANCE PRACTICES

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

In the opinion of the directors, the Company has applied the principles in the Code through the adoption of the code provisions of the Code and has complied with the code provisions of the Code throughout the year ended 31 December 2006.

## DIRECTORS' SECURITIES TRANSACTIONS

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

## BOARD OF DIRECTORS

As at the date of this Corporate Governance Report, the board of directors of the Company (the "Board") comprises eight directors, namely, Mr Zhang Zhao Dong (Chairman), Mr Chen Geng (President), Mr Xia Yang Jun, Mr Xie Ke Hai and Mr Zheng Fu Shuang as executive directors, Mr Li Fat Chung, Ms Wong Lam Kit Yee and Ms Cao Qian as independent non-executive directors. The biographical details of each director are disclosed on pages 13 to 14 of this Annual Report.

The Company has three independent non-executive directors, two of them are professional accountants, which is in compliance with the requirement of rule 3.10 of the Listing Rules. Each independent non-executive director has, pursuant to rule 3.13 of the Listing Rules, provided an annual confirmation of his/her independence to the Company and the Company also considers them to be independent. Save as disclosed herein, to the best of knowledge of the directors, there is no relationship (including financial, business, family or other material/relevant relationship) among members of the Board.

The Board oversees the Group's strategic development and determines the objectives, strategies and policies of the Group. The Board also monitors and controls the operating and financial performance in pursuit of the Group's strategic objectives. Day-to-day management of the Group's business is delegated to the management of the Company under the supervision of the executive directors. The functions and powers that are so delegated are reviewed periodically to ensure that they remain appropriate. Matters reserved for the Board are the overall strategy of the Group, major acquisition and disposal, major capital investments, dividend policy, significant changes in accounting policies, material contracts, appointment and retirement of directors, remuneration policy and other major operational and financial matters. The Board members have access to appropriate business documents and information about the Group on a timely basis. All directors and Board committees have recourse to external legal counsel and other professionals for independent advice at the Group's expense upon their request. The Company has received acknowledgements from the directors of their responsibilities for preparing the financial statements and a statement by the external auditors of the Company about their reporting responsibilities.

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

| Name of director | Number of attendance/Number of meetings |
|---|---|
| ***Executive Directors*** | |
| Mr Zhang Zhao Dong | 4/4 |
| Mr Cheung Shuen Lung | 1/1 |
| Professor Wei Xin | 1/1 |
| Mr Xia Yang Jun | 3/4 |
| Mr Xie Ke Hai | 1/4 |
| Mr Chen Geng | 3/3 |
| Mr Zheng Fu Shuang | 0/3 |
| Mr Yung Chih Shin, Richard | 0/1 |
| ***Independent Non-executive Directors*** | |
| Mr Li Fat Chung | 2/4 |
| Ms Wong Lam Kit Yee | 2/4 |
| Ms Cao Qian | 3/4 |

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

## CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

## NON-EXECUTIVE DIRECTORS

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

## REMUNERATION OF DIRECTORS

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

In 2006, the remuneration committee met once to review and discuss the remuneration policy for the directors of the Company and the remuneration packages of all directors of the Company. The individual attendance of the members of the remuneration committee at the meeting is as follows:

| Name of member | Number of attendance/Number of meetings |
|---|---|
| Mr Chen Geng *(Chairman)* | 1/1 |
| Mr Li Fat Chung | 1/1 |
| Ms Wong Lam Kit Yee | 1/1 |

## NOMINATION OF DIRECTORS

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

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

During the year, Mr Cheung Shuen Lung and Professor Wei Xin retired from office by rotation and not offer themselves for re-election as executive directors at the annual general meeting held on 22 May 2006, Mr Chen Geng was elected as an executive director at the annual general meeting held on 22 May 2006. The Board also appointed Mr Zheng Fu Shuang as executive director on 1 August 2006 to meet the business needs of the Company. The appointment of Mr Zheng Fu Shuang was put to full Board for approval and will be subject to re-election at the forthcoming annual general meeting. The individual attendance of each director at the board meeting is as follows:

| Name of director | Number of attendance/Number of meetings |
|---|---|
| ***Executive Directors*** | |
| Mr Zhang Zhao Dong | 1/1 |
| Mr Xia Yang Jun | 1/1 |
| Mr Xie Ke Hai | 1/1 |
| Mr Chen Geng | 1/1 |
| ***Independent Non-executive Directors*** | |
| Mr Li Fat Chung | 0/0 |
| Ms Wong Lam Kit Yee | 0/0 |
| Ms Cao Qian | 0/0 |

## AUDITORS' REMUNERATION

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

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

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

| | HK$'000 |
|---|---|
| Audit fees | 1,140 |
| Non-audit fees: | |
| Interim review service | 278 |
| Taxation services | 13 |
| Other advisory services | 126 |
| | 417 |
| Total | 1,557 |

## AUDIT COMMITTEE

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

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

| Name of member | Number of attendance/Number of meetings |
|---|---|
| Mr Li Fat Chung (Chairman) | 4/4 |
| Ms Wong Lam Kit Yee | 4/4 |
| Ms Cao Qian | 1/4 |

## INTERNAL CONTROL

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

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

ON BEHALF OF THE BOARD

**Zhang Zhao Dong**
*Chairman*

Hong Kong
20 April 2007

# Biographical Details of Director and Senior Management

## EXECUTIVE DIRECTORS

**Mr Zhang Zhao Dong**, aged 57, is an executive director and the Chairman of the Company. He is also an executive director and the Chairman of Founder Holdings Limited, an executive director and the President of Peking University Founder Group Company Limited, and a director of Founder Technology Group Corporation. Mr Zhang graduated from the Department of Geophysics at Peking University in 1977 and is a research fellow at Peking University.

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

**Mr Xia Yang Jun**, aged 34, is an executive director of the Company. He is also a Vice-President of Peking University Founder Group Company Limited, the President of 北京北大資源集團有限公司 (Peking University Resource Group Limited*). Mr Xia graduated from Peking University Guanghua School of Management with an EMBA degree. He is also a Financial Economist and Certified Public Accountant in the People's Republic of China.

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

**Mr Zheng Fu Shuang**, aged 41, is an executive director of the Company. He is also the sole director and sole shareholder of Shining Wisdom Group Limited, a substantial shareholder of the Company. Mr Zheng graduated from the Institute of Electronics, Chinese Academy of Sciences with a master's degree in Engineering, and Peking University Guanghua School of Management with an EMBA degree. Mr Zheng has over 15 years' experience in the information technology industry in the People's Republic of China. Mr Zheng was awarded the "Best Technology Entrepreneur of Private Enterprise in China" (中國優秀民營科技企業家) and "Gold Medal of Beijing Outstanding Young Entrepreneurs Contest" (北京市優秀青年企業家金獎) in 2004.

