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**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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**If you are in doubt** as to any aspect of this circular, you should consult a stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

**If you have sold** all your shares in EC-Founder (Holdings) Company Limited, you should at once hand this circular and the accompanying forms of proxy to the purchaser or to the bank, stockbroker or other agents through whom the sale was effected for transmission to the purchaser.

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this circular, makes no representation as to its accuracy or completeness and expressly disclaims any liability whichsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.

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**EC-FOUNDER (HOLDINGS) COMPANY LIMITED**

**方正數碼(控股)有限公司\***

*(Incorporated in Bermuda with limited liability)*

**ACQUISITION OF HK CENTURY AND PRC CENTURY  
BY EC-FOUNDER (HOLDINGS) COMPANY LIMITED FROM  
FOUNDER HOLDINGS LIMITED  
DISCLOSEABLE AND CONNECTED TRANSACTION  
APPLICATION FOR WHITEWASH WAIVER  
ON-GOING CONNECTED TRANSACTION WAIVER**

**Financial adviser to EC-Founder (Holdings) Company Limited**

**ERNST & YOUNG**

**Ernst & Young Corporate Finance Limited**

**Independent financial adviser to the Independent Board Committee (as defined herein) of  
EC-Founder (Holdings) Company Limited**



**大福融資有限公司**  
TAI FOOK CAPITAL LIMITED

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A letter from the board of directors of EC-Founder (Holdings) Company Limited is set out on pages 5 to 18 of this circular. A letter from the Independent Board Committee (as defined herein) containing its advice to the Independent Shareholders (as defined herein) in relation to the Acquisition (as defined herein), the Whitewash Waiver (as defined herein) and the Transactions (as defined herein) is set out on page 19 of this circular. A letter from Tai Fook Capital Limited containing its advice to the Independent Board Committee in relation to the Acquisition, the Whitewash Waiver and the Transactions is set out on pages 20 to 43 of this circular.

A notice convening the SGM (as defined herein) to be held on Wednesday, 28th May, 2003 at 11:30 a.m. at Unit 1408, 14th Floor, Cable TV Tower, 9 Hoi Shing Road, Tsuen Wan, New Territories, Hong Kong, is set out on pages 103 to 105 of this circular. Whether or not you are able to attend, please complete and return the enclosed forms of proxy in accordance with the instructions printed thereon as soon as possible to the principal place of business of EC-Founder (Holdings) Company Limited at Unit 1408, 14th Floor, Cable TV Tower, 9 Hoi Shing Road, Tsuen Wan, New Territories, Hong Kong and in any event not later than 48 hours before the time of the SGM. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM should you so wish.

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## DEFINITIONS

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*In this circular, the following expressions have the following meanings, unless the context otherwise requires:*

“Acquisition”	the acquisition of the entire issued share capital of HK Century and the entire equity interest of PRC Century from Founder Hong Kong by EC-Founder pursuant to the Agreement
“Additional Share(s)”	such new EC-Founder Share(s) as may fall to be issued, if requested by Founder Hong Kong, by EC-Founder to Founder Hong Kong or as it may direct to satisfy all or part of the Final Payment at an issue price of HK\$0.2185 per EC-Founder Share (subject to adjustment in event of any alteration in the capital structure of EC-Founder, such as rights issue, capitalization of profits or reserves, reduction of share capital, share consolidation and share sub-division, prior to the date of issue of such Additional Shares)
“Agreement”	the conditional agreement entered into between Founder Hong Kong and EC-Founder dated 19th March, 2003 regarding the Acquisition
“Announcement”	the announcement dated 19th March, 2003 issued jointly by Founder and EC-Founder relating to the Acquisition, the Whitewash Waiver and the Transactions
“associate(s)”	has the meaning as ascribed to it under the Listing Rules
“Board”	the board of Directors
“Business”	the distribution of information products of the Founder Group in Hong Kong and the PRC
“Completion”	completion of the sale and purchase of the entire issued share capital of HK Century and the entire equity interest of PRC Century pursuant to the Agreement
“Completion Accounts”	the unaudited balance sheets of HK Century and PRC Century as at the date of Completion and the unaudited profit and loss accounts of HK Century and PRC Century for the period from 1st January, 2003 to the date of Completion
“connected person(s)”	has the meaning as ascribed to it under the Listing Rules
“Consideration”	the consideration payable by EC-Founder to Founder Hong Kong or as it may direct for the Acquisition

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## DEFINITIONS

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“Consideration Share(s)”	EC-Founder Share(s) to be allotted and issued by EC-Founder to Founder Hong Kong or its nominee at an issue price of HK\$0.2185 per EC-Founder Share, where a total of 280,000,000 Consideration Shares will be issued under the Agreement to satisfy part of the Consideration i.e. HK\$61,180,000
“Director(s)”	director(s) of EC-Founder
“EC-Founder”	EC-Founder (Holdings) Company Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the Main Board of the Stock Exchange
“EC-Founder Group”	EC-Founder and its subsidiaries
“EC-Founder Share(s)”	ordinary share(s) of HK\$0.10 each in the capital of EC-Founder
“Executive”	the Executive Director of the Corporate Finance Division of the SFC and any delegate of the Executive Director
“F2 Consultant”	F2 Consultant Limited, a company incorporated in the British Virgin Islands holding 63,459,100 EC-Founder Shares, representing approximately 7.73% of the issued share capital of EC-Founder as nominee on behalf of the directors of FDC (which included Mr. Cheung Shuen Lung, Mr. Zhang Zhao Dong and Professor Wei Xin who are directors of Founder and EC-Founder, and Professor Zou Wei who is a director of EC-Founder as at the Latest Practicable Date), acting in their capacity as the trustees of a discretionary trust for the employees of Founder Data Corporation International Limited and its subsidiaries
“FDC”	Founder Data Corporation International Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of EC-Founder
“Final Payment”	HK\$5,160,000
“Founder”	Founder Holdings Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the Main Board of the Stock Exchange
“Founder Group”	Founder and its subsidiaries
“Founder Hong Kong”	Founder (Hong Kong) Limited, a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of Founder

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## DEFINITIONS

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“HK Century”	Founder Century (Hong Kong) Limited, a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of Founder Hong Kong
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Board Committee”	the independent committee of the Board, comprising Mr. Yang Lin, Richard and Mr. Lee Ying Biu, Andrew, the independent non-executive Directors, which has been established for the purposes of advising the Independent Shareholders in relation to the Acquisition, the Whitewash Waiver and the Transactions
“Independent Shareholders”	the Shareholders other than Founder, its associates and its concert parties, including, among others, the subsidiaries of Founder, F2 Consultant and Other Founder Concert Parties
“Latest Practicable Date”	28th April, 2003, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Other Founder Concert Parties”	Mr. Cheung Shuen Lung (a director of Founder and EC-Founder), Mr. Zhang Zhao Dong (a director of Founder and EC-Founder), Professor Wei Xin (a director of Founder and EC-Founder), Professor Xiao Jian Guo (a director of Founder) and Mr. Jiang Bi Jin (a director of a wholly-owned subsidiary of Founder) who held 36,890,100 EC-Founder Shares, 3,956,000 EC-Founder Shares, 3,956,000 EC-Founder Shares, 8,703,300 EC-Founder Shares, and 6,593,400 EC-Founder Shares respectively, which in turn represented approximately 4.50%, approximately 0.48%, approximately 0.48%, approximately 1.06% and approximately 0.80% of the issued share capital of EC-Founder as at the Latest Practicable Date
“PRC”	the People’s Republic of China excluding Hong Kong for the purpose of this circular
“PRC Century”	Beijing Founder Century Information System Co., Ltd., a wholly foreign-owned enterprise established in the PRC and a wholly-owned subsidiary of Founder Hong Kong

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## DEFINITIONS

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“Reviewed NAV”	the aggregate unaudited net asset value of HK Century and PRC Century at the date of Completion as reviewed by the auditors of HK Century and PRC Century
“SFC”	the Securities and Futures Commission
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong (as amended from time to time))
“SGM”	the special general meeting of EC-Founder, to be held at Unit 1408, 14th Floor, Cable TV Tower, 9 Hoi Shing Road, Tsuen Wan, New Territories, Hong Kong, on Wednesday, 28th May, 2003 at 11:30 a.m. for the approval of the Acquisition, the Whitewash Waiver and the Transactions, notice of which is set out on pages 103 to 105 of this circular
“Shareholder(s)”	the shareholder(s) of EC-Founder
“Shortfall”	the amount by which the Consideration in the sum of HK\$71,500,000 exceeds the Reviewed NAV
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Tai Fook”	Tai Fook Capital Limited, a licensed corporation under the transitional arrangement to carry on Type 6 (advising on corporate finance) regulated activity for the proposes of the SFO, who has been appointed as the independent financial adviser to the Independent Board Committee with respect to the Acquisition, the Whitewash Waiver and the Transactions
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers
“Transactions”	the on-going sales of information products by HK Century and/or PRC Century to the Founder Group
“Whitewash Waiver”	a waiver applied for by Founder pursuant to Note 1 of the Notes on dispensation from Rule 26 of the Takeovers Code from the general offer obligation which would otherwise arise as a result of the Acquisition under Rule 26 of the Takeovers Code

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## LETTER FROM THE BOARD

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

*(Incorporated in Bermuda with limited liability)*

*Executive Directors:*

Mr. Zhang Zhao Dong (*Chairman*)  
Mr. Cheung Shuen Lung  
Professor Wei Xin  
Professor Zou Wei  
Mr. Yung Richard, Jr.

*Non-executive Director:*

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

*Independent non-executive Directors:*

Mr. Yang Lin, Richard  
Mr. Lee Ying Bui, Andrew

*Registered Office:*

Cedar House  
41 Cedar Avenue  
Hamilton HM12  
Bermuda

*Principal place of*

*business in Hong Kong:*

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

30th April, 2003

*To the Shareholders*

Dear Sir or Madam,

**ACQUISITION OF HK CENTURY AND PRC CENTURY  
BY EC-FOUNDER (HOLDINGS) COMPANY LIMITED FROM  
FOUNDER HOLDINGS LIMITED  
DISCLOSEABLE AND CONNECTED TRANSACTION  
APPLICATION FOR WHITEWASH WAIVER  
ON-GOING CONNECTED TRANSACTION WAIVER**

### INTRODUCTION

As set out in the Announcement, Founder Hong Kong and EC-Founder entered into the Agreement on 19th March, 2003. Pursuant to the Agreement, Founder Hong Kong has conditionally agreed to sell, and EC-Founder has conditionally agreed to purchase, the entire issued share capital of HK Century and the entire equity interest of PRC Century for the Consideration in the sum of HK\$71,500,000, subject to adjustment.

The Consideration in the sum of HK\$71,500,000 (subject to adjustment as described below) shall be satisfied as to (i) HK\$5,160,000, upon Completion payable in cash by EC-Founder to Founder Hong Kong or as it may direct; (ii) HK\$61,180,000, upon Completion by the issue and allotment by EC-Founder of the Consideration Shares to Founder Hong Kong or its nominee; and (iii) the Final Payment

\* *For identification purpose only*

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## LETTER FROM THE BOARD

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(subject to adjustment), to be satisfied in cash or Additional Shares, or by a mixture of both at the option of Founder Hong Kong upon the date falling 6 months after the date of Completion.

Upon Completion, the percentage of voting rights held by the Founder Group in EC-Founder will increase from approximately 39.45% to (i) approximately 54.85% (based on the shareholding structure of EC-Founder as at the Latest Practicable Date and assuming no Additional Shares are issued); and (ii) approximately 55.80% (based on the shareholding structure of EC-Founder as at the Latest Practicable Date and assuming 23,615,560 Additional Shares are issued). Founder has applied to the Executive for the Whitewash Waiver in respect of the obligation which would otherwise arise under Rule 26.1 of the Takeovers Code for Founder to make a mandatory general offer for all the issued EC-Founder Shares not already owned by Founder or parties acting in concert with Founder.

Founder is the controlling shareholder of EC-Founder and is a connected person of EC-Founder. The Acquisition constitutes a discloseable and connected transaction for EC-Founder under the Listing Rules.

HK Century and PRC Century have been suppliers of the systems integration business of the other members of the Founder Group. After Completion, the Transactions will constitute on-going connected transactions for EC-Founder under Rule 14.23 of the Listing Rules. EC-Founder has applied to the Stock Exchange for a waiver from strict compliance with the relevant disclosure and shareholders' approval requirements under the Listing Rules.

The purpose of this circular is to provide you with information regarding the Acquisition, the Whitewash Waiver and the Transactions and seek your approval of the resolutions set out in the notice of SGM on pages 103 to 105 of this circular. The recommendation of the Independent Board Committee to the Independent Shareholders in respect of the Acquisition, the Whitewash Waiver and the Transactions are set out on page 19 of this circular. A copy of the letter from Tai Fook to the Independent Board Committee containing its advice in relation to the Acquisition, the Whitewash Waiver and the Transactions is set out on pages 20 to 43 of this circular.

### THE ACQUISITION

#### Date of the Agreement

The Agreement was entered into by Founder Hong Kong and EC-Founder on 19th March, 2003.

#### Parties

Vendor:	Founder Hong Kong
Purchaser:	EC-Founder
Issuer of the Consideration Shares and the Additional Shares:	EC-Founder

Founder Hong Kong is a wholly-owned subsidiary of Founder, which is the controlling shareholder of EC-Founder holding approximately 39.45% of the issued share capital of EC-Founder as at the Latest Practicable Date.



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## LETTER FROM THE BOARD

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### Assets to be acquired by EC-Founder

Founder Hong Kong has conditionally agreed to sell, and EC-Founder has conditionally agreed to purchase, the entire issued share capital of HK Century and the entire equity interest of PRC Century pursuant to the terms and conditions of the Agreement.

### Consideration

The Consideration for the Acquisition is in the sum of HK\$71,500,000 (subject to adjustment as described below) which shall be satisfied in the following manner:

- (i) as to HK\$5,160,000, to be paid in cash upon Completion by EC-Founder to Founder Hong Kong or as it may direct;
- (ii) as to HK\$61,180,000, to be satisfied upon Completion by the issue and allotment by EC-Founder of the Consideration Shares to Founder Hong Kong or its nominee; and
- (iii) as to the Final Payment (subject to adjustment), to be satisfied on a date falling 6 months after Completion at the option of Founder Hong Kong in any of the following ways: (a) EC-Founder to pay Founder Hong Kong or as it may direct in cash; (b) EC-Founder to allot and issue to Founder Hong Kong or its nominee Additional Shares; or (c) a mixture of both.

Based on the issue price of HK\$0.2185 per Additional Share and the Consideration in the sum of HK\$71,500,000, 23,615,560 Additional Shares may be issued to Founder Hong Kong if Founder Hong Kong so requests. Up to the Latest Practicable Date, Founder Hong Kong had not yet decided how the Final Payment, whether by cash or Additional Shares is to be satisfied and in what portion.

EC-Founder is not required to pay any initial deposit for the Acquisition under the Agreement.

The auditors of HK Century and PRC Century, Ernst & Young, will conduct a review of the Completion Accounts for the purpose of determining if any adjustment needs to be made to the Completion Accounts within 4 months after Completion. If the Reviewed NAV is less than the Consideration of HK\$71,500,000, the Consideration will be adjusted downward on a dollar for dollar basis to the amount of the Reviewed NAV and any Shortfall will be off-set against the Final Payment. If the Shortfall exceeds the Final Payment, EC-Founder will then be fully discharged of the liability to make the Final Payment and Founder Hong Kong will have to pay the difference between the Shortfall and the Final Payment to EC-Founder in cash on the date falling 6 months after the date of Completion. EC-Founder will set out in its next annual report after Completion details of any adjustment if it is to be made to the Consideration in accordance with the terms of the Agreement as described above. Any such adjustment will not affect the number of Consideration Shares to be issued to Founder Hong Kong under the Agreement.

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## LETTER FROM THE BOARD

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The Consideration was determined after arm's length negotiations between Founder Hong Kong and EC-Founder, in particular with reference to the assets and liabilities of HK Century and PRC Century (based on the management accounts of HK Century and PRC Century as at 31st December, 2002), prospects, the established business relationships with the suppliers and the distribution network of the Business. Based on the audited accounts of HK Century and PRC Century, the aggregate audited net asset value of HK Century and PRC Century as at 31st December, 2002 was approximately HK\$70,967,000.

### Conditions

Completion is conditional upon the following conditions being satisfied within 90 days of the date of the Agreement, i.e. 17th June, 2003 or such other date as the parties to the Agreement may otherwise agree:

- (i) EC-Founder having conducted a due diligence on each of HK Century and PRC Century and being satisfied the results thereof;
- (ii) the obtaining of all necessary approvals from the relevant authorities in the PRC in respect of the sale and purchase of the entire equity interest in PRC Century pursuant to the Agreement;
- (iii) the Executive granting the Whitewash Waiver;
- (iv) the passing of a resolution by the independent shareholders of EC-Founder who are not involved in, or interested in, the Agreement by an independent vote cast on poll in a general meeting of EC-Founder for approving the Acquisition and the Whitewash Waiver in accordance with the requirements under the Listing Rules and Note 1 of the Notes on dispensation from Rule 26 of the Takeovers Code or as may be required by the Executive; and
- (v) the Stock Exchange granting the listing of, and permission to deal in, the Consideration Shares and the Additional Shares.

Under the Agreement, there is no provision allowing Founder Hong Kong or EC-Founder to waive any of the above conditions.

If the conditions are not fulfilled on or before the expiry of the 90-day period referred to above, or at such later date as may be agreed between Founder Hong Kong and EC-Founder, the Agreement shall save with respect to liabilities for any antecedent breaches thereof lapse and become null and void and the parties to the Agreement will be released from all obligations under the Agreement. None of the above conditions had been satisfied as at the Latest Practicable Date.

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## LETTER FROM THE BOARD

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### CONSIDERATION SHARES AND ADDITIONAL SHARES

The Consideration Shares and the Additional Shares shall rank pari passu in all respects with the EC-Founder Shares in issue at the relevant date of issue, including rights as to dividends and voting.

The issue price per Consideration Share and Additional Share of HK\$0.2185 was determined after arm's length negotiations between Founder Hong Kong and EC-Founder with reference to the market price and trading liquidity of EC-Founder Shares. Such pricing represents (i) a premium of approximately 9.3% over the closing price of HK\$0.20 per EC-Founder Share as quoted on the Stock Exchange on the date when the Agreement was entered into; (ii) a discount of approximately 2.5% to the average closing price as quoted on the Stock Exchange for the 10 trading days up to and including the date of the Agreement, being HK\$0.224 per EC-Founder Share; (iii) a discount of approximately 4.4% to the average closing price as quoted on the Stock Exchange for the 30 trading days up to and including the date of the Agreement, being HK\$0.2285 per EC-Founder Share and (iv) a discount of approximately 12.6% to the closing price as quoted on the Stock Exchange at the Latest Practicable Date, being HK\$0.25 per EC-Founder Share. As at 31st December, 2002, the audited consolidated net tangible asset value of EC-Founder was approximately HK\$136.6 million, and the net tangible asset value attributable to each EC-Founder Share (based upon the number of EC-Founder Shares in issue as at the Latest Practicable Date) was approximately HK\$0.1665. The issue price of HK\$0.2185 represents a premium of approximately 31.2% over the net tangible asset value per EC-Founder Share as at 31st December, 2002.

The Consideration Shares and the 23,615,560 Additional Shares represent approximately 37% of the existing issued share capital of EC-Founder as at the Latest Practicable Date and approximately 27% of the issued share capital of EC-Founder as enlarged by the issue of such Consideration Shares and Additional Shares. As at the Latest Practicable Date, Founder Hong Kong did not have any intention to transfer any of the Consideration Shares and the Additional Shares which may be issued to it or its nominee under the Agreement to any other persons.

### LISTING APPLICATION

Application has been made by EC-Founder to the Stock Exchange for the listing of, and permission to deal in, the Consideration Shares and the Additional Shares.

### INFORMATION ON HK CENTURY AND PRC CENTURY

HK Century and PRC Century are the only two operating vehicles of the Founder Group which are principally engaged in the Business, i.e. the distribution of information products in Hong Kong and the PRC. The products distributed by HK Century and PRC Century include, among other things, servers, workstations, data storage devices and networking products of various international brand names. The Founder Group has been engaged in the Business since 1993. During late 2001, the Founder Group commenced a business restructuring with a view to improving operational efficiency of the Business. As part of the restructuring, the Business was transferred to HK Century and PRC Century during the first half of 2002. The present management of the Business has extensive experience in the information product distribution business. The management of HK Century and PRC Century has steered the Business towards achieving and maintaining a strong market position, for example:

- HK Century and PRC Century have established good business relationships with various internationally well-known information product manufacturers; and

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## LETTER FROM THE BOARD

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- HK Century and PRC Century have established a distribution network in the PRC with over hundreds of sub-distributors.

HK Century is a company incorporated in Hong Kong on 6th May, 2002 with limited liability. PRC Century is a wholly-foreign owned enterprise incorporated in the PRC on 20th March, 2002 with limited liability.

The audited profit before and after taxation of HK Century were approximately HK\$58,000 and approximately HK\$41,000 respectively for the period from 6th May, 2002 (date of incorporation) to 31st December, 2002. As at 31st December, 2002, the audited net asset value of HK Century was approximately HK\$41,000.

The audited loss before and after taxation of PRC Century were approximately HK\$4,494,000 and approximately HK\$4,494,000 respectively for the period from 20th March, 2002 (date of incorporation) to 31st December, 2002. As at 31st December, 2002, the audited net asset value of PRC Century was approximately HK\$70,926,000 which comprised non-current assets of approximately HK\$1,308,000, current assets of approximately HK\$199,643,000 and current liabilities of approximately HK\$130,025,000.

Based on the published audited financial statements of the Founder Group for the years ended 31st December, 2001 and 2002, the following table shows certain financial information on the Business and the Founder Group for each of the three financial years ended 31st December, 2000, 2001 and 2002.

	2000		2001		2002	
	The Business HK\$'000	The Founder Group HK\$'000	The Business HK\$'000	The Founder Group HK\$'000	The Business HK\$'000	The Founder Group HK\$'000
Turnover	855,461	2,087,853	895,776	1,669,883	514,574	1,442,015
Segment profit/(loss)	(16,363)	186,920	(77,324)	(325,920)	(20,741)	(69,779)
Profit/(loss) before tax and minority interests	N/A	179,620	N/A	(391,751)	N/A	(278,463)
Net profit/(loss) attributable to the shareholders of Founder	N/A	181,006	N/A	(383,966)	N/A	(274,493)

*Note:* The total segment results of the Founder Group represent the consolidated profit/(loss) from operating activities of the Founder Group before interest income and impairment of goodwill. The figure of the segment loss of the Founder Group for the year ended 31st December, 2001 is extracted from the annual report of Founder for the year ended 31st December, 2002. Such figure is different from the segment loss of the Founder Group for the year ended 31st December, 2001 stated in the annual report of Founder for the year ended 31st December, 2001. The difference is due to reclassification of certain item in conformity to the presentation of the financial statements for the year ended 31st December, 2002.

