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

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DISPOSAL OF EC-FOUNDER (PRC)

MAJOR AND CONNECTED TRANSACTION

Financial adviser to EC-Founder (Holdings) Company Limited

ERNST & YOUNG

Ernst & Young Corporate Finance Limited

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



A letter from the board of directors of EC-Founder (Holdings) Company Limited is set out on pages 4 to 10 of this circular. A letter from the Independent Board Committee (as defined herein) containing its advice to the Independent Shareholders (as defined herein) is set out on page 11 of this circular. A letter from Tai Fook Capital Limited containing its advice to the Independent Board Committee is set out on pages 12 to 19 of this circular.

A notice convening the special general meeting to be held at 10:00 a.m. on Monday, 29 November 2004 at Unit 1408, 14th Floor, Cable TV Tower, 9 Hoi Shing Road, Tsuen Wan, New Territories, Hong Kong is set out on pages 87 and 88 of this circular. Whether or not you are able to attend the meeting, you are requested to complete and return the enclosed form 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 special general meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the special general meeting should you so wish.

* For identification purpose only

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DEFINITIONS

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

“Announcement”	the joint announcement of Founder and the Company dated 20 October 2004 in respect of the Disposal
“associate(s)”	has the meaning as ascribed to it in the Listing Rules
“Board”	the board of directors of the Company
“Company” or “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
“Completion”	completion of the Disposal Agreement in accordance with its terms
“Current Accounts”	outstanding balances on current accounts owed by EC-Founder (PRC) to EC-Founder and certain of its subsidiaries
“Directors”	the directors of EC-Founder
“Disposal”	the disposal of the entire equity interests in EC-Founder (PRC) by Founder Data and the waiver of the Current Accounts under the Disposal Agreement
“Disposal Agreement”	the conditional agreement made between Founder Data, the Purchasers and Peking Founder dated 20 October 2004 in connection with the Disposal
“Distribution Business”	the distribution of information products business in the PRC carried out by the EC-Founder Group
“EC-Founder (PRC)”	北京方正數碼有限公司 (EC-Founder Co., Ltd.*), a company incorporated in the PRC and a wholly-owned subsidiary of Founder Data
“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 Data”	Founder Data Corporation International Limited, a company incorporated in the British Virgin Islands and a wholly-owned subsidiary of EC-Founder

* For identification purpose only

DEFINITIONS

“Group”	EC-Founder and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong GAAP”	the Generally Accepted Accounting Principles in Hong Kong
“Independent Board Committee”	an independent committee of the Board comprising Mr Yang Lin, Richard, Mr Li Fat Chung and Mrs Wong Lam Kit Yee, the independent non-executive directors of the Company, for the purpose of considering and advising the Independent Shareholders in respect of the Disposal
“Independent Shareholders”	Shareholders other than Peking Founder and its associates (including Founder and its subsidiaries)
“Latest Practicable Date”	9 November 2004, being the latest practicable date for ascertaining certain information in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Peking Founder”	Peking University Founder Group Corporation, the controlling shareholder of Founder which holds approximately 32.67% of the issued share capital of Founder
“PRC”	the People’s Republic of China
“Purchasers”	方正軟件(蘇州)有限公司 (Founder Software (Suzhou) Company Limited*) and 上海方正信息安全技術有限公司 (Shanghai Founder Information Security Technology Company Limited*), companies established in the PRC and controlled by Peking Founder
“Remaining Group”	the Group excluding EC-Founder (PRC)
“RMB”	Renminbi, the lawful currency in the PRC
“SFO”	Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong)
“SGM”	the special general meeting of the Company convened and to be held on Monday, 29 November 2004 at 10:00 a.m. at Unit 1408, 14th Floor, Cable TV Tower, 9 Hoi Shing Road, Tsuen Wan, New Territories, Hong Kong for the approval of the Disposal

* For identification purpose only

DEFINITIONS

“Shareholder(s)”	the shareholder(s) of EC-Founder
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Tai Fook”	Tai Fook Capital Limited, a licensed corporation under the SFO to carry out type 6 regulated activity

LETTER FROM THE BOARD



(Stock Code: 618)

Executive Directors:

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

Non-executive Director:

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

Independent non-executive Directors:

Mr Yang Lin, Richard
Mr Li Fat Chung
Mrs Wong Lam Kit Yee

Registered office:

Canon's Court
22 Victoria Street
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

11 November 2004

To the Shareholders

Dear Sir or Madam,

DISPOSAL OF EC-FOUNDER (PRC)

MAJOR AND CONNECTED TRANSACTION

INTRODUCTION

The Company and Founder announced on 20 October 2004 that Founder Data, a wholly-owned subsidiary of the Company, entered into the Disposal Agreement with the Purchasers and Peking Founder on 20 October 2004. Pursuant to the Disposal Agreement, the entire equity interest held by Founder Data in EC-Founder (PRC) will be transferred to the Purchasers upon Completion and the entire balance of the Current Accounts outstanding as at the date of the Completion will be waived upon Completion.