** For identification purpose only*

# Biographical Details of Director and Senior Management

## INDEPENDENT NON-EXECUTIVE DIRECTORS

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

**Ms Wong Lam Kit Yee**, aged 43, is an independent non-executive director of the Company and Founder Holdings Limited. Ms Wong is a Certified Public Accountant (Practising) in Hong Kong. She is also a fellow member of the Association of Chartered Certified Accountants in the United Kingdom and a member of the Hong Kong Institute of Certified Public Accountants. Ms Wong has extensive experience in auditing and accounting.

**Ms Cao Qian**, aged 43, is an independent non-executive director of the Company. Ms Cao 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 the Peking University Guanghua School of Management. Ms Cao is currently the Chief Financial Officer of China Travel Service Hotel Corporation. Ms Cao has over 20 years of experience in auditing, accounting and financial management.

## SENIOR MANAGEMENT

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

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

# Report of the Directors

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

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the principal subsidiaries are set out in note 15 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

## RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2006 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 24 to 79.

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 and liabilities 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 80 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 13 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 to the financial statements.

## PRE-EMPTIVE RIGHTS

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

## PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

## RESERVES

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

## DISTRIBUTABLE RESERVES

At 31 December 2006, 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 84% (2005: 83%) of the total purchases for the year and purchases from the largest supplier included therein amounted to approximately 33% (2005: 30%).

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 | (resigned on 22 May 2006) |
| Professor Wei Xin | (resigned on 22 May 2006) |
| Mr Xia Yang Jun | |
| Mr Xie Ke Hai | |
| Mr Chen Geng | (appointed on 22 May 2006) |
| Mr Zheng Fu Shuang | (appointed on 1 August 2006) |

### Non-executive directors:

| | |
|---|---|
| Mr Yung Chih Shin, Richard | (resigned on 15 September 2006) |
| Mr Li Fat Chung* | |
| Ms Wong Lam Kit Yee* | |
| Ms Cao Qian* | |

** Independent non-executive directors*

## DIRECTORS *(continued)*

In accordance with the Company's Bye-laws, Mr Li Fat Chung, Ms Wong Lam Kit Yee, Ms Cao Qian and Mr Zheng Fu Shuang will retire and being eligible, offer themselves for re-election at the forthcoming annual general meeting.

The Company has received annual confirmations of independence from 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 or any of its subsidiaries was a party during the year.

## DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

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

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

### Long positions in ordinary shares of the Company:

| | Number of ordinary shares held, capacity and nature of interest | | | Percentage of the |
|---|---|---|---|---|
| Name of director | Directly beneficially owned | Through controlled corporation | Total | Company's issued share capital |
| Mr Zhang Zhao Dong | 3,956,000 | — | 3,956,000 | 0.36 |
| Mr Zheng Fu Shuang *(Note)* | — | 240,425,000 | 240,425,000 | 21.85 |

*Note:* Mr Zheng Fu Shuang is interested in these shares through Shining Wisdom Group Limited ("Shining Wisdom"), a company which is beneficially owned by Mr Zheng Fu Shuang.

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

Save as disclosed above, as at 31 December 2006, none of the directors had registered an interest or short position in the shares or underlying shares of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save as disclosed under the heading "Directors' interests and short positions in shares and underlying shares" above and in the share option 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 or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

## SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES

At 31 December 2006, the following interests of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

### Long positions:

| Name | *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 | 363,265,000 | 33.00 |
| 北大方正集團有限公司 (Peking University Founder Group Company Limited*) ("Peking Founder") | *2* | Through a controlled corporation | 363,265,000 | 33.00 |
| Founder Holdings Limited ("FHL") | | Directly beneficially owned | 363,265,000 | 33.00 |
| Shining Wisdom | *3* | Directly beneficially owned | 240,425,000 | 21.85 |
| 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 |
| Mr Yung Chih Shin, Richard | *4* | Through a controlled corporation | 87,680,000 | 7.97 |
| Ricwinco Investment Limited ("Ricwinco") | | Directly beneficially owned | 87,680,000 | 7.97 |
| Ms Li Yong Hui | *5* | As trustee | 60,671,000 | 5.51 |
| Ms Ying Yu Ling | *5* | As trustee | 60,671,000 | 5.51 |
| F2 Consultant Limited | *5* | Owned as nominee | 60,671,000 | 5.51 |
| HSBC International Trustee Limited | *6* | Through a controlled corporation | 60,500,000 | 5.50 |
| Sun Hung Kai Properties Limited | *6* | Through a controlled corporation | 60,500,000 | 5.50 |
| Sunco Resources Limited | *6* | Through a controlled corporation | 60,500,000 | 5.50 |
| SUNeVision Holdings Ltd. | *6* | Through a controlled corporation | 60,500,000 | 5.50 |
| Hugh Profit Investments Ltd. | *6* | 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*

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

*Notes:*

1. Peking University Asset Management Company Limited is deemed to be interested in the 363,265,000 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 363,265,000 shares of the Company under the SFO by virtue of its interest in FHL.

3. Mr Zheng Fu Shuang is interested in these shares through Shining Wisdom.

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

5. 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. Ms Li Yong Hui and Ms Ying Yu Ling are the directors of FDC.

6. 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, interests in Well Drive Holdings Limited.

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

## CONTINUING CONNECTED TRANSACTIONS

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

The independent non-executive directors of the Company have reviewed the continuing connected transactions as set out in notes 31(I)(a), 31(I)(b) and 31(I)(c) to the financial statements, and have confirmed that the continuing connected transactions were entered into (i) in the ordinary and usual course of the business of the Group; (ii) either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favorable to the Group than terms available to or from independent third parties; and (iii) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

## SUFFICIENCY OF PUBLIC FLOAT

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

## POST BALANCE SHEET EVENT

Details of the significant post balance sheet event of the Group are set out in note 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
20 April 2007

# Independent Auditors' Report

ERNST & YOUNG
安永會計師事務所

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

We have audited the financial statements of EC-Founder (Holdings) Company Limited set out on pages 24 to 79, which comprise the consolidated and company balance sheets as at 31 December 2006, and the consolidated income statement, the consolidated summary statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

## DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

## AUDITORS' RESPONSIBILITY

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

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

## AUDITORS' RESPONSIBILITY *(continued)*

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

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

## OPINION

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

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

20 April 2007

# Consolidated Income Statement

Year ended 31 December 2006

| | Notes | 2006 HK$'000 | 2005 HK$'000 |
|---|---|---|---|
| **REVENUE** | 5 | **2,314,811** | 1,900,652 |
| Cost of sales | | **(2,191,280)** | (1,806,164) |
| Gross profit | | **123,531** | 94,488 |
| Other income and gains | 5 | **4,088** | 1,802 |
| Selling and distribution costs | | **(62,496)** | (41,348) |
| Administrative expenses | | **(46,473)** | (34,922) |
| Other expenses, net | | **(8,520)** | (2,438) |
| Finance costs | 7 | **(2,615)** | (814) |
| Share of profits and losses of associates | | **8,945** | 11,621 |
| **PROFIT BEFORE TAX** | 6 | **16,460** | 28,389 |
| Tax | 10 | **(1,528)** | (1,833) |
| **PROFIT FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT** | 11 | **14,932** | 26,556 |
| **EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT — BASIC** | 12 | **1.4 cents** | 2.4 cents |

# Consolidated Balance Sheet

31 December 2006

| | Notes | 2006 HK$'000 | 2005 HK$'000 |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | *13* | **7,640** | 5,918 |
| Goodwill | *14* | **2,892** | 2,892 |
| Interests in associates | *16* | **30,690** | 30,921 |
| Total non-current assets | | **41,222** | 39,731 |
| **CURRENT ASSETS** | | | |
| Inventories | *17* | **120,929** | 129,199 |
| Trade and bills receivables | *18* | **276,747** | 255,159 |
| Prepayments, deposits and other receivables | | **104,128** | 75,308 |
| Pledged deposits | *19* | **88,523** | 38,903 |
| Cash and cash equivalents | *20* | **268,410** | 253,839 |
| Total current assets | | **858,737** | 752,408 |
| **CURRENT LIABILITIES** | | | |
| Trade and bills payables | *21* | **506,323** | 406,907 |
| Other payables and accruals | | **116,198** | 130,976 |
| Interest-bearing bank and other borrowings | *22* | **40,004** | 38,400 |
| Tax payable | | **268** | 1,008 |
| Total current liabilities | | **662,793** | 577,291 |
| **NET CURRENT ASSETS** | | **195,944** | 175,117 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **237,166** | 214,848 |
| **NON-CURRENT LIABILITIES** | | | |
| Finance lease payable | *23* | **386** | — |
| Net assets | | **236,780** | 214,848 |
| **EQUITY** | | | |
| Issued capital | *25* | **110,056** | 110,056 |
| Reserves | *27(a)* | **126,724** | 104,792 |
| Total equity | | **236,780** | 214,848 |

**Zhang Zhao Dong**
*Director*

**Chen Geng**
*Director*

# Consolidated Summary Statement of Changes in Equity

Year ended 31 December 2006

| | Notes | 2006 HK$'000 | 2005 HK$'000 |
|---|---|---|---|
| Total equity at 1 January | | **214,848** | 185,315 |
| Exchange differences on translation of the financial statements of foreign entities | *27(a)* | **7,000** | 2,977 |
| Total income recognised directly in equity | | **7,000** | 2,977 |
| Profit for the year | *27(a)* | **14,932** | 26,556 |
| Total income for the year | | **21,932** | 29,533 |
| Total equity at 31 December | | **236,780** | 214,848 |

# Consolidated Cash Flow Statement

Year ended 31 December 2006

| | Notes | 2006 HK$'000 | 2005 HK$'000 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Profit before tax | | **16,460** | 28,389 |
| Adjustments for: | | | |
| Finance costs | 7 | **2,615** | 814 |
| Share of profits and losses of associates | | **(8,945)** | (11,621) |
| Interest income | 5 | **(2,400)** | (1,281) |
| Depreciation | 6 | **2,291** | 1,591 |
| Loss on disposal of items of property, plant and equipment | 6 | **8** | 45 |
| | | **10,029** | 17,937 |
| Decrease/(increase) in inventories | | **8,270** | (21,189) |
| Increase in trade and bills receivables | | **(21,588)** | (59,803) |
| Increase in prepayments, deposits and other receivables | | **(25,877)** | (41,986) |
| Increase in trade and bills payables | | **99,416** | 98,359 |
| Increase/(decrease) in other payables and accruals | | **(14,778)** | 63,497 |
| Exchange differences | | **(1,056)** | (878) |
| Cash generated from operations | | **54,416** | 55,937 |
| Interest received | | **2,400** | 1,281 |
| Interest paid | | **(2,546)** | (814) |
| Interest element on finance lease rental payments | | **(69)** | — |
| Hong Kong profits tax paid | | **(8)** | (69) |
| Mainland of the People's Republic of China ("Mainland China" or the "PRC") corporate income tax paid | | **(2,260)** | (756) |
| Net cash inflow from operating activities | | **51,933** | 55,579 |

# Consolidated Cash Flow Statement *(continued)*

Year ended 31 December 2006

| | Note | 2006 HK$'000 | 2005 HK$'000 |
|---|---|---|---|
| Net cash inflow from operating activities | | **51,933** | 55,579 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Dividend received from an associate | | **6,233** | 6,426 |
| Purchases of items of property, plant and equipment | | **(3,142)** | (1,287) |
| Proceeds from disposal of items of property, plant and equipment | | **49** | 189 |
| Increase in time deposits with original maturity of more than three months when acquired | | **(99,700)** | — |
| Increase in pledged deposits | | **(49,620)** | (6,098) |
| Net cash outflow from investing activities | | **(146,180)** | (770) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| New bank loan | | **38,400** | 38,400 |
| Repayment of bank loan | | **(38,400)** | — |
| Capital element of finance lease rental payments | | **(196)** | — |
| Net cash inflow/(outflow) from financing activities | | **(196)** | 38,400 |
| **NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS** | | **(94,443)** | 93,209 |
| Cash and cash equivalents at beginning of year | | **253,839** | 156,907 |
| Effect of foreign exchange rate changes, net | | **9,314** | 3,723 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** | | **168,710** | 253,839 |
| **ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS** | | | |
| Cash and bank balances | *20* | **149,138** | 252,163 |
| Non-pledged time deposits with original maturity of less than three months when acquired | | **19,572** | 1,676 |
| | | **168,710** | 253,839 |