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## LETTER FROM THE BOARD

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The turnover of the Business for the year ended 31st December, 2002 decreased by approximately 42.5% as compared with that for the year ended 31st December, 2001. Despite the decrease in turnover of the Business for the year ended 31st December, 2002, the overall performance of the Business has improved during the year ended 31st December, 2002. The segment loss of the Business reduced significantly by approximately 73.2% from approximately HK\$77.3 million for the year ended 31st December, 2001 to approximately HK\$20.7 million for the year ended 31st December, 2002.

The decrease in the turnover of the Business for the year ended 31st December, 2002 is mainly due to the competitive market environment and the substantial restructuring and re-engineering of the Business carried out by the existing management which temporarily adversely affected the performance of the Business. This included establishing new relationships with various internationally well-known information product manufacturers, enhancement of the distribution network and the introduction of new finance, accounting and other control systems, all of which are expected to yield long-term benefits to the Business. The business restructuring and re-engineering was preliminary completed during the first half of 2002.

Performance of the Business improved significantly in the second half of 2002. The management of HK Century and PRC Century believes that such improvement is principally a result of the business restructuring and the re-engineering in particular the introduction of the new inventory control system and credit control system and the strengthening of the logistic process. According to the published interim report of Founder for the 6 months ended 30th June, 2002, the turnover and segment loss of the Business were approximately HK\$245.7 million and HK\$20.1 million respectively. Based on the above interim segment result of the Business for the 6 months ended 30th June, 2002 and the result of the Business for the full year ended 31st December, 2002, the Business recorded a turnover of approximately HK\$268.9 million and a small segment loss of approximately HK\$0.6 million for the second half of 2002. The directors of Founder have confirmed that no exceptional or extraordinary items were recorded by the Founder Group in respect of the Business for the six months ended 30th June, 2002.

### **REASONS FOR THE ACQUISITION AND INTENTION AND FUTURE PLAN OF EC-FOUNDER**

#### **For EC-Founder**

After the restructuring of the Business and the introduction of the existing management in late 2001, the general performance of the Business has improved. Given the established distribution network and the relationships with the suppliers and major customers, and the experience, expertise and commitment of the existing management of HK Century and PRC Century, and the financial resources (including banking facilities) available to HK Century and PRC Century, the Directors believe that the Business is well positioned in the market and its business performance and potential will continue to improve.

The EC-Founder Group is principally engaged in the provision of software solutions and services and the manufacture and sale of electronic weighing scales. After Completion, the Business will be carried out by the EC-Founder Group through its interest in HK Century and PRC Century and apart from the Business, the EC-Founder Group will continue to be engaged in its existing principal businesses. The directors of Founder and EC-Founder confirm that there will not be any competition between the two groups upon Completion as a result of the Acquisition.

It is one of the strategies of the EC-Founder Group to focus on the development of the information technology business. The Directors consider that the Business and the present software solutions and services business of the EC-Founder Group are both information technology related and are complementary to each other, for example, EC-Founder may leverage on its existing clientele to further develop the

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## LETTER FROM THE BOARD

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Business and vice versa through cross selling activities and, following the Acquisition, the EC-Founder Group would be able to provide additional value-added services to the clients of its software solutions and services business, such as the provision of necessary hardware equipment to further satisfy their information technology requirements.

After Completion, the EC-Founder Group will continue to focus on its information technology businesses, including its existing software solutions and services business and the Business. The Directors understand from the board of directors of Founder that, save for the Acquisition, Founder has no intention to introduce any major changes in the business of the EC-Founder Group, including any deployment of the fixed assets of the EC-Founder Group and the employment of the employees of the EC-Founder Group will not be affected as a result of the Acquisition.

### **For Founder**

The Business will be sold to the EC-Founder Group under the Acquisition and the effective interest of Founder in HK Century and PRC Century will reduce from 100% to approximately 54.85% (based on the shareholding structure of EC-Founder as at the Latest Practicable Date and assuming there is no issue of Additional Shares), EC-Founder will become a subsidiary of Founder after Completion and, accordingly, the results of the EC-Founder Group, including those of the Business, will be consolidated into the accounts of the Founder Group after Completion.

Although the EC-Founder Group was loss making for the year ended 31st December, 2002, the directors of Founder believe that the business performance of the EC-Founder Group for the year ended 31st December, 2002 has improved as compared with the results of the previous year. The consolidated turnover of the continuing businesses of the EC-Founder Group for the year ended 31st December, 2001 increased to approximately HK\$243.4 million from approximately HK\$129.4 million for the year ended 31st December, 2000, representing an increase of approximately 88.1%. The EC-Founder Group disposed of its loss-making electronic components business in 2002. For 2002, the EC-Founder Group continued to record growth in the turnover of its continuing businesses. The consolidated turnover of the continuing businesses of the EC-Founder Group was approximately HK\$263.7 million for the year ended 31st December, 2002, representing a growth rate of approximately 8.3% as compared with the corresponding figure in 2001.

The software development industry in the PRC was still competitive in 2002 and therefore affected the overall business performance of the core business of the EC-Founder Group, i.e. the software solutions and services business. Based on the audited financial statements of the EC-Founder Group for the year ended 31st December, 2002, the turnover of the software solutions and services business of the EC-Founder Group decreased by approximately 3.9% from approximately HK\$73.7 million for the year ended 31st December, 2001 to approximately HK\$70.8 million for the year ended 31st December, 2002 while the segment loss of the business only increased slightly to approximately HK\$35.7 million for the year ended 31st December, 2002 from approximately HK\$35.0 million for the year ended 31st December, 2001. The EC-Founder Group has adopted a number of measures with a view to reducing the operating costs of the business, including streamlining the organizational structure, reducing headcount and closing down of certain non-core and loss-making companies.

The EC-Founder Group recorded an impairment loss of goodwill of HK\$36.5 million, which had been previously written off against reserves of the EC-Founder Group, for the year ended 31st December, 2002. If such impairment loss of goodwill is excluded, the net loss attributable to the Shareholders for the year ended 31st December, 2002 would be approximately HK\$48.9 million representing a reduction of approximately 29.1% as compared with that for the year ended 31st December, 2001.

## LETTER FROM THE BOARD

Following Completion, the shareholders of Founder, through the majority shareholding of Founder in EC-Founder, will continue to enjoy any future potential growth in the business performance of the EC-Founder Group, including that of the Business.

The Acquisition will also generate cash inflow for the Founder Group. Founder intends to use the net proceeds from the Acquisition as general working capital of the Founder Group and currently there is no specific use planned for the net proceeds.

### SHAREHOLDING STRUCTURE OF EC-FOUNDER

The table below shows the shareholding structure of EC-Founder:

	As at the Latest Practicable Date		Immediately after issue of the Consideration Shares		Immediately after issue of the Consideration Shares and 23,615,560 Additional Shares	
	Number of EC-Founder Shares	%	Number of EC-Founder Shares	%	Number of EC-Founder Shares	%
Founder Group (Note 1)	323,690,000	39.45	603,690,000	54.85	627,305,560	55.80
Parties acting in concert with Founder:						
F2 Consultant (Note 2)	*63,459,100	7.73	*63,459,100	5.77	*63,459,100	5.64
Other Founder Concert Parties (Note 3):						
Mr. Cheung Shuen Lung	36,890,100	4.50	36,890,100	3.35	36,890,100	3.28
Mr. Zhang Zhao Dong	3,956,000	0.48	3,956,000	0.36	3,956,000	0.35
Professor Wei Xin	3,956,000	0.48	3,956,000	0.36	3,956,000	0.35
Professor Xiao Jian Guo	*8,703,300	1.06	*8,703,300	0.79	*8,703,300	0.78
Mr. Jiang Bi Jin	*6,593,400	0.80	*6,593,400	0.60	*6,593,400	0.59
Sub-total	447,247,900	54.50	727,247,900	66.08	750,863,460	66.79
Yahoo! Inc.	93,240,000	11.36	*93,240,000	8.47	*93,240,000	8.29
Ricwinco Investment Limited (Note 4)	87,680,000	10.69	87,680,000	7.97	87,680,000	7.80
Other shareholders	*192,394,140	23.45	*192,394,140	17.48	*192,394,140	17.12
<b>Total</b>	<b>820,562,040</b>	<b>100.00</b>	<b>1,100,562,040</b>	<b>100.00</b>	<b>1,124,177,600</b>	<b>100.00</b>
* Public shareholding	271,149,940	33.04	364,389,940	33.11	364,389,940	32.42

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## LETTER FROM THE BOARD

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*Notes:*

1. As at the Latest Practicable Date, the only controlling shareholder of Founder was Peking University Founder Group Corporation which held 367,179,610 shares of Founder, representing approximately 32.67% of the issued share capital of Founder.
2. The 63,459,100 EC-Founder Shares are held by F2 Consultant as nominee on behalf of the directors of FDC (which currently include Mr. Cheung Shuen Lung, Mr. Zhang Zhao Dong, Professor Wei Xin and Professor Zou Wei) who are acting in their capacity as trustees of a discretionary trust for the employees of FDC and its subsidiaries.
3. Mr. Cheung Shuen Lung, Mr. Zhang Zhao Dong and Professor Wei Xin are directors of Founder and EC-Founder. Professor Xiao Jian Guo is a director of Founder. Mr. Jiang Bi Jin is a director of a wholly-owned subsidiary of Founder.
4. Ricwinco Investment Limited is wholly and beneficially owned by Mr. Yung Chih Shin, Richard, the Honorary Chairman and a non-executive director of EC-Founder. Mr. Yung Chih Shin, Richard and Ricwinco Investment Limited are connected persons of EC-Founder for the purposes of the Listing Rules.

As at the Latest Practicable Date, Founder together with its concert parties together held approximately 54.50% of the issued share capital of EC-Founder. Save as disclosed above, no other directors of or parties acting in concert with Founder held any EC-Founder Shares as at the Latest Practicable Date.

There were 22,800,000 share options for EC-Founder Shares outstanding as at the Latest Practicable Date. Out of such outstanding share options, 2,000,000 share options were held by Mr. Cheung Shuen Lung and 2,000,000 share options were held by Professor Wei Xin who are directors of Founder and EC-Founder. Save as disclosed above, none of Founder or any of the parties acting in concert with it held any share options of EC-Founder as at the Latest Practicable Date. As at the Latest Practicable Date, 2,000,000 share options were held by Professor Zou Wei and 2,700,000 share options were held by Mr. Richard Yung Jr. who are directors of EC-Founder. None of Mr. Cheung Shuen Lung, Professor Wei Xin, Professor Zou Wei and Mr. Richard Yung Jr. has any intention to exercise the share options held by each of them as at the Latest Practicable Date. The remaining 14,100,000 share options were held by employees of the EC-Founder Group. Save as disclosed above, as at the Latest Practicable Date, EC-Founder did not have any warrants, options, derivatives, convertible securities or other securities in issue. None of the unissued share or loan capital of EC-Founder is subject to any warrants, options or conversion rights and it has not been agreed, conditionally or unconditionally, to put any of the unissued share or loan capital of EC-Founder under any warrants, options or conversion rights.

Founder, its associates and its concert parties, including, among others, the subsidiaries of Founder, F2 Consultant and the Other Founder Concert Parties, have not acquired any EC-Founder Shares since 19th September, 2002 (being the date falling 6 months prior to the date of the Announcement) up to the Latest Practicable Date.

### **INFORMATION ON FOUNDER**

The Founder Group is principally engaged in a diversified portfolio of software and hardware businesses including software development, systems integration and distribution of information products (i.e. the Business currently carried out by HK Century and PRC Century). The Founder Group owned approximately 39.45% interest in EC-Founder as at the Latest Practicable Date.



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## LETTER FROM THE BOARD

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Peking University Founder Group Corporation is the controlling shareholder of Founder holding approximately 32.67% of the issued share capital of Founder as at the Latest Practicable Date. The directors of Peking University Founder Group Corporation are Professor Wang Xuan, Professor Wei Xin, Professor Xiao Jian Guo, Mr. Zhang Zhao Dong, Mr. Cheung Shuen Lung and Mr. Tang Yao Fu.

The directors of Founder are Mr. Cheung Shuen Lung, Professor Wei Xin, Mr. Zhang Zhao Dong, Professor Xiao Jian Guo, Dr. Hu Hung Lick, Henry and Mr. Li Fat Chung. Dr. Hu Hung Lick, Henry and Mr. Li Fat Chung are the independent non-executive directors of Founder.

### **WHITEWASH WAIVER**

As at the Latest Practicable Date, the Founder Group held approximately 39.45% of the issued share capital of EC-Founder. F2 Consultant and Other Founder Concert Parties are presumed to be parties acting in concert with Founder and held approximately 7.73% and approximately 7.32% of the issued share capital of EC-Founder respectively as at the Latest Practicable Date. Founder together with its concert parties held in aggregate approximately 54.50% of the issued share capital of EC-Founder as at the Latest Practicable Date.

Upon Completion, the percentage voting rights held by the Founder Group in EC-Founder will increase from approximately 39.45% to (i) approximately 54.85% (based on the shareholding structure of EC-Founder as at the Latest Practicable Date and assuming no Additional Shares are issued); and (ii) approximately 55.80% (based on the shareholding structure of EC-Founder as at the Latest Practicable Date and assuming 23,615,560 Additional Shares are issued). Founder has applied to the Executive for the Whitewash Waiver in respect of the obligation which would otherwise arise under Rule 26.1 of the Takeovers Code for Founder to make a mandatory general offer for all the issued EC-Founder Shares not already owned by Founder or parties acting in concert with Founder. The Executive has agreed to grant the Whitewash Waiver subject to approval by the shareholders of EC-Founder who are not involved in, or interested in, the Agreement by an independent vote cast on a poll at a general meeting of EC-Founder in accordance with Note 1 of the Notes on dispensation from Rule 26 of the Takeovers Code or as may otherwise be required by the Executive. Founder, its associates and its concert parties, including members of the Founder Group, F2 Consultant and Other Founder Concert Parties will have to abstain from voting in respect of the resolution for approving the Acquisition and the Whitewash Waiver.

Based on the shareholding structure of EC-Founder as at the Latest Practicable Date, the voting rights held by the Founder Group in EC-Founder upon Completion will exceed 52% of the total outstanding voting rights of EC-Founder after Completion. Accordingly, thereafter the Founder Group may increase its shareholding interest in EC-Founder without incurring further obligation under Rule 26 of the Takeovers Code to make a general offer.

Founder and EC-Founder will issue a joint announcement as soon as practicable after results of the SGM are available.

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## LETTER FROM THE BOARD

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### ON-GOING CONNECTED TRANSACTION WAIVER

#### The Transactions

Systems integration is one of the principal businesses of the Founder Group. Under this business, the Founder Group has been acquiring information products for its customers in order to establish computer systems, and provide software and hardware solutions to its clients. HK Century and PRC Century have been two of the suppliers to other members of the Founder Group. As Founder is the controlling shareholder of EC-Founder, and given that HK Century and PRC Century will become wholly-owned subsidiaries of EC-Founder after Completion, the Transactions between the Founder Group and HK Century and/or PRC Century after Completion will constitute on-going connected transactions for EC-Founder under the Listing Rules. The unaudited annual aggregate amount of Transactions amounted to approximately HK\$23.9 million for the year ended 31st December, 2002. The terms of the Transactions have been and will continue to be determined at arm's length between the Founder Group and HK Century and/or PRC Century and are comparable to the terms offered by HK Century and PRC Century to other customers who are not connected persons of EC-Founder within the meanings of the Listing Rules. The Transactions have been and will continue to be conducted in the ordinary and usual course of business of HK Century and PRC Century. The Directors believe that the Transactions are in the interests of EC-Founder, and the terms of the Transactions are fair and reasonable so far as the interests of the Shareholders as a whole are concerned.

#### On-going connected transaction waiver application

As the aggregate annual amount of the Transactions is expected to exceed the higher of HK\$10 million and 3% of the latest published net tangible asset value of the EC-Founder Group, the Transactions are subject to the disclosure and shareholders' approval requirements under Chapter 14 of the Listing Rules. Given the on-going and recurring nature of the Transactions, the Directors consider it impracticable and unduly burdensome for EC-Founder to comply strictly with such disclosure and shareholders' approval requirements on each occasion the Transactions arises. Accordingly, EC-Founder has applied to the Stock Exchange for a waiver from strict compliance with the disclosure and shareholders' approval requirements under the Listing Rules for the three financial years ending 31st December, 2005 in respect of the Transactions subject to the following conditions:

1. the Transactions shall be:
  - (a) entered into by the EC-Founder Group in the ordinary and usual course of its business;
  - (b) entered into either (i) on normal commercial terms; or (ii) (where there is no available comparison) on terms that are fair and reasonable so far as the interests of the Shareholders as a whole are concerned; and
  - (c) conducted in accordance with the terms of the relevant agreements (if applicable);

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## LETTER FROM THE BOARD

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2. the annual aggregate amount of the Transactions for each of the three financial years ending 31st December, 2003, 2004 and 2005 shall not exceed HK\$26 million, HK\$28 million and HK\$30 million respectively (the “Respective Cap”);
3. the independent non-executive Directors shall review annually the Transactions and confirm in the next annual report of EC-Founder that the Transactions have been conducted in the manner as stated in paragraphs 1 and 2 above;
4. the auditors of EC-Founder shall review annually the Transactions and confirm in a letter (the “Letter”) to the Board (a copy of which shall be provided to the Stock Exchange) stating whether:
  - (a) the Transactions have been approved by the Board;
  - (b) the Transactions have been conducted in accordance with the terms of the relevant agreements (if applicable); and
  - (c) the Respective Cap has been exceeded or not;

where, for whatever reason, the auditors of EC-Founder decline to accept the engagement or are unable to provide the Board with the Letter, EC-Founder shall inform the Stock Exchange immediately; and

5. details of the Transactions shall be disclosed in the annual report of EC-Founder for each of the three financial years ending 31st December, 2003, 2004 and 2005 in accordance with the disclosure requirements under Rule 14.25(1) (A) to (D) of the Listing Rules together with a statement of opinion of the independent non-executive Directors and the auditors of EC-Founder referred to in paragraphs 3 and 4 above.

As the Transactions involve sales of information products to the systems integration business of other members of the Founder Group, the amounts of the Respective Cap were determined with reference to the anticipated growth of the systems integration business market in the PRC and to allow for the potential growth of the Business. The Directors believe that the amounts of the Respective Cap are fair and reasonable and are in the interests of the Shareholders.

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## LETTER FROM THE BOARD

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### SGM

Set out on pages 103 to 105 of this circular is a notice convening the SGM to be held at Unit 1408, 14th Floor, Cable TV Tower, 9 Hoi Shing Road, Tsuen Wan, New Territories, Hong Kong at 11:30 a.m. on Wednesday, 28th May, 2003 at which ordinary resolutions will be proposed to consider and, if thought fit, to approve (i) the Acquisition and the Whitewash Waiver and (ii) the Transactions.

Founder, its associates and its concert parties, including, among others, the subsidiaries of Founder, F2 Consultant and Other Founder Concert Parties will have to abstain from voting at the general meeting of EC-Founder in respect of the resolutions proposed for considering and, if thought fit, approving (i) the Acquisition and the Whitewash Waiver and (ii) the Transactions. As at the Latest Practicable Date, no Independent Shareholders had irrevocably committed themselves to vote for or against the resolution regarding the Acquisition and the Whitewash Waiver.

### INDEPENDENT BOARD COMMITTEE

The Independent Board Committee has been established to advise the Independent Shareholders in respect of the Acquisition, the Whitewash Waiver and the Transactions. Mr. Zhang Zhao Dong, Mr. Cheung Shuen Lung and Professor Wei Xin are presumed to be parties acting in concert with Founder under the Takeovers Code because of their respective directorships in Founder or subsidiaries of Founder. Professor Zou Wei, Mr. Yung Richard, Jr. and Mr. Yung Chih Shin, Richard are salaried employees of the EC-Founder Group. In addition, as the Acquisition constitutes a connected transaction for EC-Founder under the Listing Rules, Mr. Yung Chih Shin, Richard, a substantial shareholder of EC-Founder through his shareholding interest in Ricwinco Investment Limited, is not regarded as an independent Director for the purposes of the Listing Rules. Accordingly, Mr. Yang Lin, Richard and Mr. Lee Ying Bui, Andrew, the two independent non-executive Directors, have been invited to form the Independent Board Committee.

### FURTHER INFORMATION

Your attention is drawn to the letter from the Independent Board Committee, the letter from Tai Fook, the notice of SGM and the additional information set out in the appendices to this circular.

Yours faithfully,  
For and on behalf of the Board  
**Zhang Zhao Dong**  
*Chairman*

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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**EC-FOUNDER (HOLDINGS) COMPANY LIMITED**

**方正數碼(控股)有限公司\***

*(Incorporated in Bermuda with limited liability)*

30th April, 2003

*To the Independent Shareholders*

Dear Sir or Madam,

**ACQUISITION OF HK CENTURY AND PRC CENTURY  
BY EC-FOUNDER (HOLDINGS) COMPANY LIMITED FROM  
FOUNDER HOLDINGS LIMITED  
DISCLOSEABLE AND CONNECTED TRANSACTION  
APPLICATION FOR WHITEWASH WAIVER  
ON-GOING CONNECTED TRANSACTION WAIVER**

We refer to the circular dated 30th April, 2003, issued to the Shareholders (the “Circular”), of which this letter forms part. Unless the context otherwise permits, terms used in this letter have the same meanings as defined in the Circular.

We have been appointed as members of the Independent Board Committee to advise you as to whether, in our opinion, the respective terms of the Acquisition, the Whitewash Waiver and the Transactions are fair and reasonable so far as the interests of the Independent Shareholders are concerned; and the Acquisition, the granting of the Whitewash Waiver and the Transactions are in the interests of EC-Founder and the Independent Shareholders as a whole.

Tai Fook has been appointed as the independent financial adviser to advise us in connection with the Acquisition, the Whitewash Waiver and the Transactions.

Having taken into account the terms of the Agreement and the Transactions and the opinion of Tai Fook and, in particular, the factors, reasons and recommendation set out in the letter from Tai Fook on pages 20 to 43 of the Circular, we consider the respective terms of the Acquisition, the Whitewash Waiver and the Transactions are fair and reasonable so far the interests of the Independent Shareholders are concerned and the Acquisition, the granting of the Whitewash Waiver and the Transactions are in the interests of EC-Founder and the Independent Shareholders as a whole. We therefore recommend that the Independent Shareholders vote in favour of the ordinary resolutions to be proposed at the SGM to approve (i) the Acquisition and the Whitewash Waiver; and (ii) the Transactions.

We also draw the attention of the Independent Shareholders to (i) the letter from the Board, (ii) the letter from Tai Fook, and (iii) the appendices to the Circular.

