

**INTERIM RESULTS ANNOUNCEMENT  
 FOR THE SIX MONTHS ENDED 30 JUNE 2004**

**UNAUDITED INTERIM RESULTS**

The board of directors (the “Directors”) of EC-Founder (Holdings) Company Limited (the “Company”) announces the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively the “Group”) for the six months ended 30 June 2004 together with the comparative figures. The condensed consolidated interim results are unaudited, but have been reviewed by the Company’s audit committee.

**UNAUDITED CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT**

		<b>For the six months ended 30 June</b>	
		<b>2004</b>	<b>2003</b>
		<b>(Unaudited)</b>	<b>(Unaudited)</b>
	<i>Notes</i>	<b>HK\$’000</b>	<b>HK\$’000</b>
<b>TURNOVER</b>			
Continuing operations		<b>531,711</b>	26,923
Discontinued operation	4	–	84,579
		<hr/>	<hr/>
Cost of sales	2	<b>531,711</b>	111,502
		<b>(498,522)</b>	<b>(91,998)</b>
		<hr/>	<hr/>
<b>Gross profit</b>		<b>33,189</b>	19,504
Other revenue and gains		<b>1,742</b>	5,598
Selling and distribution costs		<b>(19,710)</b>	(12,595)
Administrative expenses		<b>(16,970)</b>	(15,587)
Other operating income/(expenses), net		<b>(770)</b>	1,308
Impairment of goodwill		<b>(43,500)</b>	–
		<hr/>	<hr/>
<b>LOSS FROM OPERATING ACTIVITIES</b>	3	<b>(46,019)</b>	(1,772)
Finance costs	5	<b>(45)</b>	(347)
Share of profits of associates		<b>4,256</b>	2,555
		<hr/>	<hr/>
<b>PROFIT/(LOSS) BEFORE TAX</b>			
Continuing operations		<b>(41,808)</b>	(1,572)
Discontinued operation	4	–	2,008
		<hr/>	<hr/>
Tax	6	<b>(41,808)</b>	436
		<b>(1,480)</b>	<b>(642)</b>
		<hr/>	<hr/>
<b>NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS</b>		<b>(43,288)</b>	<b>(206)</b>
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<b>LOSS PER SHARE – BASIC</b>	7	<b>(3.93 cents)</b>	<b>(0.03 cents)</b>
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Notes:

**1. BASIS OF PREPARATION AND ACCOUNTING POLICIES**

The unaudited condensed consolidated interim financial statements of the Group are prepared in accordance with Hong Kong Statements of Standard Accounting Practice (“SSAP”) No. 25 “Interim financial reporting” issued by the Hong Kong Institute of Certified Public Accountants.

The accounting policies and basis of presentation used in the preparation of these unaudited condensed consolidated interim financial statements are consistent with those used in the preparation of the audited consolidated financial statements of the Group for the year ended 31 December 2003.

## 2. TURNOVER AND SEGMENT INFORMATION

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

The Group is principally engaged in (i) the distribution of information products (acquired in July 2003); and (ii) the provision of software solutions and services.

The following table presents revenue and profit/(loss) information for the Group's business segments for the six months ended 30 June.

	Distribution of information products		Provision of software solutions and services		Electronic products (Discontinued)		Corporate		Consolidated	
	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
Segment revenue:										
Sales to external customers	503,656	-	28,055	26,923	-	84,579	-	-	531,711	111,502
Segment results	2,945	-	(3,560)	(2,045)	-	2,170	(2,290)	(2,104)	(2,905)	(1,979)
Interest income									386	207
Impairment of goodwill									(43,500)	-
Loss from operating activities									(46,019)	(1,772)
Finance costs									(45)	(347)
Share of profits of associates									4,256	2,555
Profit/(loss) before tax									(41,808)	436
Tax									(1,480)	(642)
Net loss from ordinary activities attributable to shareholders									(43,288)	(206)

## 3. LOSS FROM OPERATING ACTIVITIES

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

	For the six months ended 30 June	
	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
Depreciation of fixed assets	1,746	4,483
Goodwill:		
Amortisation for the period	321	-
Impairment during the period	43,500	-
Provision and write-off/(reversal and write-back) of doubtful trade debts	193	(127)
Provision and write-off for obsolete inventories	263	-
Profit guarantees (Note)	-	(1,600)
Loss/(gain) on disposal of fixed assets	255	(99)
Interest income	(386)	(207)

Note: The profit guarantees was related to the Electronic products business which was discontinued following to the completion of disposal of business on 26 September 2003.