The Purchasers are associates of Peking Founder, which is the controlling shareholder of Founder, the controlling shareholder of the Company, and thus a connected person of the Company and Founder for the purposes of the Listing Rules. Accordingly, the Disposal constitutes a connected transaction for the Company under Rule 14A.13 of the Listing Rules. The Disposal also constitutes a major transaction for the Company under the Listing Rules.

* For identification purpose only

LETTER FROM THE BOARD

The Independent Board Committee has been established by the Company to advise the Independent Shareholders in respect of the Disposal. Tai Fook has been appointed as the independent financial adviser to the Independent Board Committee in respect of the Disposal.

The purpose of this circular is to set out the details of the Disposal, the recommendation from the Independent Board Committee to the Independent Shareholders, which is set out on page 11 of this circular, the advice of the independent financial adviser to the Independent Board Committee, which is set out on pages 12 to 19 of this circular, and the notice of the SGM which is set out on pages 87 and 88 of this circular.

THE DISPOSAL AGREEMENT

Date

20 October 2004

Parties

Vendor: Founder Data

Purchasers: 方正軟件(蘇州)有限公司 (Founder Software (Suzhou) Company Limited*) and 上海方正信息安全技術有限公司 (Shanghai Founder Information Security Technology Company Limited*), companies established in the PRC and controlled by Peking Founder

The Company understands that the Purchasers are engaged in software development and systems integration in the PRC and Peking Founder, through its subsidiaries (excluding the Founder and its subsidiaries), is principally engaged in software development, hardware manufacture, finance and traditional industry.

Assets to be sold

方正軟件(蘇州)有限公司 (Founder Software (Suzhou) Company Limited*) and 上海方正信息安全技術有限公司 (Shanghai Founder Information Security Technology Company Limited*), together as Purchasers, have conditionally agreed to purchase 95% interest and 5% interest, respectively, in EC-Founder (PRC) from Founder Data and Founder Data has conditionally agreed to sell the entire equity interest in EC-Founder (PRC) to the Purchasers. As part of the Disposal, the entire amount of the Current Accounts outstanding at the date of Completion, which amounted to approximately RMB52.5 million (which is equivalent to approximately HK\$49.5 million) as at 30 June 2004, owing by EC-Founder (PRC) to the Remaining Group will be waived upon Completion.

* For identification purpose only

LETTER FROM THE BOARD

EC-Founder (PRC) is principally engaged in the provision of software solutions and services in the PRC. The table below sets out the audited turnover, and the loss before and after tax of EC-Founder (PRC) for the years ended 31 December 2002 and 2003 prepared in accordance with the Hong Kong GAAP:

	2002	2003
	HK\$'000	HK\$'000
Turnover	57,352	34,200
Loss before tax	25,034	8,800
Loss after tax	25,034	8,800

EC-Founder (PRC) had an audited deficiency in net assets of approximately HK\$32.4 million as at 31 December 2003 and an unaudited deficiency in net assets of approximately HK\$37.4 million as at 30 June 2004 (including the Current Accounts which amounted to approximately HK\$49.5 million as at 30 June 2004) prepared in accordance with the Hong Kong GAAP. The assets of EC-Founder (PRC) as at 30 June 2004 mainly comprised office fixtures and equipment and other current assets.

Consideration of the Disposal

The total consideration of the Disposal is RMB13.4 million (which is equivalent to approximately HK\$12.6 million), which shall be payable by the Purchasers or Peking Founder (as directed by the Purchasers) to EC-Founder (or as it may direct) in Renminbi in full upon Completion.

The consideration was determined after arm's length negotiations between the parties, in particular, with reference to the unaudited deficiency in net assets of EC-Founder (PRC) of approximately RMB39.7 million (which is equivalent to approximately HK\$37.4 million) as at 30 June 2004 and the outstanding balance of the Current Accounts of approximately RMB52.5 million (which is equivalent to approximately HK\$49.5 million) as at 30 June 2004. Excluding the Current Accounts, the unaudited net asset value of EC-Founder (PRC) as at 30 June 2004 would be approximately RMB12.8 million (equivalent to approximately HK\$12.1 million).