Yours faithfully,

**Mr. Yang Lin, Richard**

**Mr. Lee Ying Bui, Andrew**

*Independent Board Committee*

\* *For identification purpose only*

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## LETTER FROM TAI FOOK

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25th Floor  
New World Tower  
16-18 Queen's Road Central  
Hong Kong

*To the Independent Board Committee*  
EC-Founder (Holdings) Company Limited  
Unit 1408, 14th Floor  
Cable TV Tower  
9 Hoi Shing Road  
Tsuen Wan  
New Territories  
Hong Kong

30th April, 2003

Dear Sirs,

**DISCLOSEABLE AND CONNECTED TRANSACTION  
ACQUISITION OF HK CENTURY AND PRC CENTURY  
AND  
WHITEWASH WAIVER  
AND  
ON-GOING CONNECTED TRANSACTIONS**

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee in relation to the Acquisition, the Whitewash Waiver and the Transactions (including the relevant annual caps), details of which are contained in the circular dated 30th April, 2003 (the "Circular") to the Shareholders of which this letter forms part. Terms used in this letter shall have the same respective meanings in the Circular unless the context otherwise requires.

Pursuant to the Agreement, Founder Hong Kong has conditionally agreed to sell and EC-Founder has conditionally agreed to purchase the entire issued share capital of HK Century and the entire equity interest of PRC Century. As Founder Hong Kong is a wholly-owned subsidiary of Founder and EC-Founder is owned as to approximately 39.45% by the Founder Group as at the Latest Practicable Date, the Acquisition constitutes a connected transaction for EC-Founder and the Transactions constitute on-going connected transactions for EC-Founder under the Listing Rules and are conditional, among other things, upon the Independent Shareholders' approval. The Acquisition also constitutes a discloseable transaction for EC-Founder under the Listing Rules. As the Acquisition involves the issue of the Consideration Shares and the possible issue of the Additional Shares to Founder Hong Kong which will increase the Founder Group's voting rights in EC-Founder from approximately 39.45% to over 50%, a general offer obligation is triggered under Rule 26 of the Takeovers Code and Founder has applied to the Executive for the Whitewash Waiver. In our capacity as the independent financial adviser to the Independent

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## LETTER FROM TAI FOOK

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Board Committee, our role is to provide you with an independent opinion and recommendations as to whether the terms of the Acquisition, the granting of the Whitewash Waiver and the terms of the Transactions (including the relevant annual caps) are fair and reasonable so far as the Independent Shareholders are concerned.

The Board comprises altogether eight Directors, being (i) five executive Directors, namely Mr. Zhang Zhao Dong, Mr. Cheung Shuen Lung, Professor Wei Xin, Professor Zou Wei and Mr. Yung Richard, Jr.; (ii) one non-executive Director, Mr. Yung Chih Shin, Richard; and (iii) two independent non-executive Directors, namely Mr. Yang Lin, Richard and Mr. Lee Ying Bui, Andrew. Mr. Zhang Zhao Dong, Mr. Cheung Shuen Lung and Professor Wei Xin are executive directors of both EC-Founder and Founder and all of them are included in Other Founder Concert Parties. Mr. Yung Chih Shin, Richard, Mr. Yung Richard, Jr. and Professor Zou Wei are salaried employees of the EC-Founder Group. Accordingly, each of Mr. Zhang Zhao Dong, Mr. Cheung Shuen Lung, Professor Wei Xin, Professor Zou Wei, Mr. Yung Chih Shin, Richard and Mr. Yung Richard, Jr. is not considered independent under the Takeovers Code and the Listing Rules so far as the Acquisition, the Whitewash Waiver and the Transactions are concerned. The Independent Board Committee, comprising Mr. Yang Lin, Richard and Mr. Lee Ying Bui, Andrew (being the independent non-executive Directors), has been appointed to give advice and recommendations to the Independent Shareholders regarding the Acquisition, the Whitewash Waiver and the Transactions (including the relevant annual caps).

In formulating our opinion, we have relied on the information and facts supplied to us by EC-Founder, management and directors of EC-Founder, Founder, HK Century and PRC Century and have assumed that all such information and facts and any representations made to us are true, accurate and complete as at the date hereof. We have also assumed that all information, representations and opinions contained or referred to in the Circular are fair and reasonable and have relied on them. We have sought and received confirmation from EC-Founder, management and directors of EC-Founder, Founder, HK Century and PRC Century that all relevant information has been supplied to us and that no material facts have been omitted and we are not aware of any facts or circumstances which would render the information provided and the representations made to us untrue, inaccurate or misleading.

We consider we have reviewed sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted an independent verification of the information nor have we conducted any form of in-depth investigation into the businesses and affairs of EC-Founder, Founder, HK Century and PRC Century or any of its subsidiaries and associates.

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## LETTER FROM TAI FOOK

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### PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the Acquisition, the Whitewash Waiver and the Transactions (including the relevant annual caps), we have considered the following principal factors and reasons:

#### I. The Acquisition

##### 1. Background information on the EC-Founder Group and reasons for the Acquisition

The EC-Founder Group is principally engaged in the provision of software solutions and services (the “IT Business”) and the manufacturing and sale of weighing scales (the “Scale Business”). In June 2002, the EC-Founder Group disposed of the business of manufacturing and distribution of semi-conductors (the “Electronic Components Business”), details of which were disclosed in the circular of EC-Founder dated 29th April, 2002. The financial results of the EC-Founder Group for the years ended 31st December, 2000, 2001 and 2002 are summarised as follows:

	Year ended 31st December, 2000 (audited) HK\$'000	Year ended 31st December, 2001 (audited) HK\$'000	Year ended 31st December, 2002 (audited) HK\$'000
<b>Turnover</b>			
IT Business	10,072	73,681	70,825
Scale Business	119,366	169,762	192,825
Electronic Components Business (Note)	<u>129,226</u>	<u>88,012</u>	<u>48,283</u>
Total	<u>258,664</u>	<u>331,455</u>	<u>311,933</u>
<b>Segment results</b>			
IT Business	(21,265)	(35,046)	(35,702)
Scale Business	(3,653)	4,735	3,900
Electronic Components Business (Note)	<u>(9,838)</u>	<u>(23,392)</u>	<u>(19,449)</u>
Total	<u>(34,756)</u>	<u>(53,703)</u>	<u>(51,251)</u>

Note: The Electronic Components Business was discontinued in June 2002.

According to the annual report of EC-Founder for the year ended 31st December, 2001, it is the focus of the EC-Founder Group to further develop the IT Business with an aim to capture a larger market share. Following the disposal of the loss making Electronic Components Business in June 2002, the IT Business became an increasingly important revenue contributor to the EC-Founder Group and as stated in the annual report of EC-Founder for the year ended 31st December, 2002, the EC-Founder Group will focus and



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## LETTER FROM TAI FOOK

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utilise its resources to further develop the core IT Business. For the years ended 31st December, 2001 and 2002, the EC-Founder Group has completed various IT Business projects and recorded a turnover of approximately HK\$73,681,000 and HK\$70,825,000 respectively. However, due to the highly competitive PRC software solutions market, the IT business recorded segment losses of approximately HK\$35,046,000 and HK\$35,702,000 for the respective year.

Apart from the IT Business, the Scale Business has posted a segment loss of approximately HK\$3,653,000 and a segment profit of approximately HK\$4,735,000 respectively for the two years ended 31st December, 2000 and 2001. For the year ended 31st December, 2002, the Scale Business recorded a turnover of approximately HK\$192,825,000 and a segment profit of approximately HK\$3,900,000, representing a slim margin of approximately 2.0%.

With a view to further developing the IT Business, the EC-Founder Group has been exploring investment opportunities which would diversify its existing business scope of the IT Business in order to broaden the income base of the EC-Founder Group. The Directors consider the Business complementary to the present IT Business and the Acquisition represents a good opportunity for the EC-Founder Group to expand its scope of the IT Business based on the following reasons:

- The IT Business can utilise the vast distribution network and customer base of the Business to market its software products and solicit potential customers;
- Leveraging on the technical support and market information gathered from the distribution network of the Business, the IT Business will be able to develop software compatible to the latest hardware development and better suited for the changing market demands;
- The IT Business will be able to provide hardware support to its customers by sourcing products from the Business at a more competitive price; and
- Capitalised on the expertise of the IT Business, the EC-Founder Group will be able to further expand the Business by offering software applications developed by the IT Business to the clients in order to establish itself as a total solutions provider.

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## LETTER FROM TAI FOOK

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In light of the above, the Directors and we are of the view that the Business is complementary to the present IT Business and the Acquisition represents a good opportunity for the EC-Founder Group to expand its scope of the IT Business. Moreover, the Acquisition is consistent with the EC-Founder Group's business strategy and that the EC-Founder Group could leverage its existing clientele to further develop the Business and the IT Business and vice versa through cross selling activities.

### 2. *The Business*

#### 2.1 Background

The Founder Group has been engaged in the Business since 1993 and "Founder" is a well-known and long established brand name in the PRC information technology industry. The products distributed by the Business include, among other things, servers, workstations, data storage devices and networking products of various international brand names. During late 2001, the Founder Group commenced a business restructuring (the "Restructuring") with a view to improving the operational efficiency of the Business. As part of the Restructuring, the Business was transferred to two newly incorporated companies, namely HK Century and PRC Century during the first half of 2002. As disclosed in the Letter from the Board in the Circular, the Founder Group will, except through its interest in the EC-Founder Group, cease to be engaged in the business of distribution of information products, and the directors of Founder and EC-Founder have confirmed that there will not be any competition between the two groups upon Completion as a result of the Acquisition.

Since its commencement of operation in 1993, the Business has built up a distribution network of over hundreds of sub-distributors throughout the PRC. There have been established business relationships with various internationally well-known information products manufacturers and the Directors believe that these relationships could be maintained in the future. According to the 2002中國電腦分銷商100強 (2002 Top 100 PRC Distributors of Information Products) ranked by電腦商報 (Computer Business), an industry newspaper sponsored by中國電子信息產業發展研究院 (Research Institute of China Electronic Information Industry Development), PRC Century was ranked 11th out of 100 enterprises in terms of total revenue of its distribution business. Besides its headquarters in Beijing, PRC Century has established two branch offices in Shanghai and Guangzhou and four representative offices in Shenyang, Nanjing, Wuhan and Shenzhen to provide sales and technical support to its sub-distributors and gather market information in their respective locations. In our view, substantial efforts and time will be required to establish an operation with a scale and reputation comparable to that of PRC Century.

#### 2.2 Financial information

HK Century and PRC Century are two operating vehicles of the Founder Group principally engaged in the Business.

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## LETTER FROM TAI FOOK

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Based on the Letter from the Board in the Circular, the audited profit before and after taxation of HK Century were approximately HK\$58,000 and approximately HK\$41,000 respectively for the period from 6th May, 2002 (date of incorporation) to 31st December, 2002. As at 31st December, 2002, the audited net asset value of HK Century was approximately HK\$41,000.

Based on the Letter from the Board in the Circular, the audited loss before and after taxation of PRC Century were approximately HK\$4,494,000 and approximately HK\$4,494,000 respectively for the period from 20th March, 2002 (date of incorporation) to 31st December, 2002. As at 31st December, 2002, the audited net asset value of PRC Century was approximately HK\$70,926,000 which comprised non-current assets of approximately HK\$1,308,000, current assets of approximately HK\$199,643,000 and current liabilities of approximately HK\$130,025,000.

Based on the published audited financial statements of the Founder Group for the years ended 31st December, 2000, 2001 and 2002, the following table sets out the turnover and the segment results of the Business for these respective periods.

	Year ended 31st December, 2000 (audited) HK\$'000	Year ended 31st December, 2001 (audited) HK\$'000	Year ended 31st December, 2002 (audited) HK\$'000
Turnover	855,461	895,776	514,574
Segment results	<u>(16,363)</u>	<u>(77,324)</u>	<u>(20,741)</u>

*For the two years ended 31st December, 2000 and 2001*

For the year ended 31st December, 2000, the Business recorded a turnover and segment loss of approximately HK\$855,461,000 and HK\$16,363,000 respectively. For the year ended 31st December, 2001, the turnover and segment loss of the Business were approximately HK\$895,776,000 and HK\$77,324,000 respectively. According to the directors of Founder, the burst of the information technology ("IT") bubble and the economic uncertainties in 2000 have slowed down the demand for information products in 2000 and 2001. They were of the view that the market downturn of the IT industry would not last too long. Accordingly, the Business adopted the strategy of maintaining its established market share in the industry by offering competitive discounts which on the one hand, could boost sales for the Business and on the other hand, could reduce the level of inventories. As a number of IT players in the market at that time had to strive for survival by implementing substantial price cut measures, the Business therefore suffered from intense competition. As a result, though the Business recorded a moderate increase of approximately 4.7% in turnover, the decrease in gross profit has led to the increase in segment loss by approximately 3.7 times.

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## LETTER FROM TAI FOOK

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*For the year ended 31st December, 2002*

For the year ended 31st December, 2002, the Business recorded a turnover and segment loss of approximately HK\$514,574,000 and HK\$20,741,000 respectively. In late 2001, a new management team (the “New Management”) was appointed to manage the operation of the Business. They have made improvements to the internal controls of the Business including the introduction of the new inventory control system and credit control system and the strengthening of the logistic process, which were of utmost importance to the Business. In addition, the New Management has dedicated resources to restructure the distribution network and adjust relationship with certain suppliers of the Business. As a result, coupled with the poor economic sentiment, the turnover of the Business for the year ended 31st December, 2002 was decreased by approximately 42.5% as compared with that for the year ended 31st December 2001. However, the segment loss of the Business has substantially narrowed by approximately 73.2% as compared with the segment loss of HK\$77,324,000 for the year ended 31st December 2001.

The business environment in early 2000 and that in 2002 substantially differed. As discussed above, the burst of the IT bubble in 2000 has led to a decrease in the demand for information products and plunge in the profit margin. According to the 2000 interim report of Founder, the Business had enjoyed a more favorable market environment and resulted in a segment profit of approximately HK\$2,210,000 for the six months ended 30th June, 2000. As the Business was operating in a tougher market environment and was undergoing the Restructuring in 2002, it has recorded a slightly higher segment loss than in 2000 despite having a lower turnover.

According to the published interim report of the Founder Group, the turnover and segment loss of the Business for the six months ended 30th June, 2002 were approximately HK\$245,695,000 and HK\$20,128,000 respectively. Based on the above interim segment results of the Business and the results of the Business for the full year ended 31st December, 2002, the Business recorded a small segment loss of approximately HK\$613,000 for the second half of the year 2002.

As stated in the Letter from the Board in the Circular, the management of HK Century and PRC Century considers that the improvement in the performance of the Business was principally derived from the result of the Restructuring.

### 2.3 Measures taken by the New Management

As part of the Restructuring, the New Management was appointed to manage the operation of the Business in late 2001. The New Management has extensive experience in the information product distribution business. According to the New Management, various measures have been implemented in the following areas to improve the performance of the Business.

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## LETTER FROM TAI FOOK

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### *Inventory control*

The New Management has identified that excessive inventories mainly resulted from inaccurate sales forecasts made when placing orders and the untimely clearing up of inventories in the past. Consequently, the New Management has implemented the following measures:

- (i) closely monitoring the monthly inventory level and sales to reduce the risk of excessive ordering;
- (ii) closely reviewing the aging of inventories and taking appropriate steps;  
and
- (iii) tightening the control on new purchases.

After the Restructuring, the inventory turnover days of the Business has improved to approximately 44 days for the year ended 31st December, 2002 from approximately 62 days for the previous year.

### *Credit control*

As advised by the New Management, apart from setting up a prudent credit control policy and procedures to monitor the trade receivables, the following measures have been implemented during the year of 2002:

- (i) installing a comprehensive credit control system for the assessment of clients' credit status;
- (ii) closely monitoring the trade receivables level to maintain it at a conservative ratio to the previous month sales; and
- (iii) closely reviewing the aging of trade receivables and taking prompt actions corresponding to the credit control system.

As at 31st December, 2002, approximately 2.3% of the trade receivables was over 180 days. Prior to the Restructuring, approximately 13.2% of the trade receivables was over 180 days as at 31st December, 2001.

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## LETTER FROM TAI FOOK

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### *Overall business operation*

The New Management has also taken various initiatives with a view to further enhancing the earnings potential of the Business, which include, among others, the following:

- (i) Widening product range: the Business has entered into new agency agreements with various international brands;
- (ii) Provision of total solutions: the Business has dedicated resources to developing corporations and systems integrators as key clients, who are expected to demand total solution packages or an assortment of information products from different brands; and
- (iii) Enhancement of distribution network: the Business has provided various back-up supports including that of logistics and training to its sub-distributors.

We understand from the Directors that they have conducted reviews on and taking into account of various measures implemented by the New Management when considering the Acquisition. Based on these reviews, the Directors consider that the Business has been steered to become a competitive player in the industry and the Directors have also confirmed that they will continue to implement stringent controls on the inventory and credit systems with an aim to further improve the earnings potential of the Business.

Based on the above analysis, it is evidenced that the performance of the Business has been improving after the New Management has taken up the management of the Business and various measures implemented. Despite the audited segment losses recorded by the Business for the three years ended 31st December, 2002, the Directors and we are of the view that the Business, particularly after the Restructuring, is well positioned in the market to capture the considerable development potential in the PRC IT industry, and its earnings potential will continue to improve.

#### 2.4 Business prospects of the IT industry in the PRC

The worldwide IT industry had been growing at an average annual growth rate of approximately 12% for the past 20 years and the total turnover of the worldwide IT products amounted to approximately US\$875 billion in 2002. The Directors believe that PRC IT market is still at a relatively early stage of development as compared to other parts of the world and is expected to expand rapidly.

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## LETTER FROM TAI FOOK

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With the increased popularity of personal computers, the technology advancement in the capabilities of computer hardware and the new concept of Internet, the worldwide IT industry began to experience substantial growth since the mid 1990's. However, the Internet boom did not last long and growth in the IT industry began to slow down from the second half of 2000 and experienced a swift down turn in 2001. It was reported by a well recognised IT research institute that the worldwide IT industry had experienced the worst performance in history by recording a negative growth of approximately 2.3% in 2002. The overall downturn of the worldwide IT industry has partially led to the slow down of the PRC IT industry and the opening of the PRC economy has also invited intense competition. However, driven by the increasing usage of personal computers and strong internal demand derived from various industries, the PRC IT industry was much less affected than other Asian IT markets which have been relatively heavily relied on exports.

It was also reported by that research institute that, the worldwide IT market will rebound in 2003 and achieve an annual growth rate of approximately 6% and given (i) the internal demand for IT products in the PRC will remain strong since PRC's gross domestic products is expected to continue to increase at an annual growth rate of approximately 7% to 8% for the next ten years; (ii) the foreign investment in the PRC will continue to grow along with their IT spending after PRC's accession into the World Trade Organisation; (iii) the Olympic Games of 2008 in Beijing will bring worldwide attention to the PRC; (iv) the development of the western part of the PRC will lead to strong IT demand; (v) the State's promotion of IT services in public sectors such as education and public administration will further encourage the IT demand; and (vi) the opening of the PRC financial market will increase the IT investment in this sector, although the growth of the PRC IT industry will remain stable in 2002 and 2003, it will achieve a compound annual growth rate of approximately 20% over the next five years, higher than the estimated worldwide growth rate of approximately 7%. Based on the aforesaid, we consider that the prospects of the IT industry in the PRC is promising and is expected to generate tremendous business opportunities for those competitive IT enterprises.

As the New Management has implemented various measures to resolve the internal control issues of the Business after the Restructuring, the Business has been steered to become a competitive player in the PRC IT market. We concur with the view of the Directors that, leveraging on the established scale and reputation of the Business, the extensive experience in the IT business of the New Management and the synergies derived from the Acquisition, the EC-Founder Group is well positioned to capture the considerable development potential in the IT industry in PRC.

### 2.5 Conclusion on the Business

Given the fact that (i) the Business has recorded considerable revenue streams for the past few years; (ii) the New Management has revitalised the Business by tightening its controls in various aspects and it is expected that the earnings potential

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## LETTER FROM TAI FOOK

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of the Business will continue to improve; (iii) the long-established distribution network and relationship with international brand name suppliers; (iv) PRC Century was ranked 11th in the PRC in terms of total revenue of its distribution business by 電腦商報 (Computer Business) in 2002; (v) the New Management has taken various initiatives to further enhance the earnings potential of the Business; and (vi) the business prospects of the IT industry in the PRC, the Directors and we are of the view that the Business will immediately broaden the income stream of the EC-Founder Group upon Completion and will yield the following long term benefits to the EC-Founder Group:

- Since the Business is complementary to the existing IT Business of the EC-Founder Group, EC-Founder may then leverage on its existing clientele to further develop the Business and vice versa through cross selling activities which would further expand its scope of the IT Business; and
- The Business, particularly after the Restructuring, together with the synergies derived from the EC-Founder Group's existing IT Business, is well positioned in the market to capture the considerable development potential in the PRC IT industry.

Based on the above analysis, the Directors and we are of the view that an opportunity to purchase the Business with such a scale of operation, reputation, well established business relationship with various internationally well-known information product manufacturers, a distribution network of over hundreds of sub-distributors throughout the PRC, expertise and commitment of the New Management, and business prospects at the Consideration with such payment terms is not always available. The Directors and we also consider that if the Business had been profit making, assuming other aspects of the Business remained unchanged, the selling price for the Business as demanded by Founder Hong Kong would be higher than that of the Consideration.

### 3. *Terms of the Agreement*

#### 3.1 Basis of the Consideration

The initial Consideration of HK\$71,500,000 was determined after arm's length negotiation between Founder Hong Kong and EC-Founder, in particular with reference to the assets and liabilities of HK Century and PRC Century (based on the management accounts of HK Century and PRC Century as at 31st December, 2002), prospects and the established business relationships with suppliers and distribution network of the Business.



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## LETTER FROM TAI FOOK

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Since the latest financial information available as at the date of the Agreement was the unaudited assets and liabilities of HK Century and PRC Century as at 31st December, 2002, as agreed by the parties to the Agreement, the initial Consideration of HK\$71,500,000 will be subject to an adjustment mechanism pursuant to the terms of the Agreement as follows:

1. Auditors of HK Century and PRC Century, Ernst & Young, will conduct a review of the Completion Accounts of HK Century and PRC Century within 4 months after Completion;
2. If the Reviewed NAV is less than the Consideration, the Consideration will be adjusted downward on a dollar for dollar basis to the Reviewed NAV and any Shortfall will be off-set against the Final Payment; and
3. If the Shortfall exceeds the Final Payment, EC-Founder will then be fully discharged of the liability to make the Final Payment and Founder Hong Kong will have to pay the difference between the Shortfall and the Final Payment to EC-Founder in cash on the date falling 6 months after the date of Completion. Therefore, the final Consideration will be equal to the Reviewed NAV.

EC-Founder will also set out in its next annual report after Completion for any adjustment made to the Consideration in accordance with the terms of the Agreement as described above.