# Balance Sheet

31 December 2006

| | Notes | 2006 HK$'000 | 2005 HK$'000 |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | 13 | **616** | 117 |
| Interests in subsidiaries | 15 | **236,423** | 213,770 |
| Total non-current assets | | **237,039** | 213,887 |
| **CURRENT ASSETS** | | | |
| Prepayments, deposits and other receivables | | **836** | 483 |
| Cash and cash equivalents | 20 | **1,875** | 1,824 |
| Total current assets | | **2,711** | 2,307 |
| **CURRENT LIABILITIES** | | | |
| Other payables and accruals | | **2,527** | 1,603 |
| Finance lease payable | 23 | **124** | — |
| Total current liabilities | | **2,651** | 1,603 |
| **NET CURRENT ASSETS** | | **60** | 704 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **237,099** | 214,591 |
| **NON-CURRENT LIABILITIES** | | | |
| Finance lease payable | 23 | **386** | — |
| Net assets | | **236,713** | 214,591 |
| **EQUITY** | | | |
| Issued capital | 25 | **110,056** | 110,056 |
| Reserves | 27(b) | **126,657** | 104,535 |
| Total equity | | **236,713** | 214,591 |

**Zhang Zhao Dong**
*Director*

**Chen Geng**
*Director*

## 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.

## 2.1 BASIS OF PREPARATION

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

### Basis of consolidation

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

## 2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

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

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

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

The principal changes in accounting policies are as follows:

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

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

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

#### (i) *Amendment for financial guarantee contracts*

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

#### (ii) *Amendment for the fair value option*

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

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

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

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

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

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

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

## 2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

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

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.

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

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

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

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

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Subsidiaries

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

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

### Associates

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

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.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 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.

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.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Goodwill *(continued)*

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

### Impairment of non-financial assets other than goodwill

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, 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 in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill and certain financial assets is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the income statement in the period in which it arises.

## 2.4 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, any 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:

| | |
|---|---|
| Furniture, fixtures and office equipment | 12 $^1/_2$% — 33$^1/_3$% |
| Motor vehicles | 10% — 30% |

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.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

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.

### Leases

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

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

### Financial assets

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

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Financial assets *(continued)*

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

#### *Loans and receivables*

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

### Impairment of financial assets

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

#### *Assets carried at amortised cost*

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

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Impairment of financial assets *(continued)*

***Assets carried at amortised cost*** *(continued)*

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

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

### Derecognition of financial assets

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

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

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 in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Group's continuing involvement is limited to the fair value of the transferred asset and the option exercise price.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

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

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

### Financial guarantee contracts

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

### Derecognition of financial liabilities

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

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

### Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

### 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.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Cash and cash equivalents *(continued)*

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.

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.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Income tax *(continued)*

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.

### 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 the rendering of services, when the transactions have been completed in accordance with the terms of the contracts;

(c) 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; and

(d) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Employee benefits

#### *Share-based payment transactions*

The Company operates share option 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.

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.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Employee benefits *(continued)*

#### *Share-based payment transactions (continued)*

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

#### *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 the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Foreign currencies *(continued)*

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 the exchange fluctuation reserve. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

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

## 3. SIGNIFICANT ACCOUNTING ESTIMATES

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

### *Impairment assessment 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 management's estimation. A considerable amount of estimation is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each debtor. If the financial conditions of debtors are to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

### *Provision for obsolete inventories*

Management reviews the aging analysis of inventories of the Group at each balance sheet date, and provide provision for obsolete and slow-moving inventory items identified that are no longer suitable for sale. Management estimates the net realisable value for such inventories based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review on a product-by-product basis at each balance sheet date and makes provision for obsolete items.

## 3. SIGNIFICANT ACCOUNTING ESTIMATES *(continued)*

### *Impairment of goodwill*

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2006 was approximately HK$2,892,000 (2005: HK$2,892,000). More details are given in note 14.

### *Deferred tax assets*

Deferred tax assets are recognised for all unused tax losses and other deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The amount of unrecognised deductible temporary differences at 31 December 2006 was approximately HK$71,872,000 (2005: HK$61,042,000). Further details are contained in note 24 to the financial statements.

## 4. SEGMENT INFORMATION

Segment information 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.

In determining the Group's geographical segments, revenue 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.

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

## 4. SEGMENT INFORMATION *(continued)*

### (a) Business segments

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

**Group**

| | Distribution of information products | | Corporate and others | | Consolidated | |
|---|---|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 | **2006** | 2005 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| **Segment revenue:** | | | | | | |
| Sales to external customers | **2,314,811** | 1,900,652 | **—** | — | **2,314,811** | 1,900,652 |
| Other income and gains | **1,348** | 293 | **340** | 228 | **1,688** | 521 |
| Total | **2,316,159** | 1,900,945 | **340** | 228 | **2,316,499** | 1,901,173 |
| **Segment results** | **16,237** | 20,773 | **(8,507)** | (4,472) | **7,730** | 16,301 |
| Interest income | | | | | **2,400** | 1,281 |
| Finance costs | | | | | **(2,615)** | (814) |
| Share of profits and losses of associates | | | | | **8,945** | 11,621 |
| Profit before tax | | | | | **16,460** | 28,389 |
| Tax | | | | | **(1,528)** | (1,833) |
| Profit for the year | | | | | **14,932** | 26,556 |

## 4. SEGMENT INFORMATION *(continued)*

### (a) Business segments *(continued)*

**Group**

| | Distribution of information products | | Consolidated | |
|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| **Assets and liabilities** | | | | |
| Segment assets | **854,710** | 750,430 | **854,710** | 750,430 |
| Interests in associates | **—** | — | **30,690** | 30,921 |
| Corporate and other unallocated assets | **—** | — | **14,559** | 10,788 |
| Total assets | | | **899,959** | 792,139 |
| Segment liabilities | **621,030** | 538,823 | **621,030** | 538,823 |
| Corporate and other unallocated liabilities | **—** | — | **42,149** | 38,468 |
| Total liabilities | | | **663,179** | 577,291 |
| **Other segment information:** | | | | |
| Depreciation | **2,080** | 1,528 | **2,080** | 1,528 |
| Corporate and other unallocated amounts | **—** | — | **211** | 63 |
| | | | **2,291** | 1,591 |
| Capital expenditure | **3,138** | 1,266 | **3,138** | 1,266 |
| Corporate and other unallocated amounts | **—** | — | **710** | 21 |
| | | | **3,848** | 1,287 |