Founder Data has undertaken under the Disposal Agreement that the outstanding amount of the Current Accounts as at the date of Completion will not be different from the balance outstanding as at 30 June 2004. Nevertheless, the outstanding balance of the Current Accounts may be increased with the consent of the Purchasers and the parties to the Disposal Agreement have agreed that if the outstanding amount of the Current Accounts at the date of Completion exceeds the balance outstanding at 30 June 2004, the total consideration payable by the Purchasers will be increased by the said excess amount.

The consideration represents a premium of approximately 4.4% over the aggregate amount of the unaudited net asset value (being the net assets after the waiver of outstanding amount of the Current Accounts as at 30 June 2004) of EC-Founder (PRC).

LETTER FROM THE BOARD

The Directors consider that the terms of the Disposal Agreement are on normal commercial terms and are fair and reasonable after considering the funding requirement and the financial position and profitability of EC-Founder (PRC) and the adverse market situation in the PRC.

Conditions

Completion of the Disposal is conditional on the approval from the Independent Shareholders being obtained at the SGM by poll pursuant to the Listing Rules and is subject to the approval by the Beijing Commerce Bureau pursuant to the Certain Regulations on Changes to Shareholders' Rights in Foreign Investment Enterprises.

If the Independent Shareholders' approval is not obtained on or before the date falling three months after the date of the Disposal Agreement (or at such later date as may be agreed between the parties to the Disposal Agreement), the Disposal Agreement shall lapse and become null and void and the parties to the Disposal Agreement will be released from all obligations under the Disposal Agreement.

After the Disposal has been approved by the Independent Shareholders, the Disposal Agreement shall become effective after it has been approved by the Beijing Commerce Bureau according to the Certain Regulations on Changes to Shareholders' Rights in Foreign Investment Enterprises.

Completion shall take place seven days after the Disposal Agreement has been approved by the Beijing Commerce Bureau.

REASONS FOR AND BENEFITS OF THE DISPOSAL

The Group is principally engaged in (i) the Distribution Business, such as distribution of servers, workstations, data storage devices and networking products, in the PRC; and (ii) the provision of software solutions and services business in the PRC.

The software solutions and services business of the Group is primarily carried out by EC-Founder (PRC). EC-Founder (PRC) has been loss making since its establishment in 2000. As stated above, EC-Founder (PRC) recorded an audited net loss of approximately HK\$25.0 million and approximately HK\$8.8 million for the years ended 31 December 2002 and 2003 respectively despite the implementation of a number of cost control measures in the past few years.

As set out in the 2004 unaudited interim report of EC-Founder, the software solutions and services business of the Group, which mainly comprised the business of EC-Founder (PRC) with the remaining part being the provision of internet advertising agency services carried out by another wholly-owned subsidiary of EC-Founder, Beijing AdTargeting Inc., recorded a segmental loss of approximately HK\$3.6 million for the six months ended 30 June 2004. The loss of the software solutions and services business of the Group was mainly attributable to EC-Founder (PRC). As explained in the 2004 unaudited interim report of EC-Founder, tight measures have been adopted to control the operating costs of the software solutions and services business. However, the segmental loss of the software solutions and services business during the period still increased by approximately 74% as compared with that for the six months ended 30 June 2003 as a result of fierce market competition which led to a reduction in profit margin. In order to cut down the losses of the Group, the business of EC-Founder (PRC) has been scaling down.

LETTER FROM THE BOARD

The Remaining Group has been providing funding to EC-Founder (PRC) for its business operation in the past few years through the Current Accounts. As at 30 June 2004, the Current Accounts amounted to approximately RMB52.5 million (which is equivalent to approximately HK\$49.5 million). The Directors anticipate that further funding will have to be provided to EC-Founder (PRC) if EC-Founder continues to maintain its interest in EC-Founder (PRC). However, even with further funding, the future profitability of EC-Founder (PRC) is uncertain in view of the keen competition in the PRC software solutions and services market.

The Disposal would relieve EC-Founder from the future funding burden in respect of the business development and operation of EC-Founder (PRC) and would allow EC-Founder to focus its resources on the development of the Distribution Business carried out by the Remaining Group. The Distribution Business was acquired by the Group in July 2003. For the year ended 31 December 2003, the Distribution Business contributed to the Group a total turnover of approximately HK\$444.6 million and a segmental profit of approximately HK\$5.4 million. For the six months ended 30 June 2004, the Distribution Business contributed to the Group a total turnover of approximately HK\$503.7 million and a segmental profit of approximately HK\$2.9 million. The Directors believe that it would be in the interests of the Group to focus the resources, including financial resources and management resources, on the Distribution Business with a more certain business prospect.