As discussed in the previous section headed “The Business”, the Business has certain other intangible assets that would not be reflected in the financial statements including but not limited to the well established brand name and reputation in the industry, established relationships with various internationally well-known information product manufacturers and distribution network developed in the past decade in the PRC. Although the Directors have confirmed that such intangibles have been taken into account when considering the Acquisition and determining the Consideration, since such intangible assets cannot be accurately quantified and would not be reflected in the financial statements of the Business, no precise portion of the Consideration was ascribed to these intangibles assets. The Directors have further confirmed that the Consideration, which was determined after arm’s length negotiation, is fair and reasonable.

According to the terms of the Agreement, the initial Consideration of HK\$71,500,000 would be satisfied as to HK\$5,160,000 upon Completion in cash, as to HK\$61,180,000 by the allotment and issue of the Consideration Shares to Founder Hong Kong or as it directs upon Completion and the Final Payment (subject to adjustment) to be satisfied on a date falling 6 months after Completion at the option of Founder Hong Kong in any of the following ways: (a) EC-Founder to pay Founder Hong Kong or as it may direct in cash; (b) EC-Founder to allot and issue to Founder Hong Kong or its nominee Additional Shares; or (c) a mixture of both (collectively, the “Convertible Right”).

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## LETTER FROM TAI FOOK

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Apart from the above analysis, we have reviewed the price-to-book multiple and price-to-earnings multiple of the following companies (the “Comparable Companies”) whose shares are listed on the main board of the Stock Exchange and whose principal businesses are similar to that of the Business:

Name of Comparable Companies	Description of principal business	Date of latest audited financial statements	Closing price as at		Historical price/earnings ratio
			the Latest Practicable Date	Historical price/book ratio	
Listco A	Distribution of CPUs, motherboards, and networking products in Hong Kong and the PRC	31st December, 2002	0.207	0.86	5.02
Listco B	Distributor and provider of IT products and systems integration services in the PRC	31st March, 2002	1.950	1.33	9.77
Listco C	Distribution of IT products including data storage device, CPUs, media products, PC motherboards and server motherboards	31st March, 2002	0.089	0.98	2.06
<b>Average</b>				1.06	5.62
<b>The Business*</b>				1.00	N/A

\* *Shareholders should note that the price-to-book ratio for the Business would be less than 1.00 if the Reviewed NAV is higher than the Consideration of HK\$71,500,000*

*Source: Bloomberg*

We noted that the products distributed by the Comparable Companies may not be exactly identical to those of the Business, but all of the Comparable Companies are principally engaged in the distribution of information products in Hong Kong and/or the PRC. We consider the Comparable Companies relevant for the purposes of ascertaining whether the Consideration is generally in line with the market. Since no price-to-earnings ratio for any of Hong Kong Century, PRC Century and the Business are available and the Consideration was not determined with reference to the forecast earnings of the Business, price-to-earnings ratio comparison is not applicable in our case. As the Consideration is set equal to the Reviewed NAV, we believe that the use of the price-to-book ratio for comparison is applicable. As illustrated in the table

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## LETTER FROM TAI FOOK

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above, the average price-to-book ratio of the Comparable Companies was approximately 1.06. It should be noted that a premium might have attached to the price-to-book multiples of the Comparable Companies deriving from their listing status, however, the price-to-book multiple of Listco A, Listco B and Listco C has decreased by approximately 62.4%, 25.6% and 14.4% respectively during the period from the date of the Agreement to the Latest Practicable Date and the Hang Seng Index during the corresponding period has decreased by approximately 7.9%. As such, we consider that the price-to-book ratio of 1.00 as commanded by the Business is still in line with that of the Comparable Companies.

In light of the above, we consider the Consideration, with the adjustment mechanism as stipulated in the Agreement, fair and reasonable.

### 3.2 Funding of the Consideration

According to the terms of the Agreement, assuming the Consideration is HK\$71,500,000, cash payment portion will represent approximately 7.2% of the Consideration if the Convertible Right is exercised and payment is made by the issue and allotment of the Additional Shares and approximately 14.4% if the Final Payment is fully settled in cash. EC-Founder is not required to pay any initial deposit for the Acquisition upon signing of the Agreement and the first outlay of cash payment of HK\$5,160,000 is only required to be paid upon Completion. As advised by the Directors, the cash payment portion of the Consideration will be funded by the internal resources of the EC-Founder Group.

Based on the audited financial statements of the EC-Founder Group, it had cash and cash equivalents of approximately HK\$55,068,000 as at 31st December, 2002. Notwithstanding the fact that the Directors believe the EC-Founder Group will have sufficient resources to satisfy its possible cash payment obligations under the Agreement, we consider it a prudent decision for EC-Founder to have agreed to settle the Consideration largely by the issue of the Consideration Shares as such an arrangement would limit the amount of cash outflow of the EC-Founder Group. In addition, as the maturity of the Convertible Right is six months after the date of Completion, the exercise of the Convertible Right would mitigate the immediate cash outflow of the EC-Founder Group from the Acquisition despite the fact that the option on the issue of the Additional Shares pursuant to the Convertible Right is held at the hands of Founder Hong Kong.

### 3.3 Terms of the Consideration Shares and the Convertible Right

The Consideration will be partially satisfied as to HK\$61,180,000 by the issue of the Consideration Shares and as to HK\$5,160,000 by the exercise of the Convertible Right. The Consideration Shares will be issued at an issue price (the "Issue Price") of HK\$0.2185 per EC-Founder Share and the Convertible Right will be converted at a

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## LETTER FROM TAI FOOK

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conversion price (the “Conversion Price”) of HK\$0.2185 per EC-Founder Share, subject to reduction by the difference between the Reviewed NAV and the Consideration. Based on the Conversion Price, if the entire principal amount under the Convertible Right is exercised in full for the issue and allotment of EC-Founder Shares, 23,615,560 Additional Shares may be issued.

*Comparison of the Issue Price and the Conversion Price to the market price*

Set out below are the closing prices/average closing prices of the EC-Founder Shares as quoted on the Stock Exchange on the date/period during the respective periods and the premium over/(discount) to such prices of the Issue Price and the Conversion Price:

<b>Date/period</b>	<b>Closing price/average closing price (HK\$)</b>	<b>Premium over/ (discount to) the closing price/average closing price</b>
As at 19th March, 2003 (being the date of the Agreement)	0.2000	9.3%
10 trading days up to and including 19th March, 2003	0.2240	(2.5)%
30 trading days up to and including 19th March, 2003	0.2285	(4.4)%
As at the Latest Practicable Date	0.2500	(12.6)%
Ten-day period up to and including the Latest Practicable Date	0.2500	(12.6)%

*Source: Bloomberg*

Prior to the date of the Agreement on 19th March, 2003, the closing price of the EC-Founder Shares was HK\$0.200 on 18th March, 2003 and had been HK\$0.230 since 10th February, 2003. As at the date of the Agreement, the closing price of the EC-Founder Shares was HK\$0.200. It should be noted that the liquidity of the EC-Founder Shares has been extremely thin. The following table sets out a summary of the trades of the EC-Founder Shares from 1st January, 2003 to the Latest Practicable Date:

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## LETTER FROM TAI FOOK

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<b>Date</b>	<b>Number of EC-Founder Shares traded</b>	<b>Price (HK\$)</b>
11th February, 2003	50,000	0.23
18th March, 2003	50,000	0.20
20th March, 2003	120,000	0.20
3rd April, 2003	10	0.20
7th April, 2003	20,000	0.20
9th April, 2003	50,000	0.25

*Source: Bloomberg*

Taken into consideration the substantial number of the Consideration Shares and the Additional Shares to be issued and the thin trading volume of the EC-Founder Shares, we consider that the Issue Price and the Conversion Price, each of which represents a premium of approximately 9.3% over the closing price of the EC-Founder Shares as at the date of the Agreement and a discount of approximately 2.5% to the average closing price of the EC-Founder Shares for the 10 trading days up to and including 19th March, 2003, are reasonable.

### *Comparison of the Issue Price and the Conversion Price to the net tangible asset value per EC-Founder Share*

Based on the audited financial statements of the EC-Founder Group for the year ended 31st December, 2002, the net tangible asset value of the EC-Founder Group was approximately HK\$136,620,000, representing a net tangible asset value per EC-Founder Share of approximately HK\$0.1665. Each of the Issue Price and the Conversion Price of HK\$0.2185 represents a premium of approximately 31.2% over the audited net tangible asset value per EC-Founder Share as at 31st December, 2002. As stated in "Financial Information" in appendix I to the Circular, the unaudited adjusted net tangible asset value per EC-Founder Share would be approximately HK\$0.1797 if the Final Payment is satisfied by cash. Therefore, each of the Issue Price and the Conversion Price represents a premium of approximately 21.6% over such an unaudited adjusted net tangible asset value per EC-Founder Share. If the Convertible Right is fully converted into the Additional Shares, each of the Issue Price and the Conversion Price represents a premium of approximately 21.1% over the then unaudited adjusted net tangible asset value per EC-Founder Share of approximately HK\$0.1805.

### *Other terms of the Convertible Right*

The Convertible Right is exercisable by Founder Hong Kong for the Final Payment to be satisfied by the issue of the Additional Shares at an issue

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## LETTER FROM TAI FOOK

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price of HK\$0.2185 per EC-Founder Share, which is also subject to reduction by the difference between the Reviewed NAV and the initial Consideration. As the Convertible Right carries a maturity of six months after the Completion and is subject to no interest payment, the exercise of the Convertible Right would mitigate the immediate cash outflow of the EC-Founder Group resulting from the Acquisition.

### *Conclusion*

Taking into consideration various factors including i) the number of the Consideration Shares and the Additional Shares to be issued; ii) the thin trading volume of the EC-Founder Shares; and iii) each of the Issue Price and the Conversion Price representing a premium of approximately 31.2% over the audited net tangible asset value per EC-Founder Share as at 31st December, 2002 and a premium of approximately 9.3% over the closing price of the EC-Founder Shares on the date of the Agreement, we consider each of the Issue Price and the Conversion Price fair and reasonable.

#### 4. *Financial effect of the Acquisition*

The following analysis is made based on the assumption that the Reviewed NAV is equal to HK\$71,500,000 and the whole amount of the Final Payment will be satisfied by the issue of 23,615,560 Additional Shares (unless otherwise set out). Shareholders should also note that the following analysis is for illustration purpose only and the actual financial effect on the EC-Founder Group depends on the actual amount of the Reviewed NAV.

##### 4.1 Net tangible asset value

The Consideration will be satisfied as to HK\$61,180,000 by the issue of the Consideration Shares. As set out in “Financial Information” in appendix I to the Circular and assuming the Final Payment will be satisfied by cash, the unaudited adjusted net tangible asset value per EC-Founder Share would increase to approximately HK\$0.1797 from the audited net tangible asset value per EC-Founder Share of approximately HK\$0.1665 as at 31st December, 2002, representing an increase of approximately 7.9%. If the Reviewed NAV is higher than HK\$71,500,000, the Consideration will still be fixed at HK\$71,500,000. As such, the unaudited adjusted net tangible asset value of the EC-Founder Group would only further increase under such circumstance.

If the Convertible Right is exercised and fully converted into the Additional Shares, the unaudited adjusted net tangible asset value per EC-Founder Share would be approximately HK\$0.1805, representing a further increment of approximately 0.4%.

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## LETTER FROM TAI FOOK

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### 4.2 Earnings

For the year ended 31st December, 2002, according to the audited financial statements of the Founder Group, the segment loss of the Business was approximately HK\$20,741,000. Assuming Completion had been taken place on 1st January, 2002, the adjusted net loss per EC-Founder Share would decrease by approximately 9.3% from approximately HK\$0.104 to approximately HK\$0.094 for the year ended 31st December, 2002. If the Reviewed NAV is higher than HK\$71,500,000, the adjusted net loss per EC-Founder Share would also be approximately HK\$0.094. If the Reviewed NAV is lower than HK\$71,500,000, the adjusted net loss per EC-Founder Share would not be more than approximately HK\$0.096 since the minimum number of EC-Founder Shares to be issued pursuant to the adjustment mechanism as stipulated in the Agreement is 280,000,000.

### 4.3 Gearing position

As at 31st December, 2002, the gearings ratio (representing long-term debt to equity) of the EC-Founder Group was approximately 0.44%. Following the Completion, the gearing ratio of the EC-Founder Group would improve to approximately 0.29% as the cash portion of the Consideration will be funded by the internal resources of the EC-Founder Group. If the Reviewed NAV is not equal to HK\$71,500,000, the financial effect on the gearing ratio would not be material since the minimum number of EC-Founder Shares to be issued pursuant to the adjustment mechanism as stipulated in the Agreement is 280,000,000.

As at 31st December, 2002, the current ratio (representing current assets to current liabilities) of the EC-Founder Group was approximately 1.79. Following the Completion, the current ratio of the EC-Founder Group would decrease to approximately 1.61. If the Reviewed NAV is not equal to HK\$71,500,000, Shareholders should note that the financial effect on the current ratio of the EC-Founder Group will depend on the then composition of the current assets and liabilities of the Business, it is therefore impracticable for us to determine such an effect based on the existing available information.

## LETTER FROM TAI FOOK

### 4.4 Dilution or potential dilution of Independent Shareholders' shareholdings

The following table sets out the shareholding structure of EC-Founder:

	As at the Latest Practicable Date		Immediately after issue of the Consideration Shares		Immediately after issue of the Consideration Shares and 23,615,560 Additional Shares	
	Number of EC-Founder		Number of EC-Founder		Number of EC-Founder	
	Shares	%	Shares	%	Shares	%
Founder Group ( <i>Note 1</i> )	323,690,000	39.45	603,690,000	54.85	627,305,560	55.80
Parties acting in concert with Founder:						
F2 Consultant ( <i>Note 2</i> )	*63,459,100	7.73	*63,459,100	5.77	*63,459,100	5.64
Other Founder Concert Parties ( <i>Note 3</i> ):						
Mr. Cheung Shuen Lung	36,890,100	4.50	36,890,100	3.35	36,890,100	3.28
Mr. Zhang Zhao Dong	3,956,000	0.48	3,956,000	0.36	3,956,000	0.35
Professor Wei Xin	3,956,000	0.48	3,956,000	0.36	3,956,000	0.35
Professor Xiao Jian Guo	*8,703,300	1.06	*8,703,300	0.79	*8,703,300	0.78
Mr. Jiang Bi Jin	*6,593,400	0.80	*6,593,400	0.60	*6,593,400	0.59
Sub-total	447,247,900	54.50	727,247,900	66.08	750,863,460	66.79
Yahoo! Inc.	93,240,000	11.36	*93,240,000	8.47	*93,240,000	8.29
Ricwinco Investment Limited ( <i>Note 4</i> )	87,680,000	10.69	87,680,000	7.97	87,680,000	7.80
Other Shareholders	*192,394,140	23.45	*192,394,140	17.48	*192,394,140	17.12
<b>Total</b>	<b>820,562,040</b>	<b>100.00</b>	<b>1,100,562,040</b>	<b>100.00</b>	<b>1,124,177,600</b>	<b>100.00</b>
* Public shareholding	271,149,940	33.04	364,389,940	33.11	364,389,940	32.42

*Notes:*

- As at the Latest Practicable Date, the only controlling shareholder of Founder is Peking University Founder Group Corporation which held 367,179,610 shares of Founder, representing approximately 32.67% of the issued share capital of Founder.
- The 63,459,100 EC-Founder Shares are held by F2 Consultant as nominee on behalf of the directors of FDC (which currently include Mr. Cheung Shuen Lung, Mr. Zhang Zhao Dong, Professor Wei Xin and Professor Zou Wei) who are acting in their capacity as the trustees of a discretionary trust for the employees of FDC and its subsidiaries.
- Mr. Cheung Shuen Lung, Mr. Zhang Zhao Dong and Professor Wei Xin are directors of Founder and EC-Founder. Professor Xiao Jian Guo is a director of Founder. Mr. Jiang Bi Jin is a director of a wholly-owned subsidiary of Founder.



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## LETTER FROM TAI FOOK

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4. Ricwinco Investment Limited is wholly and beneficially owned by Mr. Yung Chih Shin, Richard, the Honorary Chairman and a non-executive Director. Mr. Yung Chih Shin, Richard and Ricwinco Investment Limited are connected persons of EC-Founder for the purposes of the Listing Rules.

As at the Latest Practicable Date, the Shareholders, other than the Founder Group, hold approximately 60.55% of the issued share capital of EC-Founder. Upon the issue of the Consideration Shares, will be reduced to approximately 45.15% (representing a dilution effect of approximately 25.43%) and further down to approximately 44.20% (representing a dilution effect of approximately 27.00%) if the Additional Shares are allotted in full. Such dilution is, in our opinion, acceptable, taking into account the significant mitigation of financial risk that would otherwise arise if the Consideration is wholly satisfied by cash.

#### 4.5 Summary

Having taken into account that upon Completion i) the unaudited adjusted net tangible asset value per EC-Founder Share would increase to approximately HK\$0.1805 from approximately HK\$0.1665 as at 31st December, 2002; ii) the adjusted net loss per EC-Founder Share would decrease from approximately HK\$0.104 for the year ended 31st December, 2002 to approximately HK\$0.094; and iii) there would be no material change to the gearing position of the EC-Founder Group, despite the dilution effect of a maximum of approximately 27.00%, we are of the view that the Acquisition would not have material financial effects on the EC-Founder Group.

#### 5. *Conclusion on the Acquisition*

Having taken into account the principal factors and reasons for the Acquisition as set out above, we noted that:

- It has always been the strategy of the EC-Founder Group to further develop and diversify its existing IT Business into related area.
- The Business was identified as a suitable acquisition target as it is complementary and has various synergies with the existing IT Business.
- Apart from the operation of the Business, EC-Founder is able to acquire the intangible assets of the Business, which has taken the Business years to establish, at the Consideration equal to the Reviewed NAV.
- The Business has incurred audited segment losses for the three years ended 31st December, 2002, which was principally resulted from the burst of the IT bubble, intense competition and internal control issues.
- The New Management has implemented various measures to resolve the internal control issues and steer the Business to become a competitive player in the market.

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## LETTER FROM TAI FOOK

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- The IT industry in the PRC is expected to continue to grow at an annual growth rate higher than that of the worldwide market due to the strong internal demand.
- The Business will broaden the income stream of and yield long-term benefits to the EC-Founder Group.
- The Consideration was determined after arm's length negotiation and EC-Founder would settle the Consideration largely by the issue of the Consideration Shares that would limit the amount of cash outflow of the EC-Founder Group.
- Each of the Issue Price and the Conversion Price represents a premium of approximately 31.2% over the audited net tangible asset value per EC-Founder Share as of 31st December, 2002 and the unaudited adjusted net tangible asset value per EC-Founder Share would increase by approximately 8.4% upon Completion (assuming the Reviewed NAV is equal to HK\$71,500,000 and the whole amount of the Final Payment will be satisfied by the issue of 23,615,560 Additional Shares).

Based on the above, we are of the view that the terms of the Acquisition are fair and reasonable insofar as the interests of the Independent Shareholders are concerned.

### **II. The Whitewash Waiver**

As at the Latest Practicable Date, the Founder Group held approximately 39.45% of the issued share capital of EC-Founder. F2 Consultant and Other Founder Concert Parties are presumed to be parties acting in concert with Founder and held approximately 7.73% and approximately 7.32% of the issued share capital of EC-Founder respectively as at the Latest Practicable Date. Founder together with its concert parties held in aggregate 54.50% of the issued share capital of EC-Founder as at the Latest Practicable Date.

Immediately after Completion and upon full conversions of the Convertible Right, the voting rights of the Founder Group in EC-Founder will increase to approximately 55.80%. Accordingly, Founder would incur an obligation, upon Completion, to make a mandatory general offer for all the issued shares and share options of EC-Founder not already owned or acquired by Founder or parties acting in concert with it as a result of the issue of the Consideration Shares and the possible issue of the Additional Shares under Rule 26 of the Takeovers Code, unless the Whitewash Waiver is granted.

The Directors understand from the board of directors of Founder that, save for the Acquisition, as at the Latest Practicable Date, Founder has no intention to introduce any major changes in the business including any deployment of the fixed assets of the EC-Founder Group, and the employment of the employees of the EC-Founder Group will not be affected as a result of the Acquisition.

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## LETTER FROM TAI FOOK

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An application has been made to the Executive for the Whitewash Waiver and the Executive has agreed to grant the Whitewash Waiver subject to the approval of the Independent Shareholders at the SGM by way of a poll. It should be noted that pursuant to the Agreement, if the Whitewash Waiver is not granted by the Executive and approved by the Independent Shareholders, the Acquisition will not proceed. In view of the business opportunity that the Acquisition represents for EC-Founder, we consider the granting of the Whitewash Waiver to EC-Founder acceptable so far as Independent Shareholders are concerned.

### **III. On-going Connected Transactions**

#### *1. Background and terms of the Transactions*

Systems integration is one of the principal businesses of the Founder Group. Under the systems integration business, the Founder Group has been acquiring information hardware products for its customers in order to establish a computer system for and provide total software and hardware solution to its clients. HK Century and PRC Century have been two of the suppliers of the Founder Group. As Founder is the controlling shareholder of EC-Founder, and given that HK Century and PRC Century will become wholly-owned subsidiaries of EC-Founder after Completion, the Transactions between the Founder Group and HK Century and/or PRC Century after Completion will constitute on-going connected transactions for EC-Founder under the Listing Rules. The unaudited annual aggregate amount of the Transactions amounted to approximately HK\$23,900,000 for the year ended 31st December, 2002.

As stated in the Letter from the Board in the Circular, the terms of the Transactions have been and will continue to be determined after arm's length negotiations between the Founder Group and HK Century and/or PRC Century and were comparable to the terms offered by HK Century and/or PRC Century to other customers who are not connected persons of EC-Founder for the purposes of the Listing Rules. The Transactions have been and will continue to be conducted in the ordinary and usual course of business of HK Century and PRC Century. The Directors (including independent non-executive Directors) believe that the Transactions are in the interests of EC-Founder, and the terms of the Transactions are fair and reasonable so far as the interests of the Shareholders as a whole are concerned.

Having considered the facts that i) the Transactions were in place before the Acquisition; ii) the terms of the Transactions were comparable to the terms offered by HK Century and PRC Century to other independent customers; iii) the terms of the Transactions have been and will continue to be determined after arm's length negotiations between the Founder Group and HK Century and/or PRC Century; and iv) the Transactions will be governed by the conditions as detailed below, we consider that the terms of the Transactions are fair and reasonable and in the interests of the Shareholders and EC-Founder as a whole.