## 4. SEGMENT INFORMATION *(continued)*

### (b) Geographical segments

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

| Group | Mainland China | | Hong Kong | | Eliminations | | Consolidated | |
|---|---|---|---|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 | **2006** | 2005 | **2006** | 2005 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| **Segment revenue:** | | | | | | | | |
| Sales to external customers | **2,099,654** | 1,735,682 | **215,157** | 164,970 | **—** | — | **2,314,811** | 1,900,652 |
| Intersegment sales | **—** | — | **292,331** | 253,713 | **(292,331)** | (253,713) | **—** | — |
| Other income and gains | **1,348** | 521 | **340** | — | **—** | — | **1,688** | 521 |
| Total | **2,101,002** | 1,736,203 | **507,828** | 418,683 | **(292,331)** | (253,713) | **2,316,499** | 1,901,173 |

| Group | Mainland China | | Hong Kong | | Consolidated | |
|---|---|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 | **2006** | 2005 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| **Other segment information:** | | | | | | |
| Segment assets | **733,555** | 672,114 | **166,404** | 120,025 | **899,959** | 792,139 |
| Capital expenditure | **3,138** | 1,266 | **710** | 21 | **3,848** | 1,287 |

## 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; and the value of services rendered during the year.

An analysis of other income and gains is as follows:

| | Group | |
|---|---|---|
| | **2006** | 2005 |
| | ***HK$'000*** | *HK$'000* |
| **Other income** | | |
| Bank interest income | **2,400** | 1,281 |
| Government grants *(Note)* | **1,019** | 138 |
| Others | **332** | 155 |
| | **3,751** | 1,574 |
| **Gains** | | |
| Others | **337** | 228 |
| | **4,088** | 1,802 |

*Note:* Various government grants have been received for the sale of software approved by the PRC tax authority. The government grants have been recognised upon sale of approved software. There are no unfulfilled conditions or contingencies relating to these grants.

## 6. PROFIT BEFORE TAX

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

| | Group 2006 HK$'000 | Group 2005 HK$'000 |
|---|---|---|
| Auditors' remuneration | **1,140** | 1,030 |
| Cost of inventories sold | **2,069,381** | 1,683,967 |
| Depreciation (note 13) | **2,291** | 1,591 |
| Impairment of trade receivables* | **8,506** | 2,394 |
| Provision and write-off/(reversal of provision) of obsolete inventories** | **(1,888)** | 1,110 |
| Operating lease rentals in respect of land and buildings | **4,793** | 4,099 |
| Employee benefits expense (including directors' remuneration — note 8): | | |
| Wages and salaries | **43,500** | 30,274 |
| Pension scheme contributions*** | **2,670** | 1,975 |
| | **46,170** | 32,249 |
| Foreign exchange differences, net | **2,100** | 1,032 |
| Loss on disposal of items of property, plant and equipment | **8** | 45 |

* 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 2006, the Group had no forfeited contributions available to reduce its contributions to the pension scheme in future years (2005: Nil).

## 7. FINANCE COSTS

| | Group 2006 HK$'000 | Group 2005 HK$'000 |
|---|---|---|
| Interest on bank loans | **2,546** | 814 |
| Interest on finance lease | **69** | — |
| | **2,615** | 814 |

## 8. DIRECTORS' REMUNERATION

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

| | Group | |
|---|---|---|
| | **2006** | 2005 |
| | ***HK$'000*** | *HK$'000* |
| Fees | **360** | 360 |
| Other emoluments: | | |
| Salaries, allowances and benefits in kind | **610** | — |
| Pension scheme contributions | **7** | — |
| | **617** | — |
| | **977** | 360 |

### (a) Independent non-executive directors

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

| | **2006** | 2005 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Mr Li Fat Chung | **120** | 120 |
| Ms Wong Lam Kit Yee | **120** | 120 |
| Ms Cao Qian | **120** | 90 |
| Mr Yang Lin, Richard | **—** | 30 |
| | **360** | 360 |

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

## 8. DIRECTORS' REMUNERATION *(continued)*

### (b) Executive directors and a non-executive director

**2006**

| | Fees | Salaries, allowances and benefits in kind | Pension scheme contributions | Total remuneration |
|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| *Executive directors:* | | | | |
| Mr Zhang Zhao Dong | — | — | — | — |
| Mr Cheung Shuen Lung | — | — | — | — |
| Professor Wei Xin | — | — | — | — |
| Mr Xia Yang Jun | — | — | — | — |
| Mr Xie Ke Hai | — | — | — | — |
| Mr Chen Geng | — | 610 | 7 | 617 |
| Mr Zheng Fu Shuang | — | — | — | — |
| *Non-executive director:* | | | | |
| Mr Yung Chih Shin, Richard | — | — | — | — |
| | — | 610 | 7 | 617 |

No directors' remuneration was paid to executive directors and a non-executive director during the year ended 31 December 2005.

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

## 9. FIVE HIGHEST PAID EMPLOYEES

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

| | Group | |
|---|---|---|
| | **2006** | 2005 |
| | ***HK$'000*** | *HK$'000* |
| Salaries, bonuses and benefits in kind | **2,229** | 3,193 |
| Pension scheme contributions | **127** | 224 |
| | **2,356** | 3,417 |

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

| | Number of employees | |
|---|---|---|
| | **2006** | 2005 |
| Nil — HK$1,000,000 | **4** | 4 |
| HK$1,000,001 — HK$1,500,000 | **—** | 1 |
| | **4** | 5 |

## 10. TAX

| | Group | |
|---|---|---|
| | **2006** | 2005 |
| | ***HK$'000*** | *HK$'000* |
| Current — Hong Kong | **8** | 12 |
| Current — Elsewhere | **1,520** | 1,821 |
| Total tax charge for the year | **1,528** | 1,833 |

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

## 10. TAX *(continued)*

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.

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$2,303,000 (2005: HK$2,753,000) is included in "Share of profits and losses of associates" on the face of the consolidated income statement.

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

**Group — 2006**

| | Hong Kong | | Mainland China | | Total | |
|---|---|---|---|---|---|---|
| | *HK$'000* | *%* | *HK$'000* | *%* | *HK$'000* | *%* |
| Profit/(loss) before tax | (1,588) | | 18,048 | | 16,460 | |
| Tax at the statutory tax rate | (278) | 17.5 | 5,956 | 33.0 | 5,678 | 34.5 |
| Lower tax rate for specific provinces or local authority | — | — | (4,606) | (25.5) | (4,606) | (28.0) |
| Profits and losses attributable to associates | (1,565) | 98.5 | — | — | (1,565) | (9.5) |
| Income not subject to tax | (186) | 11.7 | (249) | (1.4) | (435) | (2.6) |
| Expenses not deductible for tax | 837 | (52.7) | 419 | 2.3 | 1,256 | 7.6 |
| Tax losses utilised from previous periods | (25) | 1.6 | — | — | (25) | (0.2) |
| Tax losses not recognised | 1,225 | (77.1) | — | — | 1,225 | 7.5 |
| Tax charge at the Group's effective rate | 8 | (0.5) | 1,520 | 8.4 | 1,528 | 9.3 |