## 4. DISCONTINUED OPERATION

### Disposal of MIT Holdings Limited ("MIT") – Electronic products business

On 1 August 2003, the Company entered into a conditional disposal agreement with Honour Glory Limited, a company which is 90% owned by Mr. Yung Richard, Jr., a director of the Company, to dispose of its entire issued share capital of MIT at a total cash consideration of HK\$45,500,000 (the "Disposal").

The principal activities of MIT and its subsidiaries were the design, manufacture and distribution of electronic products. The Group discontinued the electronic products operation upon the completion of Disposal on 26 September 2003.

## 5. FINANCE COSTS

	For the six months ended 30 June	
	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
Interest on bank loans	45	188
Interest on other loans wholly repayable within five years	-	123
Interest on finance leases	-	36
	45	347

## 6. TAX

	For the six months ended 30 June	
	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
Group:		
Current – Hong Kong	3	–
Share of tax attributable to associates	1,477	642
Total tax charge for the period	<u>1,480</u>	<u>642</u>

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

EC-Founder Co., Ltd., a wholly-owned subsidiary of the Group in the People's Republic of China (the "PRC"), is exempted from PRC profits tax for the three fiscal years which commenced in 2001 and ended on 31 December 2003 and, thereafter, is taxed at 50% of its standard tax rate in the fourth to sixth years, inclusive. Beijing Founder Century Information System Co., Ltd. ("BJ Founder Century"), a wholly-owned PRC subsidiary of the Group, is exempted from PRC profits tax for the three fiscal years which commenced in 2002 and ending on 31 December 2004 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. and BJ Founder Century is 15%.

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

## 7. LOSS PER SHARE

The calculation of basic loss per share for the six months ended 30 June 2004 is based on the unaudited net loss from ordinary activities attributable to shareholders for the period of approximately HK\$43,288,000 (2003: HK\$206,000), and the weighted average of 1,100,562,040 (2003: 820,562,040) ordinary shares in issue during the period.

Diluted loss per share for the six months ended 30 June 2004 and 2003 have not been disclosed as the impact of the outstanding share options was anti-dilutive.

## 8. INTERIM DIVIDEND

The Directors do not recommend the payment of any interim dividend for the six months ended 30 June 2004 (2003: Nil).

## MANAGEMENT DISCUSSION AND ANALYSIS

### Overall performance

The Group's operating results were significantly improved after the restructure of the Group's business in 2003. The turnover for the period ended 30 June 2004 increased by 3.8 times to approximately HK\$531.7 million (2003: HK\$111.5 million) and the gross profit for the period ended 30 June 2004 increased by 70% to approximately HK\$33.2 million (2003: HK\$19.5 million). The result improvement was mainly due to acquisition of the distribution of information products business ("Distribution business") which was completed in July 2003.

The loss attributable to shareholders for the period ended 30 June 2004 was approximately HK\$43.3 million (2003: HK\$206,000). The increase in loss was due to the impairment of goodwill of HK\$43.5 million. If the effect on impairment of goodwill of HK\$43.5 million was excluded, the Group's results for the period ended 30 June 2004 were turnaround and recorded a profit attributable to shareholders of approximately HK\$212,000 as compared to a loss of HK\$206,000 in 2003. The major improvement was mainly contributed by the segmental profit of Distribution business of approximately HK\$2.9 million.