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## LETTER FROM TAI FOOK

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### 2. *On-going nature of the Transactions and basis of the relevant annual caps*

As the aggregate annual amount of the Transactions is expected to exceed the higher of HK\$10,000,000 and 3% of the latest published net tangible asset value of the EC-Founder Group, the Transactions are subject to the disclosure and shareholders' approval requirements under Chapter 14 of the Listing Rules. Given the on-going and recurring nature of the Transactions, the Directors consider it impracticable and unduly burdensome for EC-Founder to strictly comply with such disclosure and shareholders' approval requirements on each occasion the Transactions arise. Accordingly, a waiver application (the "Waiver Application") was submitted by EC-Founder to the Stock Exchange from strict compliance with the disclosure and shareholders' approval requirements under the Listing Rules for the three financial years ending 31st December, 2005 in respect of the Transactions. The Waiver Application is subject to, among other conditions, the annual aggregate amount of the Transactions for each of the three financial years ending 31st December, 2003, 2004 and 2005 not exceeding HK\$26,000,000, HK\$28,000,000 and HK\$30,000,000 respectively (the "Relevant Annual Caps").

According to the Directors, the Relevant Annual Caps have been determined with reference to the unaudited annual aggregate amount of the Transactions of approximately HK\$23,900,000 for the year ended 31st December, 2002 plus an annual increment of approximately HK\$2,000,000. Given the aforesaid basis of determination of the Relevant Annual Caps, we consider the size of the Relevant Annual Caps fair and reasonable.

### 3. *Basis of the Waiver Application*

As stated in the Letter from the Board in the Circular, the Waiver Application was submitted by EC-Founder to the Stock Exchange from strict compliance with the disclosure and shareholders' approval requirements under the Listing Rules for the three financial years ending 31st December, 2005 in respect of the Transactions subject to the followings conditions:

#### 3.1 the Transactions shall be:

- (a) entered into by the EC-Founder Group in the ordinary and usual course of its business;
- (b) entered into either (i) on normal commercial terms; or (ii) (where there is no available comparison) on terms that are fair and reasonable so far as the interests of the Shareholders as a whole are concerned; and
- (c) conducted in accordance with the terms of the relevant agreements (if applicable);

#### 3.2 the annual aggregate amount of the Transactions for each of the three financial years ending 31st December, 2003, 2004 and 2005 shall not exceed HK\$26,000,000, HK\$28,000,000 and HK\$30,000,000 respectively;

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## LETTER FROM TAI FOOK

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- 3.3 the independent non-executive Directors shall review annually the Transactions and confirm in next annual report of EC-Founder that the Transactions have been conducted in the manner as stated in paragraphs 1 and 2 above;
- 3.4 the auditors of EC-Founder shall review annually the Transactions and confirm in a letter (the “Letter”) to the Board (a copy of which shall be provided to the Stock Exchange) stating whether:
- (a) the Transactions have been approved by the Board;
  - (b) the Transactions have been conducted in accordance with the terms of the relevant agreements (if applicable); and
  - (c) the Relevant Annual Caps have been exceeded or not;

where, for whatever reason, the auditors of EC-Founder decline to accept the engagement or are unable to provide the Board with the Letter, EC-Founder shall inform the Stock Exchange immediately; and

- 3.5 details of the transactions under the Transactions shall be disclosed in the annual report of EC-Founder for each of the three financial years ending 31st December, 2003, 2004 and 2005 in accordance with the disclosure requirements under Rule 14.25(1) (A) to (D) of the Listing Rules together with a statement of opinion of the independent non-executive Directors and the auditors of EC-Founder referred to in paragraphs 3 and 4 above.

On such basis, we consider that the conditions of the above Waiver Application serve to monitor the Transactions to be carried out in the future so that they will be conducted on fair and reasonable terms and the interests of the Shareholders as a whole will be properly safeguarded.

### RECOMMENDATION

Having taken the above principal factors and reasons into account, we consider the terms of the Acquisition, the granting of the Whitewash Waiver and the terms of the Transactions (including the Relevant Annual Caps) fair and reasonable so far as interests of the Independent Shareholders are concerned and the Acquisition, the granting of the Whitewash Waiver and the Transactions (including the Relevant Annual Caps) are in the interests of EC-Founder and the Independent Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the resolutions to be proposed at the SGM to approve the Acquisition, the Whitewash Waiver and the Transactions (including the Relevant Annual Caps).

Yours faithfully,  
For and on behalf of  
**Tai Fook Capital Limited**  
**Derek C. O. Chan**  
*Deputy Managing Director*

## THREE YEAR FINANCIAL SUMMARY

Set out below is a summary of the audited consolidated results of the EC-Founder for each of the three financial years ended 31st December, 2000, 2001 and 2002:

	<b>For the year ended 31st December,</b>		
	<b>2000</b>	<b>2001</b>	<b>2002</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Restated)</i>		
Turnover	<u>258,664</u>	<u>331,455</u>	<u>311,933</u>
Loss before tax	(489,020)	(69,279)	(84,271)
Taxation	<u>(3,075)</u>	<u>(1,432)</u>	<u>(1,494)</u>
Loss before minority interests	(492,095)	(70,711)	(85,765)
Minority interests	<u>(5)</u>	<u>1,670</u>	<u>335</u>
Net loss attributable to the Shareholders	<u>(492,100)</u>	<u>(69,041)</u>	<u>(85,430)</u>
Loss per EC-Founder Share	<u>143.0 cents</u>	<u>8.4 cents</u>	<u>10.4 cents</u>
Dividend per EC-Founder Share	<u>Nil</u>	<u>Nil</u>	<u>Nil</u>

As at the Latest Practicable Date, the Board has not declared any dividend, the payment of which was outstanding.

There were no extraordinary or exceptional items recorded during each of the three financial years ended 31st December, 2000, 2001 and 2002.

#### **AUDITED CONSOLIDATED ACCOUNTS OF EC-FOUNDER FOR THE YEAR ENDED 31ST DECEMBER, 2002**

The following information has been extracted from the audited consolidated accounts of EC-Founder for the year ended 31st December, 2002. Capitalized terms used in this sub-section have the meanings as defined in the annual report of EC-Founder for the year ended 31st December, 2002. Reference to page number in this paragraph refers to the page number of the annual report of EC-Founder for the year ended 31st December, 2002.

**REPORT OF THE AUDITORS**

To the members

**EC-Founder (Holdings) Company Limited**

*(Incorporated in Bermuda with limited liability)*

We have audited the financial statements on pages 23 to 71 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

**RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS**

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

**BASIS OF OPINION**

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

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

**OPINION**

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2002 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**Ernst & Young**

*Certified Public Accountants*

Hong Kong

24 April 2003

## CONSOLIDATED PROFIT AND LOSS ACCOUNT

	<i>Notes</i>	<b>2002</b> <i>HK\$'000</i>	2001 <i>HK\$'000</i>
<b>TURNOVER</b>			
Continuing operations		<b>263,650</b>	243,443
Discontinued operation	6	<b>48,283</b>	88,012
	5	<b>311,933</b>	331,455
Cost of sales		<b>(258,454)</b>	(274,810)
<b>Gross profit</b>		<b>53,479</b>	56,645
Other revenue and gains	5	<b>9,646</b>	45,507
Selling and distribution costs		<b>(36,300)</b>	(44,162)
Administrative expenses		<b>(56,104)</b>	(70,394)
Other operating expenses		<b>(6,488)</b>	(13,972)
Impairment of fixed assets		<b>(1,226)</b>	(38,180)
Impairment of goodwill		<b>(36,500)</b>	–
Loss on disposal of discontinued operation	6	<b>(15,079)</b>	–
<b>LOSS FROM OPERATING ACTIVITIES</b>	7	<b>(88,572)</b>	(64,556)
Finance costs	8	<b>(4,147)</b>	(9,069)
Share of profits and losses of associates		<b>8,448</b>	4,346
<b>LOSS BEFORE TAX</b>			
Continuing operations		<b>(64,512)</b>	(39,372)
Discontinued operation	6	<b>(19,759)</b>	(29,907)
		<b>(84,271)</b>	(69,279)
Tax	11	<b>(1,494)</b>	(1,432)
<b>LOSS BEFORE MINORITY INTERESTS</b>		<b>(85,765)</b>	(70,711)
Minority interests		<b>335</b>	1,670
<b>NET LOSS FROM ORDINARY ACTIVITIES</b>			
<b>ATTRIBUTABLE TO SHAREHOLDERS</b>	12	<b>(85,430)</b>	(69,041)
<b>LOSS PER SHARE</b>			
Basic	13	<b>10.4 cents</b>	8.4 cents
Diluted		<b>N/A</b>	N/A



## CONSOLIDATED BALANCE SHEET

	<i>Notes</i>	<b>2002</b> <i>HK\$'000</i>	2001 <i>HK\$'000</i>
<b>NON-CURRENT ASSETS</b>			
Fixed assets	14	47,786	71,910
Intangible assets	15	–	1,270
Interests in associates	18	22,864	22,527
Long term investment	19	–	1,075
		<u>70,650</u>	<u>96,782</u>
<b>CURRENT ASSETS</b>			
Inventories	20	35,031	54,157
Systems integration contracts	21	–	173
Trade and bills receivables	22	48,744	53,957
Prepayments and other receivables	23	4,664	53,025
Pledged deposits	24	7,801	48,313
Cash and cash equivalents	24	55,068	69,691
		<u>151,308</u>	<u>279,316</u>
<b>CURRENT LIABILITIES</b>			
Systems integration contracts	21	2,411	–
Trade and bills payables	25	36,873	82,562
Other payables and accruals	26	32,921	26,247
Other loans		–	9,852
Interest-bearing bank and other borrowings	27	12,533	68,685
		<u>84,738</u>	<u>187,346</u>
<b>NET CURRENT ASSETS</b>		<u>66,570</u>	<u>91,970</u>
<b>TOTAL ASSETS LESS</b>			
<b>CURRENT LIABILITIES</b>		137,220	188,752
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing bank borrowings	28	206	279
Finance lease payables	29	394	1,764
		<u>600</u>	<u>2,043</u>
<b>MINORITY INTERESTS</b>		–	2,336
		<u>136,620</u>	<u>184,373</u>
<b>CAPITAL AND RESERVES</b>			
Issued capital	31	82,056	82,056
Reserves	33	54,564	102,317
		<u>136,620</u>	<u>184,373</u>

Zhang Zhao Dong  
Director

Cheung Shuen Lung  
Director

## CONSOLIDATED SUMMARY STATEMENT OF CHANGES IN EQUITY

	<i>Notes</i>	<b>2002</b> <i>HK\$'000</i>	2001 <i>HK\$'000</i>
<b>Total equity at 1 January</b>		<b>184,373</b>	253,422
Realisation of exchange fluctuation reserve on disposal of discontinued operation	33	<b>1,892</b>	–
Exchange differences on translation of the financial statements of foreign entities	33	<u>(715)</u>	<u>(8)</u>
Net gains/(losses) not recognised in the profit and loss account		<u>1,177</u>	<u>(8)</u>
Net loss from ordinary activities attributable to shareholders	33	<b>(85,430)</b>	(69,041)
Impairment of goodwill previously eliminated against contributed surplus	33	<u>36,500</u>	–
<b>Total equity at 31 December</b>		<b><u>136,620</u></b>	<b><u>184,373</u></b>

## CONSOLIDATED CASH FLOW STATEMENT

	<i>Notes</i>	<b>2002</b> <i>HK\$'000</i>	2001 <i>HK\$'000</i> (Restated)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Loss before tax		<b>(84,271)</b>	(69,279)
Adjustments for:			
Finance costs	8	<b>4,147</b>	9,069
Share of profits and losses of associates		<b>(8,448)</b>	(4,346)
Interest income	5	<b>(980)</b>	(3,576)
Profit guarantees	5	–	(40,746)
Gain on deemed partial disposal of an associate	5	<b>(48)</b>	–
Depreciation	7	<b>11,422</b>	13,424
Impairment of fixed assets	7	<b>1,226</b>	38,180
Impairment of goodwill	7	<b>36,500</b>	–
Amortisation and write-off of deferred development costs	7	<b>379</b>	3,864
Provision for doubtful debts	7	<b>5,954</b>	1,158
Provision for obsolete stock	7	<b>6,433</b>	2,193
Loss on disposal of an associate	7	–	1,115
Fixed assets written off	7	<b>1,943</b>	–
Loss on disposal of fixed assets	7	<b>36</b>	22
Loss on disposal of discontinued operation	7, 34(c)	<b>15,079</b>	–
Operating loss before working capital changes		<b>(10,628)</b>	(48,922)
Decrease/(increase) in inventories		<b>(12,452)</b>	17,566
Decrease/(increase) in systems integration contracts		<b>2,584</b>	(173)
Increase in trade and bills receivables		<b>(14,907)</b>	(13,088)
Decrease in prepayments		<b>1,479</b>	1,164
Decrease/(increase) in deposits and other receivables		<b>913</b>	(2,039)
Decrease in amounts due from related companies		<b>2,819</b>	53,355
Increase/(decrease) in trade and bills payables		<b>(6,990)</b>	5,667
Increase/(decrease) in accruals		<b>4,488</b>	(1,339)
Increase/(decrease) in other liabilities		<b>5,399</b>	(2,623)
Increase/(decrease) in amounts due to related companies		<b>536</b>	(4,693)
Exchange difference		<b>(723)</b>	–
Cash generated/(utilised) from operations		<b>(27,482)</b>	4,875
Interest received		<b>980</b>	3,576
Interest paid		<b>(3,987)</b>	(8,672)
Interest element on finance lease rental payments		<b>(160)</b>	(397)
Net cash outflow from operating activities		<b>(30,649)</b>	(618)

**APPENDIX I**
**FINANCIAL INFORMATION**

	<i>Notes</i>	<b>2002</b> <i>HK\$'000</i>	2001 <i>HK\$'000</i> (Restated)
Net cash outflow from operating activities		<u>(30,649)</u>	<u>(618)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchases of fixed assets and additions to construction in progress	<i>14</i>	<b>(6,903)</b>	(9,746)
Proceeds from disposal of fixed assets		<b>131</b>	931
Payment for deferred development costs		–	(154)
Disposal of subsidiaries	<i>34(c)</i>	<b>6,565</b>	–
Advances of loans to an associate		<b>(7,000)</b>	–
Repayment of loans to an associate		<b>10,250</b>	9,000
Decrease in an amount due from an associate		<b>11,297</b>	230
Additional investment in an associate		–	(1,800)
Acquisition of an associate		–	(1,136)
Decrease/(increase) in pledged deposits		<b>40,512</b>	(43,313)
Net cash inflow/(outflow) from investing activities		<u><b>54,852</b></u>	<u>(45,988)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Capital contributions by minority shareholders		–	675
Repayment to minority shareholders upon dissolution of subsidiaries		<b>(705)</b>	–
Increase/(decrease) in trust receipt loans		<b>9,258</b>	(6,774)
New other loans		<b>5,000</b>	9,852
Repayment of other loans		<b>(13,943)</b>	(15,000)
New bank loans		<b>7,581</b>	39,160
Repayment of bank loans		<b>(39,669)</b>	(355)
Capital element of finance lease rental payments		<b>(2,437)</b>	(4,859)
Net cash inflow/(outflow) from financing activities		<u><b>(34,915)</b></u>	<u>22,699</u>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>			
		<b>(10,712)</b>	(23,907)
Cash and cash equivalents at beginning of year		<b>65,785</b>	89,700
Effect of foreign exchange rate changes, net		<u><b>(5)</b></u>	<u>(8)</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>			
		<u><b>55,068</b></u>	<u>65,785</u>
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>			
Cash and bank balances	<i>24</i>	<b>30,548</b>	51,160
Non-pledged time deposits with original maturity of less than three months when acquired	<i>24</i>	<b>24,520</b>	18,531
Bank overdrafts	<i>28</i>	–	(3,906)
		<u><b>55,068</b></u>	<u>65,785</u>

## BALANCE SHEET

	<i>Notes</i>	<b>2002</b> <i>HK\$'000</i>	2001 <i>HK\$'000</i>
<b>NON-CURRENT ASSETS</b>			
Fixed assets	<i>14</i>	<b>190</b>	2,155
Interests in subsidiaries	<i>17</i>	<b>224,495</b>	255,114
		<u><b>224,685</b></u>	<u>257,269</u>
<b>CURRENT ASSETS</b>			
Loan to an associate	<i>18</i>	–	3,250
Due from an associate	<i>18</i>	–	42
Prepayments and other receivables	<i>23</i>	<b>266</b>	7,190
Cash and cash equivalents	<i>24</i>	<b>26,786</b>	19,405
		<u><b>27,052</b></u>	<u>29,887</u>
<b>CURRENT LIABILITIES</b>			
Other payables and accruals	<i>26</i>	<b>3,529</b>	8,283
<b>NET CURRENT ASSETS</b>			
		<u><b>23,523</b></u>	<u>21,604</u>
		<u><b>248,208</b></u>	<u>278,873</u>
<b>CAPITAL AND RESERVES</b>			
Issued capital	<i>31</i>	<b>82,056</b>	82,056
Reserves	<i>33</i>	<b>166,152</b>	196,817
		<u><b>248,208</b></u>	<u>278,873</u>

**Zhang Zhao Dong**  
*Director*

**Cheung Shuen Lung**  
*Director*

**NOTES TO FINANCIAL STATEMENTS****1. CORPORATE INFORMATION**

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

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

- provision of software solutions and services
- design, manufacture and distribution of electronic products
- design, manufacture and distribution of electronic components (discontinued during the year – note 6)

**2. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE (“SSAPs”)**

The following new and revised SSAPs are effective for the first time for the current year’s financial statements:

- SSAP 1 (Revised): “Presentation of financial statements”
- SSAP 11 (Revised): “Foreign currency translation”
- SSAP 15 (Revised): “Cash flow statements”
- SSAP 33: “Discontinuing operations”
- SSAP 34: “Employee benefits”

These SSAPs prescribe new accounting measurement and disclosure practices. The major effects on the Group’s accounting policies and on the amounts disclosed in these financial statements are summarised as follows:

SSAP 1 prescribes the basis for the presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. The principal impact of the revision of this SSAP is that a consolidated summary statement of changes in equity is now presented on page 25 of the financial statements in place of the consolidated statement of recognised gains and losses that was previously required.

SSAP 11 prescribes the basis for the translation of foreign currency transactions and financial statements. The principal impact of this revised SSAP on the consolidated financial statements is that the profit and loss account of overseas subsidiaries and associates are now translated to Hong Kong dollars at the weighted average exchange rates for the year, whereas previously they were translated at the exchange rates ruling at the balance sheet date. The adoption of the revised SSAP 11 has had no material effect on the financial statements.

SSAP 15 prescribes the revised format for the cash flow statement. The principal impact of the revision of this SSAP is that the consolidated cash flow statement now presents cash flows under three headings, cash flows from operating, investing and financing activities, rather than the five headings

previously required. In addition, cash flows from overseas subsidiaries arising during the year are now translated to Hong Kong dollars at the exchange rates at the dates of the transactions, or at an approximation thereto, whereas previously they were translated at the exchange rates at the balance sheet date. Further details of these changes are included in the accounting policy for “Foreign currencies” in note 3 and in note 34(a) to the financial statements.

SSAP 33 prescribes the basis for reporting information about discontinuing/discontinued operations. The impact of this SSAP is the inclusion of additional disclosures to those that were previously required, which are set out in note 6 to the financial statements.

SSAP 34 prescribes the recognition and measurement criteria to apply to employee benefits, together with the required disclosures in respect thereof. The adoption of this SSAP has resulted in no change to the previously adopted accounting treatments for employee benefits. Disclosures are now required in respect of the share option schemes of the Group, as detailed in note 32 to the financial statements. These share option scheme disclosures are similar to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) disclosures previously included in the Report of the Directors, which are now required to be included in the notes to the financial statements as a consequence of the SSAP.

### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **Basis of preparation**

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, 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.

#### **Basis of consolidation**

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2002. The results of subsidiaries established, acquired or disposed of during the year are consolidated from or to their effective dates of establishment, acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company’s subsidiaries.

#### **Subsidiaries**

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

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

**Associates**

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

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. Goodwill arising from the acquisition of associates, which was not previously eliminated against consolidated reserves, is included as part of the Group's interests in associates.

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

**Goodwill**

Goodwill arising on the acquisition of subsidiaries and associates represents the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition.

Goodwill arising on acquisitions is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life.

SSAP 30 "Business combinations" was adopted as at 1 January 2001. Prior to that date, goodwill arising on acquisitions was eliminated against consolidated reserves in the year of acquisition. On the adoption of SSAP 30, the Group applied the transitional provision of SSAP 30 that permitted such goodwill to remain eliminated against consolidated reserves. Goodwill on acquisitions subsequent to 1 January 2001 is treated according to the goodwill accounting policy above.

On disposal of subsidiaries or associates, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate. Any attributable goodwill previously eliminated against consolidated reserves at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

The carrying amount of goodwill, including goodwill remaining eliminated against consolidated reserves, is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.



**Related parties**

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

**Impairment of assets**

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

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

**Fixed assets and depreciation**

Fixed assets, other than construction in progress, are stated at cost or valuation less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

Changes in the values of fixed assets are dealt with as movements in the land and buildings revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged. On disposal of a revalued asset, the relevant portion of the revaluation reserve realised in respect of previous valuations is transferred to the retained profits as a movement in reserves.

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

Land and buildings	2%
Leasehold improvements	5% – 10%
Machinery, equipment and moulds	6.67% – 25%
Furniture, fixtures and office equipment	12.5%
Motor vehicles	20%

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

Construction in progress represents structures, plant and machinery and other fixed assets under construction or installation, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises direct costs of installation and testing during the period of installation. Construction in progress is reclassified to the appropriate category of fixed assets when completed and ready for use.

### **Intangible assets**

#### *Research and development costs*

All research costs are charged to the profit and loss account as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the projects are clearly defined; the expenditure is separately identifiable and can be measured reliably; there is reasonable certainty that the projects are technically feasible; and the products have commercial value. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are stated at cost less accumulated amortisation and any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products not exceeding five years, commencing from the date when the products are put into commercial production.

### **Leased assets**

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 fixed assets 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 profit and loss account so as to provide a constant periodic rate of charge over the lease terms.

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

### **Long term investments**

Long term investments are non-trading investments in debentures intended to be held on a long term basis. Long term investments are stated at cost less any impairment losses deemed necessary by the directors.

### **Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average or standard costing basis which approximates average actual cost and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

### **Systems integration contracts**

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

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

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

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

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

### **Cash and cash equivalents**

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheet, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

### **Deferred tax**

Deferred tax is provided, using the liability method, on all significant timing differences to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

### **Revenue recognition**

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

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

### **Employee benefits**

#### *Retirement benefits schemes*

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

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

#### *Share option schemes*

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

#### **Foreign currencies**

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

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

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated to Hong Kong dollars at the exchange rates 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.

Prior to the adoption of the revised SSAPs 11 and 15 during the year, as explained in note 2 to the financial statements, the profit and loss accounts of overseas subsidiaries and associates and the cash flows of overseas subsidiaries were translated to Hong Kong dollars at the exchange rates ruling at the balance sheet date. The adoption of the revised SSAP 11 has had no material effect on the financial statements. The adoption of the revised SSAP 15 has resulted in changes to the layout of the consolidated cash flow statement, further details of which are included in note 34(a) to the financial statements, but has had no material effect on the amounts for prior years previously reported.