## 10. TAX *(continued)*

Group — 2005

| | Hong Kong | | Mainland China | | Total | |
|---|---|---|---|---|---|---|
| | *HK$'000* | *%* | *HK$'000* | *%* | *HK$'000* | *%* |
| Profit before tax | 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 and losses 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 periods | — | — | (51) | (0.2) | (51) | (0.1) |
| Tax losses not recognised | 459 | 7.2 | — | — | 459 | 1.6 |
| Tax charge at the Group's effective rate | 12 | 0.2 | 1,821 | 8.3 | 1,833 | 6.4 |

## 11. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The consolidated profit attributable to equity holders of the parent for the year ended 31 December 2006 includes a profit of approximately HK$22,122,000 (2005: HK$29,276,000) which has been dealt with in the financial statements of the Company (note 27(b)).

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

The calculation of basic earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent of approximately HK$14,932,000 (2005: HK$26,556,000), and the weighted average number of 1,100,562,040 (2005: 1,100,562,040) ordinary shares in issue during the year.

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

## 13. PROPERTY, PLANT AND EQUIPMENT

### Group

| | Furniture, fixtures and office equipment HK$'000 | Motor vehicles HK$'000 | Total HK$'000 |
|---|---|---|---|
| **31 December 2006** | | | |
| At 31 December 2005 and at 1 January 2006: | | | |
| Cost | 9,028 | 2,845 | 11,873 |
| Accumulated depreciation | (5,351) | (604) | (5,955) |
| Net carrying amount | 3,677 | 2,241 | 5,918 |
| At 1 January 2006, net of accumulated depreciation | 3,677 | 2,241 | 5,918 |
| Additions | 1,716 | 2,132 | 3,848 |
| Disposals | (57) | — | (57) |
| Depreciation provided during the year | (1,781) | (510) | (2,291) |
| Exchange realignment | 136 | 86 | 222 |
| At 31 December 2006, net of accumulated depreciation | 3,691 | 3,949 | 7,640 |
| At 31 December 2006: | | | |
| Cost | 8,364 | 5,087 | 13,451 |
| Accumulated depreciation | (4,673) | (1,138) | (5,811) |
| Net carrying amount | 3,691 | 3,949 | 7,640 |

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

### Group

| | Furniture, fixtures and office equipment *HK$'000* | Motor vehicles *HK$'000* | Total *HK$'000* |
|---|---|---|---|
| **31 December 2005** | | | |
| 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 |

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

### Company

| | Furniture, fixtures and office equipment *HK$'000* | Motor vehicles *HK$'000* | Total *HK$'000* |
|---|---|---|---|
| **31 December 2006** | | | |
| At 31 December 2005 and 1 January 2006: | | | |
| Cost | 233 | — | 233 |
| Accumulated depreciation | (116) | — | (116) |
| Net carrying amount | 117 | — | 117 |
| At 1 January 2006, net of accumulated depreciation | 117 | — | 117 |
| Additions | 4 | 706 | 710 |
| Depreciation provided during the year | (35) | (176) | (211) |
| At 31 December 2006, net of accumulated depreciation | 86 | 530 | 616 |
| At 31 December 2006: | | | |
| Cost | 237 | 706 | 943 |
| Accumulated depreciation | (151) | (176) | (327) |
| Net carrying amount | 86 | 530 | 616 |

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

### Company

| | Furniture, fixtures and office equipment HK$'000 | Motor vehicles HK$'000 | Total HK$'000 |
|---|---|---|---|
| **31 December 2005** | | | |
| At 1 January 2005: | | | |
| Cost | 234 | — | 234 |
| Accumulated depreciation | (92) | — | (92) |
| Net carrying amount | 142 | — | 142 |
| At 1 January 2005, net of accumulated depreciation | 142 | — | 142 |
| Additions | 21 | — | 21 |
| Disposals | (18) | — | (18) |
| Depreciation provided during the year | (28) | — | (28) |
| At 31 December 2005, net of accumulated depreciation | 117 | — | 117 |
| At 31 December 2005: | | | |
| Cost | 233 | — | 233 |
| Accumulated depreciation | (116) | — | (116) |
| Net carrying amount | 117 | — | 117 |

The net book value of fixed assets of the Group and the Company held under finance lease included in the total amount of motor vehicles at 31 December 2006 amounted to approximately HK$530,000 (2005: Nil).

## 14. GOODWILL

| | **Group** |
|---|---|
| | *HK$'000* |
| Cost, net of accumulated amortisation, at 1 January 2005 and 2006, 31 December 2005 and 2006 | 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% (2005: 5%).

Key assumptions were used in the value in use calculation of the distribution of information products cash generating unit for 31 December 2006 and 31 December 2005. The cash flow projection was based on the expected gross margins 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 risks relating to the cash generating unit.

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

The amount of the goodwill remaining in consolidated contributed surplus as at 31 December 2006 and 2005, arising from the acquisition of subsidiaries prior to the adoption of SSAP 30 in 2001, was approximately HK$395,282,000 which was fully impaired in prior year.

## 15. INTERESTS IN SUBSIDIARIES

| | Company 2006 HK$'000 | 2005 HK$'000 |
|---|---|---|
| Unlisted shares, at cost | **450,071** | 450,071 |
| Due from subsidiaries | **287,737** | 295,592 |
| | **737,808** | 745,663 |
| Impairment | **(501,385)** | (531,893) |
| | **236,423** | 213,770 |

The amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment. 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 Direct | Indirect | Principal activities |
|---|---|---|---|---|---|
| Founder Data Corporation International Limited | 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

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.

## 16. INTERESTS IN ASSOCIATES

| | Group 2006 HK$'000 | 2005 HK$'000 |
|---|---|---|
| Share of net assets | **30,690** | 30,921 |

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.