Due to fierce market competition, the segmental loss of the provision of software solutions and services business ("Software business") increased by 74% to approximately HK\$3.6 million in the first half of 2004. Although the Group has taken tight measurements to reduce overhead expenses, the profit margins of Software business decreased due to strong market competition, and therefore resulted in loss making. As the results of Software business was unsatisfactory, there will be further scaling down of business both in terms of headcount and business units. In the light of continuous loss since the acquisition and further scaling down of Software business, it was determined that the carrying amount of goodwill of such business was impaired and therefore required to be written off in the income statement in accordance to the SSAP. As such, an amount of impairment of goodwill of HK\$43.5 million was recorded. As permitted under the previous SSAP requirements, the Group has previously written off such goodwill against the Group's consolidation reserves prior to the adoption of SSAP 30 in 2001. However, under the current requirements of SSAP, it is necessary to reflect in the income statement for the impairment of goodwill and reverse out the amount which was previously written off already in the Group's consolidation reserves. Such accounting treatment was made in order to comply with the presentation requirement of SSAP and the Group's total net assets were not affected nor being reduced from this impairment of goodwill.

## **OPERATING REVIEW AND PROSPECTS**

### **Continuing Operations**

#### *(A) Distribution business*

The turnover of Distribution business for the period increased by 63% to approximately HK\$503.7 million (2003: HK\$309.9 million) and the segmental profit increased by 93% to approximately HK\$2.9 million (2003: HK\$1.5 million). Since the Group completed the acquisition of the Distribution business (BJ Founder Century and Founder Century (Hong Kong) Limited) from its controlling shareholder – Founder Holdings Limited (“FHL”) in July 2003, there is no comparative figures of Distribution business in the Group’s segmental results as last year’s interim results were included in the accounts of FHL.

The significant improvement was due to:

- a. increase range of products from suppliers such as 華為3COM and HP;
- b. increase number of suppliers such as in March 2004, it was officially appointed by Apple as one of the distributors in the PRC for all its product lines and at the same time the sole distributor for the server and data storage products;
- c. expansion of distribution network and at present there are a total of 12 branch offices/representative offices (apart from the headquarter in Beijing): in Shanghai, Guangzhou, Chengdu, Shenyang, Shenzhen, Jinan, Nanjing, Wuhan, Hangzhou, Xian, Guiyang and Xizang Zizhiqu; and
- d. tight control in operating cost, strengthen control in trade receivable and inventory level and effective financial management.

The Distribution business has established a solid reputation in its sector. For example, BJ Founder Century was awarded by the Computer Commercial Press (電腦商報) in June 2004 as the 6th Best Distributor among the top 500 distributors and also achieved the Best Improvement Award.

The Distribution business has delivered satisfactory results both in the turnover and the profit from last year. Through the expansion both in the products range and the distribution network, it is expected the growth can be sustained.

#### *(B) Software business*

The turnover of Software business for the period increased by 4% to approximately HK\$28.1 million (2003: HK\$26.9 million) and segmental loss increased by 74% to approximately HK\$3.6 million (2003: HK\$2.0 million). The performance was affected by the fierce competition in the business and therefore narrowing down the profit margins of projects. The thin contributions from the projects were not enough to cover the overheads of this business and hence resulted in loss making.

As mentioned above, due to continuous loss of the Software business, there was an impairment of the goodwill which related to this business. As required by the SSAP, the impairment of goodwill was required to be reflected in the Group’s income statement even though it has been written off against the Group consolidation reserves previously. The Group will take appropriate measures to further restructure the Software business as to reduce overhead costs and scale down the loss making business units.

Based on the past years accumulated experience and expertise in the field on e-finance, the Group will continue to concentrate on this sector to provide total solutions to financial institutions and commercial corporations for the services in developing treasury and fund control systems.

### **Discontinued operation**

#### *(A) Electronic products business*

The Group decided to concentrate the resources on information technology business and therefore disposed of the Electronic products business which was completed on 26 September 2003. As a result, there was no record of turnover (2003: HK\$84.6 million) and no record of segmental results (2003: profit HK\$2.2 million) for the period ended 30 June 2004.

### **Conclusion**

After PRC’s accession into the World Trade Organisation and running up of the Olympic Games of 2008 to be held in Beijing, it is expected the investments in the information technology sector will grow with a double digit compound annual rate in the coming years. Hence, it is expected the Group can benefit from it and continue to grow with the information technology sector in the future.