#### 4. SEGMENT INFORMATION

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

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

- (a) the provision of software solutions and services segment engages in the development and distribution of security and geographical information software solutions and the provision of systems integrated solutions and services to financial institutions, enterprises and government departments in the PRC which are in the process of computerisation;
- (b) the electronic products segment engages in design, manufacture and distribution of weighing scales and lighting products; and
- (c) the electronic components segment engages in design, manufacture and distribution of semiconductor products. As further explained in notes 6 and 38 to these financial statements, the Group disposed of this entire business to Ricwinco Investment Limited ("Ricwinco"), a substantial shareholder of the Company, during the year.

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

No intersegment sales and transfers were transacted during the year (2001: Nil).

**(a) Business segments**

The following table presents revenue, profit/(loss) and certain assets, liabilities and expenditure information for the Group's business segments.

Group	Provision of software solutions and services		Electronic products		Electronic components (Discontinued)		Consolidated	
	2002	2001	2002	2001	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:								
Sales to external customers	<u>70,825</u>	<u>73,681</u>	<u>192,825</u>	<u>169,762</u>	<u>48,283</u>	<u>88,012</u>	<u>311,933</u>	<u>331,455</u>
Segment results	<u>(35,702)</u>	<u>(35,046)</u>	<u>3,900</u>	<u>4,735</u>	<u>(19,449)</u>	<u>(23,392)</u>	<u>(51,251)</u>	<u>(53,703)</u>
Interest and other income							9,646	4,761
Unallocated expenses							(10,467)	(15,614)
Impairment of goodwill							(36,500)	-
Loss from operating activities							(88,572)	(64,556)
Finance costs							(4,147)	(9,069)
Share of profits and losses of associates							8,448	4,346
Loss before tax							(84,271)	(69,279)
Tax							(1,494)	(1,432)
Loss before minority interests							(85,765)	(70,711)
Minority interests							335	1,670
Net loss from ordinary activities attributable to shareholders							<u>(85,430)</u>	<u>(69,041)</u>
Segment assets	<u>51,725</u>	<u>101,103</u>	<u>120,518</u>	<u>113,346</u>	-	<u>113,859</u>	<u>172,243</u>	<u>328,308</u>
Interests in associates	-	-	-	-	-	<u>3,348</u>	<u>22,864</u>	<u>22,527</u>
Unallocated assets	-	-	-	-	-	-	<u>26,851</u>	<u>25,263</u>
Total assets							<u>221,958</u>	<u>376,098</u>
Segment liabilities	<u>19,995</u>	<u>7,915</u>	<u>48,679</u>	<u>38,226</u>	-	<u>54,385</u>	<u>68,674</u>	<u>100,526</u>
Unallocated liabilities	-	-	-	-	-	-	<u>16,664</u>	<u>88,863</u>
Total liabilities							<u>85,338</u>	<u>189,389</u>
Other segment information:								
Depreciation, amortisation and write-off	4,281	462	6,282	6,655	1,952	7,422	13,744	17,288
Impairment of fixed assets recognised in the profit and loss account	-	2,376	-	-	1,226	35,804	1,226	38,180
Capital expenditure	<u>958</u>	<u>1,244</u>	<u>6,184</u>	<u>4,261</u>	<u>241</u>	<u>3,754</u>	<u>7,383</u>	<u>12,836</u>

**(b) Geographical segments**

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

Group	Hong Kong		Mainland China		Singapore		United States of America		United Kingdom		Corporate		Others		Consolidated	
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:																
Sales to external customers	23,829	6,757	77,496	121,297	19,731	35,792	149,510	128,965	38,397	35,808	-	-	2,970	2,836	311,933	331,455
Other segment information:																
Segment assets	60,569	97,527	98,889	174,698	-	7,219	26,288	23,323	10,439	8,024	22,647	62,585	3,126	2,722	221,958	376,098
Capital expenditure	1,312	1,378	6,071	8,504	-	18	-	-	-	-	-	2,936	-	-	7,383	12,836

**5. TURNOVER, OTHER REVENUE AND GAINS**

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 turnover, other revenue and gains is as follows:

	2002 HK\$'000	2001 HK\$'000
<b>Turnover</b>		
Provision of software solutions and services	70,825	73,681
Sales of electronic products	192,825	169,762
Sales of electronic components	48,283	88,012
	<u>311,933</u>	<u>331,455</u>
<b>Other revenue</b>		
Rental income	421	421
Interest income	980	3,576
Others	8,197	764
	<u>9,598</u>	<u>4,761</u>
<b>Gains</b>		
Profit guarantees (Note)	-	40,746
Gain on deemed partial disposal of an associate	48	-
	<u>9,646</u>	<u>45,507</u>



*Note:* Pursuant to the Management Agreement as further disclosed in note 38 to the financial statements, the Group recognised the profit guarantees of approximately HK\$40,746,000 payable by Ricwinco for the year ended 31 December 2001.

## 6. DISCONTINUED OPERATION

On 4 April 2002, the Company entered into a Disposal Agreement (“DA”) with Ricwinco to dispose of its entire interests in Yung Wen Investment & Finance Limited (“YW”) and to assign the indebtedness due to the Group by YW and its subsidiaries (the “YW Group”) to Ricwinco at a total cash consideration of HK\$15,000,000. In addition, Ricwinco procured the release of the Company from all existing guarantees and undertakings it had given in respect of the liabilities of the YW Group except for the liabilities owed by the YW Group to a trade creditor of up to HK\$28 million (the “Remaining Guarantee”). The Remaining Guarantee was released on 31 March 2003.

The principal activities of the YW Group are the design, manufacture and distribution of electronic components. Upon the completion of the disposal, on 28 June 2002, the Group discontinued its electronic components operation.

The components of the loss on disposal of the discontinued operation of approximately HK\$15,079,000 are disclosed in note 34(c) to the financial statements.

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

	<b>As at 28 June 2002 HK\$'000</b>	As at 31 December 2001 HK\$'000
Total assets	<b>74,861</b>	117,207
Total liabilities ( <i>Note</i> )	<b>(73,557)</b>	(110,503)
Net assets	<b><u>1,304</u></b>	<b><u>6,704</u></b>

*Note:* The total liabilities included an amount due to the Group by the YW Group of approximately HK\$28,775,000.

**APPENDIX I****FINANCIAL INFORMATION**

The results of the discontinued operation which had been included in the consolidated profit and loss account are as follows:

	<b>Period ended 28 June 2002 HK\$'000</b>	Year ended 31 December 2001 HK\$'000
TURNOVER	<b>48,283</b>	88,012
Cost of sales	<u>(48,570)</u>	<u>(85,198)</u>
Gross profit/(loss)	<b>(287)</b>	2,814
Other revenue and gains	<b>2,683</b>	42,372
Selling and distribution costs	<b>(1,572)</b>	(1,474)
Administrative expenses	<b>(2,511)</b>	(17,477)
Other operating expenses	–	(48,313)
Loss on disposal of discontinued operation	<u>(15,079)</u>	<u>–</u>
LOSS FROM OPERATING ACTIVITIES	<b>(16,766)</b>	(22,078)
Finance costs	<b>(3,017)</b>	(7,836)
Share of profits of an associate	<u>24</u>	<u>7</u>
LOSS BEFORE TAX	<b>(19,759)</b>	(29,907)
Tax	<u>–</u>	<u>–</u>
NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	<u><b>(19,759)</b></u>	<u>(29,907)</u>

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

	<b>Period ended 28 June 2002 HK\$'000</b>	Year ended 31 December 2001 HK\$'000
Operating	<b>(13,648)</b>	21,165
Investing	<b>11,014</b>	(5,640)
Financing	<u>1,873</u>	<u>(15,952)</u>
Net cash outflows	<u><b>(761)</b></u>	<u>(427)</u>

## 7. LOSS FROM OPERATING ACTIVITIES

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

		<b>Group</b>	
	<i>Notes</i>	<b>2002</b>	2001
		<b>HK\$'000</b>	<b>HK\$'000</b>
Amortisation and write-off			
of deferred development costs*	<i>15</i>	<b>379</b>	3,864
Auditors' remuneration		<b>813</b>	1,080
Cost of inventories sold		<b>212,885</b>	255,365
Cost of services provided		<b>17,821</b>	4,188
Depreciation	<i>14</i>	<b>11,422</b>	13,424
Fixed assets written off	<i>14</i>	<b>1,943</b>	–
Impairment of fixed assets	<i>14</i>	<b>1,226</b>	38,180
Impairment of goodwill	<i>16</i>	<b>36,500</b>	–
Loss on disposal of fixed assets		<b>36</b>	22
Loss on disposal of discontinued operation	<i>34(c)</i>	<b>15,079</b>	–
Loss on disposal of an associate		–	1,115
Provision for doubtful debts		<b>5,954</b>	1,158
Provision for obsolete stock		<b>6,433</b>	2,193
Operating lease rentals in respect of:			
Land and buildings		<b>6,583</b>	7,172
Plant and machinery		<b>158</b>	155
		<b>6,741</b>	7,327
Staff costs (including directors' remuneration – note 9)			
Wages and salaries		<b>72,617</b>	81,563
Pension contributions		<b>533</b>	890
Less: Forfeited contributions **		–	(189)
Net pension contributions		<b>533</b>	701
		<b>73,150</b>	82,264
Exchange losses/(gains), net		<b>84</b>	(114)

\* The amortisation and write-off of deferred development costs for the year are included in "Cost of sales" on the face of the consolidated profit and loss account.

\*\* At 31 December 2002, the Group had no forfeited contributions available to reduce its contributions to the pension scheme in future years.

## 8. FINANCE COSTS

	<b>Group</b>	
	<b>2002</b>	<b>2001</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest on bank loans and overdrafts	1,634	7,091
Interest on other loans wholly repayable within five years	2,353	1,581
Interest on finance leases	160	397
	<u>4,147</u>	<u>9,069</u>

## 9. DIRECTORS' REMUNERATION

Directors' remuneration, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	<b>Group</b>	
	<b>2002</b>	<b>2001</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Fees	1,494	660
Other emoluments:		
Salaries, bonuses and benefits in kind	7,514	8,943
Performance related bonuses	13,500	5,944
Pension scheme contributions	12	17
	<u>22,520</u>	<u>15,564</u>

Fees include HK\$240,000 (2001: HK\$240,000) payable to the independent non-executive directors. There were no other emoluments payable to the independent non-executive directors during the year (2001: Nil).

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

	<b>Number of directors</b>	
	<b>2002</b>	<b>2001</b>
Nil – HK\$1,000,000	7	7
HK\$1,000,001 – HK\$1,500,000	1	–
HK\$4,500,001 – HK\$5,000,000	–	1
HK\$9,000,001 – HK\$9,500,000	1	1
HK\$11,500,001 – HK\$12,000,000	1	–
	<u>1</u>	<u>–</u>

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

**10. FIVE HIGHEST PAID EMPLOYEES**

The five highest paid employees during the year included three (2001: two) directors, details of whose remuneration are set out in note 9 above. Details of the remuneration of the remaining two (2001: three) non-director, highest-paid employees are as follows:

	<b>Group</b>	
	<b>2002</b>	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Salaries, bonuses and benefits in kind	<b>2,573</b>	3,520
Pension scheme contributions	<b>24</b>	24
	<u><b>2,597</b></u>	<u>3,544</u>

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

	<b>Number of employees</b>	
	<b>2002</b>	2001
HK\$1,000,001 – HK\$1,500,000	<u><b>2</b></u>	<u>3</u>

**11. TAX**

	<b>Group</b>	
	<b>2002</b>	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Share of tax attributable to associates	<u><b>1,494</b></u>	<u>1,432</u>

Hong Kong profits tax has been provided at the rate of 16% (2001: 16%) on the estimated assessable profits of the associates arising in Hong Kong during the year.

EC-Founder Co., Ltd., a wholly-owned PRC subsidiary of the Group, is exempted from PRC profits tax for the three fiscal years which commenced in 2001 and ending on 31 December 2003 and, thereafter, will be taxed at 50% of its standard tax rate in the fourth to sixth years, inclusive. At present, the standard tax rate applicable to EC-Founder Co., Ltd. is 15%. No provision for PRC profits tax has been made for the year as the PRC subsidiaries were either under the tax exemption period or had sufficient tax losses brought forward to offset against the assessable profits arising during the year.

The amount of deferred tax not recognised is set out in note 30 to these financial statements.

**12. NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS**

The net loss from ordinary activities attributable to shareholders for the year ended 31 December 2002 dealt with in the financial statements of the Company is approximately HK\$30,665,000 (2001: HK\$536,331,000).

**13. LOSS PER SHARE**

The calculation of basic loss per share is based on the net loss from ordinary activities attributable to shareholders for the year of approximately HK\$85,430,000 (2001: HK\$69,041,000), and the weighted average of 820,562,040 (2001: 820,562,040) ordinary shares in issue during the year.

Diluted loss per share for the years ended 31 December 2002 and 2001 have not been disclosed as the impact of the outstanding share options was anti-dilutive.

## 14. FIXED ASSETS

## Group

	Land and buildings <i>HK\$'000</i>	Leasehold improvements <i>HK\$'000</i>	Machinery, equipment and moulds <i>HK\$'000</i>	Furniture, fixtures and office equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Construction in progress <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost or valuation:							
At 1 January 2002	38,527	25,414	87,316	22,464	6,394	416	180,531
Additions	27	-	892	972	494	4,998	7,383
Transfer from construction in progress	-	753	3,364	590	219	(4,926)	-
Written off	-	(844)	-	(1,959)	-	-	(2,803)
Disposals	-	-	(120)	(164)	(213)	-	(497)
Disposal of subsidiaries	(17,771)	(11,067)	(57,337)	(4,870)	(1,354)	-	(92,399)
Exchange realignment	-	-	-	(2)	-	-	(2)
At 31 December 2002	20,783	14,256	34,115	17,031	5,540	488	92,213
Accumulated depreciation and impairment:							
At 1 January 2002	16,280	14,460	61,830	11,681	4,370	-	108,621
Provided during the year	861	2,622	4,764	2,412	763	-	11,422
Impairment during the year recognised in the profit and loss account	1,090	136	-	-	-	-	1,226
Written off	-	(169)	-	(691)	-	-	(860)
Disposals	-	-	(61)	(56)	(213)	-	(330)
Disposal of subsidiaries	(15,057)	(7,713)	(47,404)	(4,220)	(1,258)	-	(75,652)
At 31 December 2002	3,174	9,336	19,129	9,126	3,662	-	44,427
Net book value:							
At 31 December 2002	<u>17,609</u>	<u>4,920</u>	<u>14,986</u>	<u>7,905</u>	<u>1,878</u>	<u>488</u>	<u>47,786</u>
At 31 December 2001	<u>22,247</u>	<u>10,954</u>	<u>25,486</u>	<u>10,783</u>	<u>2,024</u>	<u>416</u>	<u>71,910</u>
Analysis of cost and valuation:							
At cost	2,783	14,256	34,115	17,031	5,540	488	74,213
At 1993 valuation	18,000	-	-	-	-	-	18,000
	<u>20,783</u>	<u>14,256</u>	<u>34,115</u>	<u>17,031</u>	<u>5,540</u>	<u>488</u>	<u>92,213</u>

## Company

	<b>Leasehold improvements</b>	<b>Furniture, fixtures and office equipment</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Cost:			
At 1 January 2002	845	3,851	4,696
Additions	–	76	76
Written off	(845)	(510)	(1,355)
Disposals	–	(3,184)	(3,184)
	<u>–</u>	<u>(3,184)</u>	<u>(3,184)</u>
At 31 December 2002	<u>–</u>	<u>233</u>	<u>233</u>
Accumulated depreciation:			
At 1 January 2002	85	2,456	2,541
Provided during the year	84	83	167
Written off	(169)	(124)	(293)
Disposals	–	(2,372)	(2,372)
	<u>–</u>	<u>(2,372)</u>	<u>(2,372)</u>
At 31 December 2002	<u>–</u>	<u>43</u>	<u>43</u>
Net book value:			
At 31 December 2002	<u>–</u>	<u>190</u>	<u>190</u>
At 31 December 2001	<u>760</u>	<u>1,395</u>	<u>2,155</u>

The net book value of the Group's fixed assets held under finance leases included in the total amount of machinery, equipment and moulds and motor vehicles at 31 December 2002, amounted to approximately HK\$1,276,000 (2001: HK\$10,934,000) and approximately HK\$879,000 (2001: HK\$627,000), respectively.

Certain of the Group's land and buildings with a net book value of approximately HK\$15,077,000 (2001: HK\$15,441,000) were revalued at 31 December 1993 by Messrs. C. Y. Leung & Company Limited, registered professionally qualified surveyors, on an open market value, existing use basis. Since 1993, no further revaluations of the Group's land and buildings have been carried out, as the Group followed the exemption granted under paragraph 80 of SSAP 17 "Property, plant and equipment", from the requirement to carry out future revaluations of the entire class of land and buildings on a regular basis.

Had the Group's land and buildings been carried at historical cost less accumulated depreciation and impairment losses, their carrying amounts would have been approximately HK\$11,760,000 (2001: HK\$12,050,000).



The net book value of land and buildings pledged to banks to secure certain of the Group's banking facilities as at 31 December 2002 amounted to approximately HK\$2,532,000 (2001: HK\$4,156,000).

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

	Hong Kong <i>HK\$'000</i>	Overseas <i>HK\$'000</i>	Total <i>HK\$'000</i>
At cost:			
Freehold	–	2,783	2,783
At 1993 valuation:			
Medium term leases	<u>18,000</u>	<u>–</u>	<u>18,000</u>
	<u>18,000</u>	<u>2,783</u>	<u>20,783</u>

## 15. INTANGIBLE ASSETS

	Group  Deferred development costs <i>HK\$'000</i>
Cost:	
At beginning of year	2,586
Written off	(1,310)
Realisation on disposal of discontinued operation	(1,299)
Exchange realignment	<u>23</u>
At 31 December 2002	<u>–</u>
Accumulated amortisation:	
At beginning of year	1,316
Provided during the year	379
Written off	(1,310)
Realisation on disposal of discontinued operation	(389)
Exchange realignment	<u>4</u>
At 31 December 2002	<u>–</u>
Net book value:	
At 31 December 2002	<u>–</u>
At 31 December 2001	<u>1,270</u>

## 16. GOODWILL

As detailed in note 3 to the financial statements, the Group has adopted the transitional provision of SSAP 30 which permits goodwill in respect of acquisitions of subsidiaries which occurred prior to 1 January 2001, to remain eliminated against consolidated reserves.

The amounts of the goodwill remaining in consolidated reserves, arising from the acquisition of subsidiaries prior to 1 January 2001, are as follows:

	<b>Goodwill eliminated against consolidated retained profits <i>HK\$'000</i></b>	<b>Group Goodwill eliminated against consolidated contributed surplus <i>HK\$'000</i></b>
Cost at 1 January 2002 and 31 December 2002	17,103	520,156
Accumulated impairment:		
At beginning of year	–	452,259
Impairment provided during the year	–	36,500
At 31 December 2002	–	488,759
Net amount:		
At 31 December 2002	<u>17,103</u>	<u>31,397</u>
At 31 December 2001	<u>17,103</u>	<u>67,897</u>

An impairment loss of approximately HK\$36,500,000 was charged to the consolidated profit and loss account for the current year. The impairment loss was provided by the directors based on the estimated recoverable amounts of the subsidiaries acquired, which were determined based on their value in use. The discount rate used in determining the value in use is 19% per annum.

## 17. INTERESTS IN SUBSIDIARIES

	Company	
	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Unlisted shares, at cost	524,213	621,581
Due from subsidiaries	203,426	221,549
Due to subsidiaries	<u>(6,091)</u>	<u>(114)</u>
	721,548	843,016
Provision for impairment	<u>(497,053)</u>	<u>(587,902)</u>
	<u><u>224,495</u></u>	<u><u>255,114</u></u>

The amounts due from/(to) subsidiaries are unsecured, interest-free and have no fixed terms of repayment. Although this balance is technically currently repayable under the original terms of the transactions giving rise thereto, it has been deferred or subordinated for the longer term and is therefore classified as non-current.

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Management Investment & Technology Company Limited ("MITC")	Hong Kong	Ordinary HK\$2 Non-voting deferred HK\$27,000,002 <i>Note (b)</i>	–	100	Design, manufacture and distribution of weighing scales and lighting products
EC-Founder Co., Ltd.*	Mainland China	Registered US\$5,000,000	–	100	Provision of software solutions and services
EC-Founder (Hong Kong) Limited	Hong Kong	Ordinary HK\$2	–	100	Provision of software solutions and services

Name	Place of incorporation/ registration and operations	Nominal value of issued/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Founder Data Corporation International Limited	British Virgin Islands/ Hong Kong	Ordinary US\$20,000	100	–	Investment holding
Beijing AdTargeting Inc.*	Mainland China	Registered US\$300,000	–	100	Provision of internet advertising agency services

\* Wholly-owned foreign investment enterprises

*Notes:*

- (a) 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.
- (b) The non-voting deferred shares carry no rights to dividends or to receive notice of or to attend or vote at any general meeting of the company. On winding-up, the holders of the non-voting deferred shares are entitled to one half of the return of the assets after a total sum of HK\$100,000,000 million has been distributed to the holders of each of the ordinary shares of the company.

## 18. INTERESTS IN ASSOCIATES

	Group		Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Share of net assets	19,414	12,980	–	–
Goodwill on acquisition	–	600	–	–
Loans to an associate	3,450	6,700	–	3,250
Due from an associate	–	2,247	–	42
	<u>22,864</u>	<u>22,527</u>	<u>–</u>	<u>3,292</u>

The loans to an associate and the amount due from an associate are unsecured, interest-free and are repayable on demand, except for a loan to an associate of approximately HK\$3,250,000 as at 31 December 2001 which bore interest at Hong Kong dollar prime rate plus 1.5% per annum and was repaid in 2002.

Particulars of the principal associates are as follows:

Name	Business structure	Place of incorporation/ registration and operations	Percentage of equity indirectly attributable to the Group		Principal activities
			2002	2001	
Discrete Association Semiconductors Pte. Limited (“DAS”) *	Corporate	Singapore	–	49 #	Marketing and distribution of semi-conductors
MC.Founder Limited (“MCF”)	Corporate	Hong Kong	<b>36.69</b>	40	Distribution of mobile phones
MC.Founder (Distribution) Limited	Corporate	Hong Kong	<b>36.69</b>	40	Distribution of mobile phones
MC.Founder (Technology) Limited	Corporate	Hong Kong	<b>36.69</b>	40	Distribution of electronic appliances

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

# *Disposed of during the year*

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.