## 16. 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 attributable to the Group extracted from their management accounts:

| | 2006 | 2005 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| | | *(Restated)* |
| Assets | **88,582** | 74,179 |
| Liabilities | **57,849** | 43,223 |
| Revenue | **452,483** | 452,717 |
| Profit after tax | **8,945** | 11,621 |

## 17. INVENTORIES

| | Group | |
|---|---|---|
| | 2006 | 2005 |
| | *HK$'000* | *HK$'000* |
| Trading stocks | **120,929** | 129,199 |

## 18. TRADE AND BILLS RECEIVABLES

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

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

| | Group | |
|---|---|---|
| | **2006** | 2005 |
| | ***HK$'000*** | *HK$'000* |
| Within 6 months | **259,939** | 241,600 |
| 7 — 12 months | **9,862** | 6,425 |
| 13 — 24 months | **3,838** | 7,134 |
| Over 24 months | **3,108** | — |
| | **276,747** | 255,159 |

Included in the Group's trade and bills receivables are amounts due from subsidiaries and associate of the substantial shareholders of approximately HK$14,371,000 (2005: Nil), which are repayable on similar credit terms to those offered to the major customers of the Group. Included in the Group's trade and bills receivables as at 31 December 2005 were amounts due from fellow subsidiaries and related companies of approximately HK$6,389,000 and HK$1,243,000 respectively, which were repayable on similar credit terms to those offered to the major customers of the Group.

## 19. 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.

## 20. CASH AND CASH EQUIVALENTS

| | Group | | Company | |
|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Cash and bank balances | **149,138** | 252,163 | **14** | 148 |
| Time deposits | **119,272** | 1,676 | **1,861** | 1,676 |
| | **268,410** | 253,839 | **1,875** | 1,824 |

At the balance sheet date, the cash and cash equivalents of the Group denominated in Renminbi ("RMB") amounted to approximately HK$226,915,000 (2005: HK$241,885,000). The RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business in the PRC.

Cash at bank earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between seven days and six months depending on the immediate cash requirement of the Group, and earns interest at the respective short term time deposit rates. The carrying amounts of the cash and cash equivalents approximate to their fair values.

## 21. TRADE AND BILLS PAYABLES

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

| | Group | |
|---|---|---|
| | **2006** | 2005 |
| | ***HK$'000*** | *HK$'000* |
| Within 6 months | **496,067** | 405,802 |
| Over 6 months | **10,256** | 1,105 |
| | **506,323** | 406,907 |

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

## 22. INTEREST-BEARING BANK AND OTHER BORROWINGS

| Group | 2006 | | | 2005 | | |
|---|---|---|---|---|---|---|
| | Effective interest rate (%) | Maturity | *HK$'000* | Effective interest rate (%) | Maturity | *HK$'000* |
| Bank loan — unsecured | **5.946** | **2007** | **39,880** | 5.859 | 2006 | 38,400 |
| Finance lease payable (note 23) | **5.000** | **2007** | **124** | | | — |
| | | | **40,004** | | | 38,400 |

The unsecured bank loan is repayable within one year and is guaranteed by 北大方正集團有限公司 (Peking University Founder Group Company Limited*) ("Peking Founder"), a substantial shareholder of the Company. It is denominated in RMB.

The obligation under finance lease is secured by a motor vehicle of the Group with a net book value of approximately HK$530,000 as at 31 December 2006.

The carrying amount of the Group's bank and other borrowings approximates to its fair value. All borrowings of the Group bear interest at fixed interest rates.

* *For identification purpose only*

## 23. FINANCE LEASE PAYABLE

The Group and the Company lease its motor vehicle. This lease is classified as finance lease and has remaining lease term of four years.

At 31 December 2006, the total future minimum lease payments under finance lease and its present value was as follows:

| Group and Company | Minimum lease payments 2006 HK$'000 | Minimum lease payments 2005 HK$'000 | Present value of minimum lease payments 2006 HK$'000 | Present value of minimum lease payments 2005 HK$'000 |
|---|---|---|---|---|
| Amounts payable: | | | | |
| Within one year | 176 | — | 124 | — |
| In the second year | 176 | — | 142 | — |
| In the third to fifth years, inclusive | 265 | — | 244 | — |
| Total minimum finance lease payments | 617 | — | 510 | — |
| Future finance charges | (107) | — | | |
| Total net finance lease payable | 510 | — | | |
| Portion classified as current liabilities | (124) | — | | |
| Non-current portion | 386 | — | | |

## 24. DEFERRED TAX

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

| | 2006 HK$'000 | 2005 HK$'000 |
|---|---|---|
| Tax losses | **66,944** | 59,447 |
| Impairment of trade receivables | **4,540** | 1,557 |
| General provision for obsolete inventories | **388** | 38 |
| | **71,872** | 61,042 |

The unused tax losses include an amount of approximately HK$2,257,000 (2005: HK$2,331,000) arising in Mainland China that 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 2006, there was no significant unrecognised deferred tax liability (2005: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries and associates as the Group has no liability to additional tax should such amounts be remitted due to the availability of double tax relief.

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

## 25. SHARE CAPITAL

| | Group and Company | |
|---|---|---|
| | 2006 HK$'000 | 2005 HK$'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

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.

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 offer of the share options.

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

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 daily quotation sheet of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") 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.

The following share options were outstanding under the 1991 Scheme, the 2001 Scheme and the 2002 Scheme at 1 January 2006 and at the end of the year:

| | Number of share options | | | | | |
|---|---|---|---|---|---|---|
| Name or category of participant | At 1 January 2006 | Lapsed during the year | At 31 December 2006 | Date of grant of share options * | Exercise period of share options | Exercise price of share options ** *HK$ per share* |
| **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 | 300,000 | — | 300,000 | 18.5.2001 | 18.5.2001 to 17.5.2011 | 0.450 |
| Total under the 2001 Scheme | 4,300,000 | — | 4,300,000 | | | |

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

| Name or category of participant | Number of share options: At 1 January 2006 | Lapsed during the year | At 31 December 2006 | Date of grant of share options * | Exercise period of share options | Exercise price of share options ** *HK$ per share* |
|---|---|---|---|---|---|---|
| **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 employee of the substantial shareholder* | | | | | | |
| In aggregate | 16,500,000 | (11,000,000) | 5,500,000 | 2.1.2004 | 3.1.2004 to 31.12.2013 | 0.340 |
| *Other employees of the Group* | | | | | | |
| In aggregate | 10,500,000 | — | 10,500,000 | 2.1.2004 | 3.1.2004 to 31.12.2013 | 0.340 |
| Total under the 2002 Scheme | 51,000,000 | (11,000,000) | 40,000,000 | | | |

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.

\# Mr Cheung Shuen Lung and Professor Wei Xin retired as the directors of the Company at the annual general meeting on 22 May 2006.

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

### 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 40,000,000 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 40,000,000 additional ordinary shares of the Company and additional share capital of HK$4,000,000 and share premium of HK$10,584,000 (before issue expenses).