### **Employee and remuneration policies**

As at 30 June 2004, the Group had approximately 255 and 169 employees for the Distribution business and Software business, respectively. These employees of which almost all work in the Mainland China. The Company has also established share option schemes and the share options are granted at the Directors’ discretion to motivate and reward the employees with outstanding performance.

## **FINANCIAL REVIEW**

### **Liquidity, financial resources and capital commitments**

As at 30 June 2004, the Group recorded total assets of approximately HK\$516.9 million (31 December 2003: HK\$457.9 million) which were financed by liabilities of approximately HK\$340.1 million (31 December 2003: HK\$281.8 million) and equity of approximately HK\$176.8 million (31 December 2003: HK\$176.1 million). The Group's net asset value as at 30 June 2004 was approximately HK\$176.8 million (31 December 2003: HK\$176.1 million).

The Group had total cash and bank balances of approximately HK\$127.9 million as at 30 June 2004 (31 December 2003: HK\$159.5 million). The Group had no bank loan and overdraft as at 30 June 2004 (31 December 2003: Nil), hence the Group recorded a net cash balance of approximately HK\$127.9 million as at 30 June 2004 (31 December 2003: HK\$159.5 million). As at 30 June 2004, the Group's current ratio was 1.41 (31 December 2003: 1.50) and the Group had no long term debt as at 30 June 2004 (31 December 2003: Nil).

As at 30 June 2004, the Group did not have any material capital expenditure commitments (31 December 2003: Nil).

### **Treasury policies**

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

### **Contracts**

As at 30 June 2004, the major contracts in hand for Software business amounted to approximately HK\$10 million, which are all expected to be completed within eighteen months.

### **Charges on assets**

As at 30 June 2004, bank deposits of approximately HK\$23.5 million were pledged to banks to secure general banking facilities granted.

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

Most of the Group's borrowings are denominated in Hong Kong dollars and United States dollars and the turnover of the Group are mainly denominated in Renminbi and United States dollars. As the exchange rates of Renminbi and United States dollars against Hong Kong dollars were relatively stable during the period under review, the Group's exposure to fluctuations in exchange rates is considered minimal and no financial instruments have been used for hedging purposes.

### **Contingent liabilities**

As at 30 June 2004, the Group did not have any significant contingent liabilities.

## **PURCHASE, REDEMPTION OR SALE OF THE COMPANY'S LISTED SECURITIES**

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the six months ended 30 June 2004.

## **COMPLIANCE WITH THE CODE OF BEST PRACTICE**

In the opinion of the Directors, the Company has complied with the Code of Best Practice (the "Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the accounting period covered by the unaudited condensed consolidated interim financial statements of the Group, except that the independent non-executive directors of the Company are not appointed for specific terms as required by paragraph 7 of the Code, but are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the provisions of the Company's Bye-laws.

The Company has established an audit committee in accordance with the requirements of the Code, for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises two independent non-executive directors of the Company. These unaudited condensed consolidated interim financial statements for the six months ended 30 June 2004 of the Group now reported have been reviewed by the audit committee.

**DETAILED RESULTS ANNOUNCEMENT**

A detailed results announcement for the six months ended 30 June 2004 of the Group containing all the information required by paragraphs 46(1) to 46(6) of Appendix 16 of the Listing Rules will be subsequently published on The Stock Exchange of Hong Kong Limited web site in the due course.

By Order of the Board  
**EC-Founder (Holdings) Company Limited**  
**Zhang Zhao Dong**  
*Chairman*

Hong Kong, 10 September 2004

\* *For identification purpose only*

*As at the date of this announcement, the executive directors of the Company are Mr. Zhang Zhao Dong, Mr. Cheung Shuen Lung, Professor Wei Xin, Professor Zou Wei and Mr. Yung Richard, Jr. The non-executive director is Mr. Yung Chih Shin, Richard. The independent non-executive directors are Mr. Yang Lin, Richard and Mr. Lee Ying Bui, Andrew.*