## 19. LONG TERM INVESTMENT

	Group	
	2002 HK\$'000	2001 HK\$'000
Club debenture, at cost	–	1,075

## 20. INVENTORIES

	Group	
	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Raw materials	18,019	22,147
Work in progress	9,961	24,993
Finished goods	7,051	7,017
	<u>35,031</u>	<u>54,157</u>

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

## 21. SYSTEMS INTEGRATION CONTRACTS

	Group	
	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Gross amount due from contract customers	318	173
Gross amount due to contract customers	<u>(2,729)</u>	<u>–</u>
	<u>(2,411)</u>	<u>173</u>
Contract costs incurred plus recognised profits less recognised losses and foreseeable losses to date	8,532	4,038
Less: Progress billings	<u>(10,943)</u>	<u>(3,865)</u>
	<u>(2,411)</u>	<u>173</u>

## 22. TRADE AND BILLS RECEIVABLES

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

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

	Group	
	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Within 6 months	44,457	50,436
7 – 12 months	1,460	332
13 – 24 months	2,827	729
Over 24 months	–	2,460
	<u>48,744</u>	<u>53,957</u>

### 23. PREPAYMENTS AND OTHER RECEIVABLES

	Group		Company	
	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Prepayments	963	2,528	258	208
Deposits and other receivables	3,701	6,887	8	1,962
Due from related companies	–	43,610	–	5,020
	<u>4,664</u>	<u>53,025</u>	<u>266</u>	<u>7,190</u>

The amounts due from related companies in 2001 included approximately HK\$40,746,000 due from Ricwinco, approximately HK\$936,000 due from Management Investment and Technology Inc. (“MITI”) and its subsidiaries (the “MITI Group”) and approximately HK\$1,928,000 due from Founder Holdings Limited and its subsidiaries (the “Founder Group”). Mr Yung Chih Shin, Richard beneficially owns Ricwinco which in turn beneficially owns the MITI Group. The maximum amounts outstanding for Ricwinco and the Founder Group during the year equalled the balances as at 31 December 2001. The maximum amounts outstanding for MITI Group during the year was approximately HK\$1,198,000. The amounts due from related companies in 2001 were unsecured, interest-free and repayable on demand, except for an amount of approximately HK\$915,000 due from the MITI Group which bore interest at Hong Kong dollar prime rate plus 0.25% per annum.

## 24. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	<i>Note</i>	<b>Group</b>		<b>Company</b>	
		<b>2002</b>	2001	<b>2002</b>	2001
		<b>HK\$'000</b>	HK\$'000	<b>HK\$'000</b>	HK\$'000
Cash and bank balances		<b>30,548</b>	51,160	<b>2,315</b>	874
Time deposits		<b>32,321</b>	66,844	<b>24,471</b>	18,531
		<b>62,869</b>	118,004	<b>26,786</b>	19,405
Less: Time deposits pledged for short term bank loans	28	<b>(7,801)</b>	(48,313)	—	—
Cash and cash equivalents		<b>55,068</b>	69,691	<b>26,786</b>	19,405

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi (“RMB”) amounted to approximately HK\$19,853,000 (2001: HK\$32,593,000). 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.

## 25. TRADE AND BILLS PAYABLES

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

	<b>Group</b>	
	<b>2002</b>	2001
	<b>HK\$'000</b>	HK\$'000
Within 6 months	<b>31,696</b>	59,641
7 – 12 months	<b>1,836</b>	20,966
Over 12 months	<b>3,341</b>	1,955
	<b>36,873</b>	82,562



## 26. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Accruals	22,037	19,998	3,495	4,738
Other liabilities	10,848	5,964	–	3,545
Due to related companies	36	285	34	–
	<u>32,921</u>	<u>26,247</u>	<u>3,529</u>	<u>8,283</u>

The amounts due to related companies are unsecured, interest-free and have no fixed terms of repayment.

## 27. INTEREST-BEARING BANK AND OTHER BORROWINGS

	<i>Notes</i>	Group	
		2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Bank overdrafts		–	3,906
Trust receipt loans		4,498	13,724
Current portion of bank loans		<u>7,499</u>	<u>48,030</u>
	28	<u>11,997</u>	<u>65,660</u>
Current portion of finance lease payables	29	<u>536</u>	<u>3,025</u>
		<u>12,533</u>	<u>68,685</u>

## 28. INTEREST-BEARING BANK BORROWINGS

	2002 HK\$'000	Group 2001 HK\$'000
Bank overdrafts, unsecured	—	3,906
Bank loans:		
Secured	7,309	48,309
Unsecured	396	—
	<u>7,705</u>	<u>48,309</u>
Trust receipt loans:		
Secured	—	5,000
Unsecured	4,498	8,724
	<u>4,498</u>	<u>13,724</u>
	<u>12,203</u>	<u>65,939</u>
Bank overdrafts repayable within one year or on demand	—	3,906
Bank loans and trust receipt loans repayable:		
Within one year or on demand	11,997	61,754
In the second year	190	279
In the third to fifth years, inclusive	16	—
	<u>12,203</u>	<u>62,033</u>
	<u>12,203</u>	<u>65,939</u>
Portion classified as current liabilities – note 27	<u>(11,997)</u>	<u>(65,660)</u>
Long term portion	<u>206</u>	<u>279</u>

The Group's secured bank loans at the balance sheet date are secured by:

- (i) mortgages over the Group's land and building situated overseas which had an aggregate net book value at the balance sheet date of approximately HK\$2,532,000 (2001: HK\$2,588,000); and
- (ii) the pledge of certain of the Group's time deposits amounting to approximately HK\$7,801,000 (2001: HK\$48,313,000).

**29. FINANCE LEASE PAYABLES**

The Group leases certain of its machinery and equipment for its electronic products business. These leases are classified as finance leases and have remaining lease terms ranging from one to five years.

At 31 December 2002, the total future minimum lease payments under finance leases and their present values, were as follows:

Group	Minimum lease payments 2002 <i>HK\$'000</i>	Minimum lease payments 2001 <i>HK\$'000</i>	Present value of minimum lease payments 2002 <i>HK\$'000</i>	Present value of minimum lease payments 2001 <i>HK\$'000</i>
Amounts payable:				
Within one year	557	3,199	532	3,025
In the second year	339	1,103	329	1,032
In the third to fifth years, inclusive	71	750	69	732
Total minimum finance lease payments	<u>967</u>	5,052	<u>930</u>	<u>4,789</u>
Future finance charges	<u>(37)</u>	(263)		
Total net finance lease payables	930	4,789		
Portion classified as current liabilities – note 27	<u>(536)</u>	(3,025)		
Long term portion	<u>394</u>	<u>1,764</u>		

**30. DEFERRED TAX**

The principal components of the Group's provision for deferred tax, and the net deferred tax asset position not recognised in the financial statements are as follows:

	Group 2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Accelerated depreciation allowances	(1,322)	(1,144)
Tax losses	<u>8,872</u>	<u>6,072</u>
	<u>7,550</u>	<u>4,928</u>

## 31. SHARE CAPITAL

	<b>Group and Company</b>	
	<b>2002</b>	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Authorised:		
3,000,000,000 ordinary shares of HK\$0.10 each	<u><b>300,000</b></u>	<u>300,000</u>
Issued and fully paid:		
820,562,040 ordinary shares of HK\$0.10 each	<u><b>82,056</b></u>	<u>82,056</u>

## 32. SHARE OPTION SCHEMES

SSAP 34 was adopted during the year, as explained in note 2 and under the heading “Employee benefits” in note 3 to the financial statements. As a result, the following detailed disclosures relating to the Company’s share option schemes are now included in the notes to the financial statements. In the prior year, these disclosures were included in the Report of the Directors, as their disclosure is also a requirement of the Listing Rules.

On 24 May 2002, the Company adopted a new share option scheme (the “New Scheme”) in compliance with Chapter 17 of the Listing Rules. The purpose of the New 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 relationship with participants whose contributions are or may be beneficial to the growth of the Group. Eligible participants of the New Scheme include (i) any part-time or full-time employee or officer of the Group or of any substantial shareholder of the Company or of any associate; (ii) any substantial shareholder of the Company who, in the opinion of the board of directors of the Company, has made or will make contributions which are or may be beneficial to the Group as a whole; (iii) the chief executive or director (executive or non-executive or independent non-executive) of any member of the Group or of any substantial shareholder of the Company or of any associate; or (iv) any supplier, agent, customer, partner or business associate of, or adviser or consultant to, any member of the Group. The New 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 New 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 New Scheme is approved by the shareholders of the Company in general meeting. The maximum number of shares issuable under share options to each eligible participant in the New 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. No share option had been granted during the year under the New Scheme.

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

The exercise price of the share options is determinable by the directors, but should be the highest of (i) the closing price of the shares of the Company as stated in the daily quotation sheets of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on the date of the offer of the share options; (ii) the average closing price of the shares of the Company as stated in the Stock Exchange’s daily quotation sheets for the five trading days immediately preceding the date of the offer; or (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 will remain in full force and effect.

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

Name or category of participant	Number of share options			Date of grant of share options	Exercise period of share options	Exercise price of share options** HK\$
	At 1 January 2002	Lapsed during the year	At 31 December 2002			
<b>1991 Scheme</b>						
<b>Directors, chief executives and substantial shareholders</b>						
Mr Yung Chih Shin, Richard	3,000,000	(3,000,000)	–	30.1.1997	1.8.1997* to 31.7.2002	0.507
Mr Yung Richard, Jr.	2,400,000	(2,400,000)	–	30.1.1997	1.8.1997* to 31.7.2002	0.507
Mr Yung Richard, Jr.	2,700,000	–	2,700,000	18.5.2001	15.12.2001* to 14.12.2006	0.450
Subtotal	8,100,000	(5,400,000)	2,700,000			
<b>Other employees</b>						
In aggregate	2,400,000	(2,400,000)	–	30.1.1997	1.8.1997* to 31.7.2002	0.507
In aggregate	3,300,000	(100,000)	3,200,000	18.5.2001	15.12.2001* to 14.12.2006	0.450
Subtotal	5,700,000	(2,500,000)	3,200,000			
<b>Total under the 1991 Scheme</b>	<b>13,800,000</b>	<b>(7,900,000)</b>	<b>5,900,000</b>			
<b>2001 Scheme</b>						
<b>Directors, chief executives and substantial shareholders</b>						
Mr Cheung Shuen Lung	2,000,000	–	2,000,000	18.5.2001	18.5.2001 to 17.5.2011	0.450
Mr Lei Hon Sang ( <i>Note</i> )	2,000,000	(2,000,000)	–	18.5.2001	18.5.2001 to 17.5.2011	0.450
Professor Wei Xin	2,000,000	–	2,000,000	18.5.2001	18.5.2001 to 17.5.2011	0.450
Professor Zou Wei	2,000,000	–	2,000,000	18.5.2001	18.5.2001 to 17.5.2011	0.450
Subtotal	8,000,000	(2,000,000)	6,000,000			
<b>Other employees</b>						
In aggregate	40,000,000	(21,100,000)	18,900,000	18.5.2001	18.5.2001 to 17.5.2011	0.450
Subtotal	40,000,000	(21,100,000)	18,900,000			
<b>Total under the 2001 Scheme</b>	<b>48,000,000</b>	<b>(23,100,000)</b>	<b>24,900,000</b>			

- \* *The vesting period of the share options is from the date of the grant until the commencement of the exercise period.*
- \*\* *The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.*

*Note:* Mr Lei Hon Sang resigned as director of the Company on 6 September 2002.

The exercise in full of the remaining share options under the 1991 Scheme would, under the present capital structure of the Company, result in the issue of 5,900,000 additional ordinary shares of the Company and additional share capital of HK\$590,000 and share premium of HK\$2,065,000 (before issue expenses).

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 24,900,000 additional ordinary shares of the Company and additional share capital of HK\$2,490,000 and share premium of HK\$8,715,000 (before issue expenses).

## 33. RESERVES

## Group

	Share premium account HK\$'000	Contributed surplus HK\$'000	Exchange fluctuation reserve HK\$'000	Revaluation reserve HK\$'000	Retained profits/ losses) (accumulated HK\$'000	Total HK\$'000
At 1 January 2001						
As previously reported	118,299	-	(988)	3,777	50,278	171,366
Prior year adjustment:						
SSAP 31 – impairment of goodwill previously eliminated against contributed surplus	-	452,259	-	-	(452,259)	-
As restated	118,299	452,259	(988)	3,777	(401,981)	171,366
Exchange realignment	-	-	(8)	-	-	(8)
Net loss for the year	-	-	-	-	(69,041)	(69,041)
At 31 December 2001 and beginning of year	118,299	452,259	(996)	3,777	(471,022)	102,317
Realisation on disposal of discontinued operation	-	-	1,892	-	-	1,892
Exchange realignment	-	-	(715)	-	-	(715)
Impairment of goodwill previously eliminated against contributed surplus	-	36,500	-	-	-	36,500
Net loss for the year	-	-	-	-	(85,430)	(85,430)
At 31 December 2002	<u>118,299</u>	<u>488,759</u>	<u>181</u>	<u>3,777</u>	<u>(556,452)</u>	<u>54,564</u>
Reserves retained by:						
Company and subsidiaries	118,299	488,759	181	3,777	(575,066)	35,950
Associates	-	-	-	-	18,614	18,614
31 December 2002	<u>118,299</u>	<u>488,759</u>	<u>181</u>	<u>3,777</u>	<u>(556,452)</u>	<u>54,564</u>
Company and subsidiaries	118,299	452,259	(996)	3,777	(479,723)	93,616
Associates	-	-	-	-	8,701	8,701
31 December 2001	<u>118,299</u>	<u>452,259</u>	<u>(996)</u>	<u>3,777</u>	<u>(471,022)</u>	<u>102,317</u>



Certain amounts of goodwill arising on the acquisition of subsidiaries remain eliminated against consolidated retained profits and contributed surplus, further details of which are included in note 16 to the financial statements.

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.

**Company**

	<b>Share premium account HK\$'000</b>	<b>Contributed surplus HK\$'000</b>	<b>Retained profits/ (accumulated losses) HK\$'000</b>	<b>Total HK\$'000</b>
At 1 January 2001	118,299	528,980	85,869	733,148
Net loss for the year	—	—	(536,331)	(536,331)
At 31 December 2001 and beginning of year	118,299	528,980	(450,462)	196,817
Net loss for the year	—	—	(30,665)	(30,665)
At 31 December 2002	<u>118,299</u>	<u>528,980</u>	<u>(481,127)</u>	<u>166,152</u>

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

### 34. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

**(a) Adoption of SSAP 15**

Revised SSAP 15 was adopted during the current year, as detailed in note 2 to the financial statements, which has resulted in a change to the layout of the cash flow statement. The cash flow statement is now presented under three headings: cash flows from operating activities, investing activities and financing activities. Previously, five headings were used, comprising the three headings listed above, together with cash flows from returns on investments and servicing of finance and from taxes paid. The significant reclassification resulting from the change in presentation is that interest received is now included in cash flows from operating activities. The presentation of the 2001 comparative cash flow statement has been changed to accord with the new layout.

The method of calculation of certain items in the consolidated cash flow statement has changed under the revised SSAP 15, as explained under the heading "Foreign currencies" in note 3 to the financial statements. Cash flows of overseas subsidiaries are now 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 to Hong Kong dollars at the weighted average exchange rates for the year. Previously, the cash flows of overseas subsidiaries were translated into Hong Kong dollars at the exchanges rates ruling at the balance sheet date. This change has had no material effect on the financial statements.

**(b) Major non-cash transaction**

During the year, the Group entered into a finance lease arrangement in respect of fixed assets with a total capital value at the inception of the lease of approximately HK\$480,000 (2001: HK\$1,000,000).

**(c) Disposal of subsidiaries**

	2002 HK\$'000	2001 HK\$'000
Net assets disposed of:		
Fixed assets	16,747	—
Intangible assets	910	—
Interests in an associate	(7,882)	—
Long term investment	1,075	—
Cash and cash equivalents	8,435	—
Inventories	25,145	—
Trade receivables	14,166	—
Other receivables	43,150	—
Trade payables	(38,699)	—
Other payables and accruals	(3,749)	—
Other loans	(943)	—
Interest-bearing bank borrowings	(28,872)	—
Minority interests	(1,296)	—
Exchange fluctuation reserve	1,892	—
	<u>30,079</u>	—
Loss on disposal of subsidiaries ( <i>note 6</i> )	<u>(15,079)</u>	—
	<u><u>15,000</u></u>	<u><u>—</u></u>
Satisfied by:		
Cash	<u><u>15,000</u></u>	<u><u>—</u></u>

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

	<b>2002</b> <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Cash consideration	<b>15,000</b>	–
Cash and cash equivalents disposed of	<b>(8,435)</b>	–
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	<b><u>6,565</u></b>	<b><u>–</u></b>

The subsidiaries disposed of during the year contributed approximately HK\$48,283,000 to the Group's consolidated turnover and a loss of approximately HK\$4,680,000 to the consolidated loss after tax.

### 35. CONTINGENT LIABILITIES

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

	<b>Group</b>		<b>Company</b>	
	<b>2002</b> <i>HK\$'000</i>	2001 <i>HK\$'000</i>	<b>2002</b> <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Bills discounted with recourse	–	10,288	–	–
Guarantees given to banks in connection with facilities granted to subsidiaries	–	–	<b>35,000</b>	50,500
Guarantee given to a trade creditor in connection with credit facilities granted to related companies	<b>28,000</b>	–	<b>28,000</b>	–
	<b><u>28,000</u></b>	<b><u>10,288</u></b>	<b><u>63,000</u></b>	<b><u>50,500</u></b>

At 31 December 2002, the guarantees given to the banks in connection with facilities granted to subsidiaries by the Company were utilised to the extent of approximately HK\$8,532,000 (2001: HK\$24,795,000).

At 31 December 2002, the guarantees given to a trade creditor in connection with facilities granted to related companies by the Company were utilised to the extent of approximately HK\$4,720,000 (2001: Nil). The guaranteed liabilities were released on 31 March 2003.

**36. OPERATING LEASE ARRANGEMENTS****(a) As lessor**

The Group leases its land and buildings under operating lease arrangements, with leases negotiated for a term of one year. The term of the lease also requires the tenant to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At 31 December 2002, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenant falling due as follows:

	<b>Group</b>	
	<b>2002</b>	2001
	<b>HK\$'000</b>	HK\$'000
Within one year	<u>          —</u>	<u>          380</u>

**(b) As lessee**

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

At 31 December 2002, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	<b>Group</b>		<b>Company</b>	
	<b>2002</b>	2001	<b>2002</b>	2001
	<b>HK\$'000</b>	HK\$'000	<b>HK\$'000</b>	HK\$'000
Land and buildings:				
Within one year	<b>4,495</b>	6,563	—	151
In the second to fifth years, inclusive	<u>6,419</u>	<u>11,940</u>	<u>—</u>	<u>113</u>
	<u><b>10,914</b></u>	<u>18,503</u>	<u>—</u>	<u>264</u>

**37. POST BALANCE SHEET EVENT**

On 19 March 2003, the Company and Founder (Hong Kong) Limited (“Founder HK”), a wholly-owned subsidiary of Founder Holdings Limited, entered into a conditional sale and purchase agreement, pursuant to which, the Company will acquire the entire interests in Founder Century (Hong Kong) Limited and Beijing Founder Century Information System Co., Ltd. from Founder HK at a total consideration of HK\$71,500,000, to be satisfied as to (i) HK\$5,160,000, upon completion in cash payable by the Company to Founder HK or as it may direct; (ii) HK\$61,180,000, upon completion by the issue

and allotment by the Company of the shares to Founder HK or its nominee at HK\$0.2185 each; and (iii) the final payment of HK\$5,160,000 (subject to adjustment) to be satisfied in cash or additional shares or by a mixture of both at the option of Founder HK upon the date falling six months after the date of completion. Such transaction will be subject, among other things, to the approval by independent shareholders of the Company. Further details of the transaction were set out in the joint announcement of the Company and Founder Holdings Limited dated 19 March 2003.

### 38. RELATED PARTY TRANSACTIONS

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

- (a) Pursuant to the Management Agreement (“MA”) dated 17 May 2000, Ricwinco was appointed as manager for a period of three years with responsibility for the management and conduct of the semi-conductor business, which is operated by the YW Group and the weighing scale business, which is operated by MITC and its subsidiaries (the “MITC Group”). Ricwinco has unconditionally guaranteed to the Company that the aggregate of the audited consolidated profit after tax and minority interests of the YW Group and the MITC Group would not be less than an amount equal to 6% of the net asset value of the YW Group and the MITC Group as at 28 September 2000. The period for which the profit guarantee is effective commenced from 1 October 2000 and expires on 30 September 2003. The disposal of the YW Group during the current year released Ricwinco from its profit guarantee obligation in respect of the YW Group under the MA. The profit guarantee obligation in respect of the MITC Group under the MA for the year ended 31 December 2002 has been fulfilled.
- (b) On 4 April 2002, the Company entered into a Disposal Agreement with Ricwinco. Further details of the transaction are disclosed in note 6 to the financial statements.
- (c) During the year, the Group paid approximately HK\$1,560,000 (2001: HK\$9,360,000) in advertising expenses to a subsidiary of Yahoo! Inc., a substantial shareholder of the Company.
- (d) Subsequent to the disposal of the YW Group, rental expenses of approximately HK\$255,000 were paid by the Group to the YW Group. The transactions were conducted at prices determined between the two parties.
- (e) During the year, the Group received loan interest from an associate, MCF, of approximately HK\$164,000 (2001: HK\$963,000). The loans were unsecured, bore interest at Hong Kong dollar prime rate per annum and were repaid before the year end.
- (f) During the year, raw materials of approximately HK\$23,701,000 (2001: Nil) were purchased from DAS. The directors consider that the purchases of raw materials were made according to published prices and conditions similar to those offered to other customers of the supplier.

During the year, finished goods of approximately HK\$31,427,000 (2001: HK\$8,510,000) were sold to DAS. The directors consider that the sales of finished goods were made according to published prices and conditions similar to those offered to other customers of the Group.

During the year, commissions of approximately HK\$902,000 (2001: HK\$319,000) were paid to DAS. The commissions paid were made based on 2.98% (2001: 3%) of the sales of semi-conductors to DAS.

### 39. COMPARATIVE AMOUNTS

As further explained in note 2 to these financial statements, due to the adoption of certain new and revised SSAPs during the current year, the accounting treatment and presentation of certain items in the financial statements have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been reclassified to conform with the current year's presentation.

### 40. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 24 April 2003.

### SHARE CAPITAL

The authorised and issued share capital of EC-Founder as at the Latest Practicable Date were as follows:

	Number of EC-Founder Shares	Nominal value HK\$
Authorised	<u>3,000,000,000</u>	<u>300,000,000</u>
Issued and fully paid	820,562,040	82,056,204
EC-Founder Shares which may be issued under the Agreement	<u>303,615,560</u>	<u>30,361,556</u>
	<u>1,124,177,600</u>	<u>112,417,760</u>

There was no movement in the share capital for the period between 31st December, 2002 and the Latest Practicable Date.

Each EC-Founder Share ranks pari passu in all respects, including dividends, voting and capital.