## 27. RESERVES

### (a) Group

| | Share premium account HK$'000 | Contributed surplus HK$'000 | Exchange fluctuation reserve HK$'000 | General reserve HK$'000 | Retained profits/ (accumulated losses) HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| At 1 January 2005 | 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 and beginning of year | 154,699 | 520,156 | 2,870 | 2,867 | (575,800) | 104,792 |
| Exchange realignment | — | — | 7,000 | — | — | 7,000 |
| Profit for the year | — | — | — | — | 14,932 | 14,932 |
| Transfer to general reserve | — | — | — | 1,691 | (1,691) | — |
| At 31 December 2006 | 154,699 | 520,156 | 9,870 | 4,558 | (562,559) | 126,724 |

## 27. RESERVES *(continued)*

### (a) Group *(continued)*

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

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 HK$1,691,000 (2005: HK$2,867,000), which represented 10% of the PRC subsidiary's profit after tax for the year ended 31 December 2006 as determined in accordance with the PRC accounting standards, to the general reserve.

### (b) Company

| | Share premium account | Contributed surplus | Retained profits/ (accumulated losses) | Total |
|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| At 1 January 2005 | 154,699 | 528,980 | (608,420) | 75,259 |
| Profit for the year | — | — | 29,276 | 29,276 |
| At 31 December 2005 and beginning of year | 154,699 | 528,980 | ( 579,144) | 104,535 |
| Profit for the year | — | — | 22,122 | 22,122 |
| At 31 December 2006 | 154,699 | 528,980 | (557,022) | 126,657 |

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.

## 28. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT

### Major non-cash transaction

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

## 29. CONTINGENT LIABILITIES

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

| | Company | |
|---|---|---|
| | **2006** | 2005 |
| | ***HK$'000*** | *HK$'000* |
| Guarantees given to banks in connection with facilities granted to a subsidiary | **15,000** | — |
| Guarantees given to suppliers in connection with credit facilities granted to a subsidiary | **31,405** | 9,600 |
| | **46,405** | 9,600 |

As at 31 December 2006, the banking facilities granted to the subsidiary subject to guarantees given to the banks by the Company were not utilised (2005: Nil).

As at 31 December 2006, 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$29,164,000 (2005: HK$4,800,000).

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

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

| | Group | |
|---|---|---|
| | **2006** | 2005 |
| | ***HK$'000*** | *HK$'000* |
| Within one year | **5,054** | 1,179 |
| In the second to fifth years, inclusive | **4,969** | 485 |
| | **10,023** | 1,664 |

## 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 10 January 2006, the Group entered into lease agreement with Peking Founder, to lease from Peking Founder office premise in Beijing, the PRC, effective from 1 January 2006 to 31 December 2008. During the year, rental and management fee expenses of approximately HK$1,938,000 (2005: HK$1,935,000) were paid by the Group to Peking Founder. The directors consider that the rental and management fee expenses were paid in accordance with the terms of the lease agreement.

(b) On 5 January 2006, the Group entered into a master agreement with Peking Founder to govern the sale of information products to Peking Founder and its subsidiaries (collectively "Peking Founder Group") for a term of three years from 1 January 2006 to 31 December 2008. During the year, products of approximately HK$1,912,000 (2005: Nil) were sold to Peking Founder Group. The sales of products were made according to published prices and conditions similar to those offered to other customers of the Group.

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

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

(c) On 5 January 2006, the Group entered into a master agreement with Founder Holdings Limited ("FHL"), a substantial shareholder of the Company, to govern the sale of information products to FHL and its subsidiaries (collectively "Founder Group") for a term of three years from 1 January 2006 to 31 December 2008. During the year, products of approximately HK$74,979,000 (2005: HK$24,063,000) were sold to Founder Group. The sales of products were made according to published prices and conditions similar to those offered to other customers of the Group.

(d) As at 31 December 2006, Peking Founder guaranteed banking facilities given by the PRC banks to the Group of approximately HK$500,993,000 (2005: HK$340,897,000) which were utilised to the extent of approximately HK$441,172,000 (2005: HK$306,817,000).

(e) As at 31 December 2006, Peking Founder guaranteed a bank loan given by a PRC bank to the Group of approximately HK$39,880,000 (2005: HK$38,400,000).

(f) For the year ended 31 December 2005, products of approximately HK$59,662,000 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.

(g) For the year ended 31 December 2005, software of approximately HK$1,410,000 was purchased from a then fellow subsidiary. The directors considered that the transaction was conducted at rates agreed between the Group and then fellow subsidiary.

The related party transactions in respect of items (a), (b) and (c) above also constitute 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$101,000 (2005: HK$820,000). The balance is unsecured, interest free and has no fixed terms of repayment.

(b) The balance due from fellow subsidiary included in prepayments, deposits and other receivables as at 31 December 2005 was approximately HK$1,751,000. The balance was unsecured, interest-free and had no fixed terms of repayment.

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

### (III) Compensation of key management personnel of the Group

| | 2006 | 2005 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Short term employee benefits | **1,983** | 2,382 |
| Post-employment benefits | **59** | 67 |
| Total compensation paid to key management personnel | **2,042** | 2,449 |

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

## 32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

The main risks arising from the Group's financial instruments are 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***

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

## 32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

### *Credit risk*

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

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.

### *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 EVENT

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

## 34. COMPARATIVE AMOUNTS

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 20 April 2007.

# Five Year Financial Summary

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

## RESULTS

| | Year ended 31 December | | | | |
|---|---|---|---|---|---|
| | **2006** | 2005 | 2004 | 2003 | 2002 |
| | ***HK$'000*** | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| | | | | | *(Restated)* |
| REVENUE | **2,314,811** | 1,900,652 | 1,257,550 | 624,972 | 311,933 |
| PROFIT/(LOSS) FOR THE YEAR | **14,932** | 26,556 | 9,185 | ( 22,827) | ( 86,299) |
| Attributable to: | | | | | |
| Equity holders of the parent | **14,932** | 26,556 | 9,185 | ( 22,827) | ( 85,964) |
| Minority interests | **—** | — | — | — | ( 335) |
| | **14,932** | 26,556 | 9,185 | ( 22,827) | ( 86,299) |

## ASSETS AND LIABILITIES

| | **31 December 2006** | 31 December 2005 | 31 December 2004 | 31 December 2003 | 31 December 2002 |
|---|---|---|---|---|---|
| | ***HK$'000*** | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| | | | | | *(Restated)* |
| TOTAL ASSETS | **899,959** | 792,139 | 561,342 | 457,944 | 223,960 |
| TOTAL LIABILITIES | **(663,179)** | ( 577,291) | ( 376,027) | (281,818) | ( 85,338) |
| | **236,780** | 214,848 | 185,315 | 176,126 | 138,622 |