### INDEBTEDNESS

As at 28th February, 2003 (being the latest practicable date for the preparation of this statement), the EC-Founder Group had outstanding borrowings of approximately HK\$15.8 million. The borrowings comprised secured bank loans of approximately HK\$7.2 million, unsecured bank loan of approximately HK\$0.4 million, obligations under finance lease contracts of approximately HK\$1.2 million and trust receipts loans of approximately HK\$7.0 million. The secured bank loans were secured by certain of the EC-Founder Group's land and buildings and the pledge of certain of the EC-Founder Group's fixed deposits. The unsecured bank loan and trust receipt loans were guaranteed by EC-Founder.

In addition, as at 28th February, 2003, the EC-Founder Group had outstanding guarantee given to a trade creditor in connection with credit facilities granted to related companies amounted to approximately HK\$4.7 million.

Save as aforesaid and as otherwise disclosed herein, and apart from intra-group liabilities, the EC-Founder Group did not have any bank loans, bank overdrafts and liabilities under acceptances or other similar indebtedness, debentures or other loan capital, mortgages, charges, finance leases or hire purchase commitments, guarantees or other material contingent liabilities outstanding at the close of business on 28th February, 2003.

The Directors are not aware of any material changes to the indebtedness and contingent liabilities of the EC-Founder Group since 28th February, 2003.

### MATERIAL CHANGE

There has been no material change in the financial or trading position or prospects of the EC-Founder Group since 31st December, 2002, the date to which the latest audited consolidated financial statements of the EC-Founder Group were made up.

### STATEMENT OF UNAUDITED ADJUSTED NET TANGIBLE ASSETS

Set out below is a statement of the adjusted net tangible assets of EC-Founder, which was arrived at based on the audited consolidated net tangible assets of the EC-Founder Group as at 31st December, 2002. Shareholders should note that this statement is made based on certain assumptions set out below and is for illustration purpose only and the actual effect on the net tangible asset value of the EC-Founder Group depends on the actual amount of the Reviewed NAV.

	<b>Scenario 1</b> <i>HK\$'000</i>	<b>Scenario 2</b> <i>HK\$'000</i>
Audited net tangible asset value of the EC-Founder Group as at 31st December, 2002	136,620	136,620
Add: the Reviewed NAV (see notes below)	71,500	71,500
Less: cash payment for the Consideration	<u>(10,320)</u>	<u>(5,160)</u>
Unaudited adjusted net tangible asset value of the EC-Founder Group	<u>197,800</u>	<u>202,960</u>
Number of EC-Founder Shares in issue as at the Latest Practicable Date	820,562,040	820,562,040
Number of EC-Founder Shares issued under the Acquisition	<u>280,000,000</u>	<u>303,615,560</u>
Number of EC-Founder Shares in issue as enlarged as a result of the Acquisition	<u>1,100,562,040</u>	<u>1,124,177,600</u>

	<i>HK\$</i>	<i>HK\$</i>
Net tangible asset value per EC-Founder Shares as at 31st December, 2002 (based on the number of EC-Founder Shares in issue as at the Latest Practicable Date)	<u>0.1665</u>	<u>0.1665</u>
Unaudited adjusted net tangible asset value per EC-Founder Share after Completion and issue of the EC-Founder Shares under the Agreement	<u>0.1797</u>	<u>0.1805</u>

*Notes:*

- Scenario 1: Assuming the Reviewed NAV is equal to HK\$71.5 million and the whole amount of the Final Payment will be satisfied by cash.
- Scenario 2: Assuming the Reviewed NAV is equal to HK\$71.5 million and the whole amount of the Final Payment will be satisfied by the issue of 23,615,560 Additional Shares to Founder Hong Kong or its nominee.



## 1. RESPONSIBILITY STATEMENT

The information in this circular (other than that relating to the Founder Group) has been supplied by the Directors. The issue of this circular has been approved by the Directors, who jointly and severally accept full responsibility for the accuracy of the information contained in this circular (other than that relating to the Founder Group) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this circular (other than that relating to the Founder Group) have been arrived at after due and careful consideration and there are no other facts not contained in this circular the omission of which would make any statement in this circular misleading.

The information in this circular relating to the Founder Group has been supplied by the directors of Founder. The issue of this circular has been approved by the directors of Founder, who jointly and severally accept full responsibility for the accuracy of the information contained in this circular relating to the Founder Group and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this circular relating to the Founder Group have been arrived at after due and careful consideration and there are no other facts not contained in this circular the omission of which would make any statement in this circular misleading.

## 2. DISCLOSURE OF INTERESTS

As at the Latest Practicable Date, the interests of the Directors and chief executive of EC-Founder in the securities of EC-Founder and its associated corporations (within the meaning of the SFO) which have been notified to EC-Founder and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO and including interests and short positions in which he has taken or deemed to have under such provisions of the SFO or which are required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which are required to be notified to EC-Founder and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules or which are required to be disclosed pursuant to the Takeovers Code, were as follows:

### (a) Interests in ordinary shares of EC-Founder

Name of Director	Number of EC-Founder Shares held and nature of interest		
	Corporate	Personal	As trustee (Note 1)
Mr. Yung Chih Shin, Richard (Note 2)	87,680,000	–	–
Mr. Cheung Shuen Lung	–	36,890,100	63,459,100
Mr. Zhang Zhao Dong	–	3,956,000	63,459,100
Professor Wei Xin	–	3,956,000	63,459,100
Professor Zou Wei	–	–	63,459,100

*Note 1:* These EC-Founder Shares held by each of the directors (a total of 63,459,100 EC-Founder Shares) are held by F2 Consultant as nominee on behalf of the directors of FDC who are acting in their capacity as the trustees of a discretionary trust for the employees of FDC and its subsidiaries.

*Note 2:* Mr. Yung Chih Shin, Richard is interested in these shares through Ricwinco Investment Limited, a company which is beneficially owned by Mr. Yung Chih Shin, Richard.

## (b) Interests in a subsidiary of EC-Founder

Name of Director	Subsidiary in which shares are held	Number of shares held	Nature of interest
Mr. Yung Chih Shin, Richard ( <i>Note</i> )	Management Investment & Technology Company Limited	20,000,000 non-voting deferred shares	Corporate

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

In addition to the above, certain Directors have non-beneficial personal equity interests in certain subsidiaries held for the benefit of EC-Founder solely for the purpose of complying with the minimum company membership requirements.

## (c) Interests in share options granted under the share option scheme of EC-Founder

Directors and chief executive	Number of outstanding share options at the Latest Practicable Date	Exercise period of share options	Exercise price of share options (HK\$)
Mr. Yung Richard, Jr.	2,700,000	15.12.2001 to 14.12.2006	0.450
Mr. Cheung Shuen Lung	2,000,000	18.5.2001 to 17.5.2011	0.450
Professor Wei Xin	2,000,000	18.5.2001 to 17.5.2011	0.450
Professor Zou Wei	2,000,000	18.5.2001 to 17.5.2011	0.450
Total	<u>8,700,000</u>		

Save as disclosed herein, as at the Latest Practicable Date, none of the Directors or the chief executive of EC-Founder had any interest in the securities of EC-Founder or any associated corporations which were required to be notified to EC-Founder and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they were deemed or taken to have under such provision of the SFO) or pursuant to the “Model Code for Securities Transactions by Directors of Listed Companies” or which are required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which are required to be disclosed herein pursuant to the Takeovers Code.

### 3. SUBSTANTIAL SHAREHOLDERS (AS THAT TERM IS DEFINED IN THE LISTING RULES)

As at the Latest Practicable Date, so far as is known to, or can be ascertained after reasonable enquiry by, the Directors, the following persons (not being a Director or the chief executive of EC-Founder or his associates) were interested in 10% or more of the issued share capital of EC-Founder:

Name of shareholder	<i>Notes</i>	Number of EC-Founder Shares held	Percentage of the EC-Founder's share capital
Peking University Founder Group Corporation ("Peking Founder")	<i>1</i>	323,690,000	39.45%
Founder		323,690,000	39.45%
Yahoo! Inc.		93,240,000	11.36%
Ricwinco Investment Limited	<i>2</i>	87,680,000	10.69%
Mr. Yung Chih Shin, Richard	<i>2</i>	87,680,000	10.69%

*Notes:*

1. Peking Founder is deemed to be interested in the 323,690,000 EC-Founder Shares under the SFO by virtue of its interest in Founder.
2. Ricwinco Investment Limited is beneficially owned by Mr. Yung Chih Shin, Richard. The interests disclosed under Mr. Yung Chih Shin, Richard represent his deemed interests in the EC-Founder Shares by virtue of his interest in Ricwinco Investment Limited.

Save as disclosed herein, the Directors and the chief executive of EC-Founder are not aware of any person (other than a Director or the chief executive of EC-Founder or his associates or a member of the EC-Founder Group) who was directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any of EC-Founder or its subsidiaries as at the Latest Practicable Date.

### 4. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered into, or was proposing to enter into any service contract with EC-Founder or any of its subsidiaries or associated companies which have more than 12 months to run after the Latest Practicable Date; and no service contracts had been entered into or amended within 6 months prior to the date of the Announcement.

**5. DIRECTORS' INTERESTS IN ASSETS/CONTRACTS AND OTHER INTERESTS**

On 17th May, 2000, Ricwinco Investment Limited (“Ricwinco”), a company wholly-owned by Mr. Yung Chih Shin, Richard (a non-executive Director) and EC-Founder entered into the management agreement (the “MA”). Pursuant to the MA, Ricwinco was appointed as manager for a period of three years starting from 28th September, 2000 with responsibility for the management and conduct of the semi-conductor business, which was operated by Yung Wen Investment & Finance Limited (“Yung Wen”) and its subsidiaries and the weighing scale business, which is operated by Management Investment & Technology Company Limited and its subsidiaries (the “MITC Group”). The entire interests of Yung Wen was disposed by the EC-Founder Group in 2002. Under the MA, Ricwinco has unconditionally guaranteed to EC-Founder that the audited consolidated profit after tax and minority interests of the MITC Group will not be less than an amount equal to 6% of the net asset value of the MITC Group as at 28th September, 2000. The period for which the profit guarantee is effective commenced from 1st October, 2000 and expires on 30th September, 2003. Details of the MA have been set out in the circular of EC-Founder dated 9th September, 2000.

Save as disclosed above, none of the Directors was materially interested in any contracts or arrangements entered into by any member of the EC-Founder Group subsisting at the Latest Practicable Date which are significant in relation to the business of the EC-Founder Group.

As at the Latest Practicable Date, none of the Directors has any direct or indirect interest in any assets which have been acquired or disposed of by or leased to any member of the EC-Founder Group or are proposed to be acquired or disposed of by or leased to any member of the EC-Founder Group since 31st December, 2002, being the date up to which the latest published audited consolidated accounts of the EC-Founder Group were made.

**6. INTERESTS IN FOUNDER**

As at the Latest Practicable Date, neither EC-Founder nor any of the Directors owned or controlled any shares, convertible securities, warrants, options or derivatives of Founder as at the Latest Practicable Date, and none of them has dealt for value in any such shares, convertible securities, warrants, options or derivatives of Founder during the period starting six months prior to 19th March, 2003 and ending on the Latest Practicable Date.

**7. SHAREHOLDING AND DEALINGS IN EC-FOUNDER SHARES**

- (a) Save as disclosed in the section headed “Shareholding structure of EC-Founder Group” in the Letter from the Board, none of Founder and its concert parties, including, among others, subsidiaries of Founder, F2 Consultant, the Other Founder Concert Parties and other directors of Founder, owned or controlled any shares, convertible securities, warrants, options or derivatives of EC-Founder as at the Latest Practicable Date. None of Founder and its concert parties, including, among others, subsidiaries of Founder, F2 Consultant, the Other Founder Concert Parties and other directors of Founder has dealt for value in any shares, convertible securities, warrants, options or derivatives of EC-Founder during the period starting six months prior to 19th March, 2003 and ending on the Latest Practicable Date.

- (b) No person with whom Founder or any person presumed to be acting in concert with it has any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code owned or controlled any shares, convertible securities, warrants, options or derivatives of EC-Founder as at the Latest Practicable Date, and none of them has dealt for value in any such securities during the period starting six months prior to 19th March, 2003 and ending on the Latest Practicable Date.
- (c) Save as disclosed in the paragraph headed “Disclosure of interest” above, none of the Directors owned or controlled any shares, convertible securities, warrants, options or derivatives of EC-Founder as at the Latest Practicable Date and none of them has dealt for value in any shares, convertible securities, warrants, options or derivatives of EC-Founder since 19th September, 2002 (being the date falling six months prior to the date of the Announcement) up to the Latest Practicable Date.
- (d) No subsidiary of EC-Founder or a pension fund of EC-Founder or of its subsidiaries and any adviser to EC-Founder as specified in Class (2) of the definition of associate under the Takeovers Code including Ernst & Young Corporate Finance Limited, Tai Fook, their respective ultimate holding companies and any of their respective subsidiaries or fellow subsidiaries owned or controlled any shares, convertible securities, warrants, options or derivatives of EC-Founder as at the Latest Practicable Date, and none of them has dealt for value in any such shares, convertible securities, warrants, options or derivatives of EC-Founder during the period starting six months prior to 19th March, 2003 and ending on the Latest Practicable Date.
- (e) No fund manager connected with EC-Founder owned or controlled any shares, convertible securities, warrants, options or derivatives of EC-Founder as at the Latest Practicable Date, and none of them has dealt for value in such securities on a discretionary basis during the period starting six months prior to 19th March, 2003 and ending on the Latest Practicable Date.

## 8. MARKET PRICES

- (a) The EC-Founder Shares are traded on the Stock Exchange. The table below shows the closing prices of the EC-Founder Shares on the Stock Exchange on (i) the last trading day of each of the six calendar months immediately preceding 19th March, 2003 (being the last trading day preceding the date of the Announcement); (ii) 18th March, 2003 (being the last business day immediately preceding the date of the Announcement); and (iii) the Latest Practicable Date:

<b>Date</b>	<b>Closing price</b> <i>HK\$</i>
30th August, 2002	0.32
30th September, 2002	0.30
31st October, 2002	0.35
29th November, 2002	0.23
31st December, 2002	0.23
30th January, 2003	0.23
28th February, 2003	0.23
18th March, 2003	0.20
Latest Practicable Date	0.25



**13. CONSENTS**

Tai Fook has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter dated 30th April, 2003 and references to its name, in the form and context in which they appear.

**14. GENERAL**

- (a) The Company Secretary of EC-Founder is Ms. Tang Yuk Bo, Yvonne, ACIS, ACS.
- (b) The registered office of EC-Founder is located at Cedar House, 41 Cedar Avenue, Hamilton HM 12, Bermuda. The head office of EC-Founder is situated at Unit 1408, 14th Floor, Cable TV Tower, 9 Hoi Shing Road, Tsuen Wan, New Territories, Hong Kong.
- (c) The registrar and transfer office of EC-Founder are Tengis Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong.
- (d) As at the Latest Practicable Date, there was no agreement or arrangement between any Director and any other person which is conditional on or dependent upon the outcome of the Acquisition and the Whitewash Waiver or otherwise connected with the Acquisition and the Whitewash Waiver.
- (e) The principal place of business of Founder is situated at Unit 1408, 14th Floor, Cable TV Tower, 9 Hoi Shing Road, Tsuen Wan, New Territories, Hong Kong.
- (f) The principal place of business of F2 Consultant is situated at Unit 1408, 14th Floor, Cable TV Tower, 9 Hoi Shing Road, Tsuen Wan, New Territories, Hong Kong.
- (g) The correspondence address of Mr. Cheung Shuen Lung is at Unit 1408, 14th Floor, Cable TV Tower, 9 Hoi Shing Road, Tsuen Wan, New Territories, Hong Kong.
- (h) The correspondence address of Mr. Zhang Zhao Dong is at Unit 1408, 14th Floor, Cable TV Tower, 9 Hoi Shing Road, Tsuen Wan, New Territories, Hong Kong.
- (i) The correspondence address of Professor Wei Xin is at Unit 1408, 14th Floor, Cable TV Tower, 9 Hoi Shing Road, Tsuen Wan, New Territories, Hong Kong.
- (j) The correspondence address of Professor Xiao Jian Guo is at Unit 1408, 14th Floor, Cable TV Tower, 9 Hoi Shing Road, Tsuen Wan, New Territories, Hong Kong.
- (k) The correspondence address of Mr. Jiang Bi Jin is at Unit 1408, 14th Floor, Cable TV Tower, 9 Hoi Shing Road, Tsuen Wan, New Territories, Hong Kong.
- (l) The principal place of business of Ernst & Young Corporate Finance Limited is at 16th Floor Hutchison House, 10 Harcourt Road, Central, Hong Kong.

- (m) As at the Latest Practicable Date, there was no agreement, arrangement or understanding (including any compensation arrangement) existed between Founder or any person acting in concert with it and any of the directors, recent directors, shareholders or recent shareholders of EC-Founder having any connection with or dependence upon the Acquisition and the Whitewash Waiver.
- (n) As at the Latest Practicable Date, there was no arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code between any person and EC-Founder or with any person who is an associate of EC-Founder by virtue of classes (1), (2), (3) and (4) of the definition of associate under the Takeovers Code.

## **15. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection at the office of the Company in Hong Kong at Unit 1408, 14th Floor, Cable TV Tower, 9 Hoi Shing Road, Tsuen Wan, New Territories, Hong Kong during normal business hours on any weekday (except public holidays) from the date of this circular up to and including 28th May, 2003:

- (a) memorandum and bye-laws of EC-Founder;
- (b) the audited consolidated financial statements of the EC-Founder for each of the years ended 31st December, 2001 and 2002;
- (c) the letter from the Independent Board Committee, the text of which is set out on page 19 of this circular;
- (d) the letter from Tai Fook to the Independent Board Committee, the text of which is set out on pages 20 to 43 of this circular;
- (e) the letter of consent from Tai Fook referred to in paragraph 13 above; and
- (f) the material contracts referred to in paragraph 10 above.



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## NOTICE OF SPECIAL GENERAL MEETING

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

*(Incorporated in Bermuda with limited liability)*

**NOTICE IS HEREBY GIVEN** that a special general meeting of EC-Founder (Holdings) Company Limited (the “**Company**”) will be held on Wednesday, 28th May, 2003 at 11:30 a.m. for the purpose of considering and, if thought fit, passing the following resolutions, which will be proposed as Ordinary Resolutions of the Company:

1. “**THAT**

- (A) the sale and purchase agreement dated 19th March, 2003 between Founder (Hong Kong) Limited and the Company (the “**Agreement**”), information relating to which is set out in a circular to the shareholders of the Company dated 30th April, 2003, a copy of which marked “A” has been produced to the meeting (the “**Circular**”), and a copy of the Agreement marked “B” has been produced to the meeting and signed for the purpose of identification by the Chairman thereof, be and is hereby approved, confirmed and ratified and the directors of the Company, conditional upon the Listing Committee of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) granting the listing of, and permission to deal in, the Consideration Shares (as defined in the Circular) and the Additional Shares (as defined in the Circular), be and are hereby authorised to issue and allot the Consideration Shares and the Additional Shares pursuant to the Agreement in accordance with the terms and conditions set out therein;
- (B) the directors of the Company be and is hereby authorised to implement and take all steps and do any and all acts and things and sign and execute all documents and instruments as may be necessary or desirable to give effect to and/or to complete the Agreement (including but not limited to the allotment and issue of the Consideration Shares and the Additional Shares) and any other documents or matters incidental thereto and/or as contemplated thereunder; and
- (C) subject to and conditional upon each of paragraphs (A) and (B) being passed, the waiver from the Executive (as defined in the Circular) exempting Founder Holdings Limited (“**Founder**”) from its obligations which may otherwise arise pursuant to Note 1 on the dispensations from Rule 26 of the Hong Kong Code on Takeovers and Mergers to make a mandatory general offer for all the shares of HK\$0.10 each in the capital of the Company not already owned by Founder or its concert parties as a result of the completion of the Agreement be and is hereby approved.”

\* *For identification purpose only*

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## NOTICE OF SPECIAL GENERAL MEETING

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2. **“THAT**

- (A) subject to the cap amounts and other limits as referred to in the paragraph headed “On-going connected transaction waiver application” (as set out in the Circular), the entering into of the Transactions (as defined therein) be and are hereby approved and that the Directors be and are hereby authorised for and on behalf of the Company to execute any agreements, documents or instruments or to take any actions or steps which they may consider necessary or desirable for the purpose of giving effect to the Transactions.
- (B) the application (the “**Application**”) made by the Company to the Stock Exchange for a waiver from the requirements of disclosure by press notice, circular to shareholders and shareholders’ approval as stipulated in Chapter 14 of the Rules Governing the Listing of Securities on the Stock Exchange in respect of the Transactions on and subject to the cap amounts and other limits and conditions as referred to the Circular be and are hereby approved, confirmed and ratified and that the Directors be and are hereby authorised for and on behalf of the Company and directed to do whatever they may consider necessary or desirable for the purpose of the Application and generally to do anything incidental to or in connection with the Application.”

By order of the Board  
**EC-Founder (Holdings) Company Limited**  
**Tang Yuk Bo, Yvonne**  
*Company Secretary*

Hong Kong 30th April, 2003

*Principal place of business in Hong Kong:*

Unit 1408, 14th Floor

Cable TV Tower

9 Hoi Shing Road

Tsuen Wan

New Territories

Hong Kong

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## NOTICE OF SPECIAL GENERAL MEETING

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*Notes:*

1. A form of proxy for use at the meeting is enclosed.
2. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing or, if the appointor is a corporation, either under seal or under the hand of an officer, attorney duly authorised.
3. Any member entitled to attend and vote at the meeting of the Company shall be entitled to appoint another person as his proxy to attend and vote instead of him. A proxy need not be a member of the Company. A member may appoint more than one proxy to attend on the same occasion.
4. The instrument appointing a proxy and the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power or authority shall be deposited at the Company's principal place of business in Hong Kong at Unit 1408, 14th Floor, Cable TV Tower, 9 Hoi Shing Road, Tsuen Wan, New Territories, Hong Kong not less than 48 hours before the time for holding the meeting or adjourned meeting or poll (as the case may be) at which the person named in the instrument proposes to vote and in default the instrument of proxy shall not be treated as valid. Delivery of an instrument appointing a proxy shall not preclude a member from attending and voting in person at the meeting or upon the poll concerned. In that case, the returned proxy shall be deemed to be revoked.
5. Where there are joint holders of any share, any one of such joint holders may vote at the special general meeting, either in person or by proxy, in respect of such share as if he were solely entitled thereto but if more than one of such joint holders is present at the special general meeting, then one of the said persons so present whose name stands first on the register of members in respect of such share shall alone be entitled to vote in respect thereof.
6. Founder its concert parties and associates, including subsidiaries of Founder, F2 Consultant Limited, Mr. Cheung Shuen Lung, Mr. Zhang Zhao Dong, Professor Wei Xin, Professor Xiao Jian Guo and Mr. Jiang Bi Jin will abstain from voting at this meeting for all resolutions set out in the notice convening this meeting.