EC-Founder intends to use the net proceeds from the Disposal (estimated to be approximately HK\$11.6 million) as general working capital of the Remaining Group. The net proceeds from the Disposal will enhance the working capital position of the Remaining Group.

Based on the latest management accounts of the Group and EC-Founder (PRC) as at 30 September 2004 and the terms of the Disposal and before taking into account the expenses incurred in relation to the transaction, it is estimated that a gain on disposal of approximately HK\$1.4 million will be recorded by the Group. The actual amount of gain or loss on the Disposal depends on the actual net asset value (being net assets after the waiver of outstanding amount of the Current Accounts) of EC-Founder (PRC) as at the date of Completion.

In view of the above reasons and the expected benefits which may be brought about by the Disposal, and the Directors consider that the terms and conditions of the Disposal Agreement are fair and reasonable so far as the interests of the Group and the Shareholders are concerned and the Disposal is in the interests of the Group and the Shareholders as a whole.

FINANCIAL AND TRADING PROSPECTS OF THE GROUP

The turnover of the Group for the year ended 31 December 2003 increased by approximately 100% to approximately HK\$625.0 million as compared to that of 2002 of approximately HK\$311.9 million and the gross profit for the year ended 31 December 2003 increased by approximately 6% to approximately HK\$56.7 million as compared to that of 2002 of approximately HK\$53.5 million. The Group's audited consolidated loss after tax and minority interests for the year ended 31 December 2003 was narrowed by approximately 73% to approximately HK\$22.8 million (2002: loss of approximately HK\$86.0 million).

The result improvement was mainly due to the acquisition of the Distribution Business which was completed in July 2003 and recorded a turnover of approximately HK\$444.6 million and segmental profit of approximately HK\$5.4 million in the second half year of 2003.

LETTER FROM THE BOARD

The turnover of the Group for the period ended 30 June 2004 increased by approximately 3.8 times to approximately HK\$531.7 million (2003: approximately HK\$111.5 million) and the gross profit for the period ended 30 June 2004 increased by approximately 70% to approximately HK\$33.2 million (2003: approximately HK\$19.5 million). The improvement was again mainly due to the acquisition of the Distribution Business completed in July 2003.

The loss attributable to Shareholders for the period ended 30 June 2004 was approximately HK\$43.3 million (2003: loss of approximately HK\$206,000). The increase in loss was due to the impairment of goodwill of HK\$43.5 million which related to EC-Founder (PRC). 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 would have been turnaround and the Group would have recorded a profit attributable to Shareholders of approximately HK\$212,000 as compared to a loss of approximately HK\$206,000 in 2003. The major improvement was mainly contributed by the segmental profit of the Distribution Business of approximately HK\$2.9 million.

SGM

The Disposal constitutes a major transaction for EC-Founder under the Listing Rules. EC-Founder is an approximately 54.85% owned subsidiary of Founder. Peking Founder is the controlling shareholder of Founder and thus a connected person of EC-Founder. The Purchasers are companies controlled by Peking Founder and thus associates of Peking Founder. Accordingly, the Disposal constitutes a connected transaction for EC-Founder under Rule 14A.13 of the Listing Rules and the Disposal is subject to the approval of the Independent Shareholders by poll under Rules 14A.18 and 14A.52 of the Listing Rules.

The SGM will be held for the purpose of seeking the approval of the Disposal from the Independent Shareholders who will be asked to vote on the relevant resolution by poll. Peking Founder and its associates (including Founder and its subsidiaries) will abstain from voting at the SGM in respect of the resolution for approving the Disposal.

A form of proxy for use in connection with the SGM is enclosed herewith. Whether or not you are able to attend the SGM, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon as soon as possible to the principal place of business of the Company 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 or any adjournment thereof. 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.

Pursuant to the bye-laws of the Company, a poll may be demanded by the chairman of the SGM or:

- (a) by at least three Shareholders present in person or by a duly authorised corporate representative or by proxy for the time being entitled to vote at the SGM; or
- (b) by any Shareholder or Shareholders present in person or by a duly authorised corporate representative or by proxy and representing not less than one-tenth of the total voting rights of all the Shareholders having the right to vote at the SGM; or

LETTER FROM THE BOARD

- (c) by any Shareholder or Shareholders present in person or by a duly authorised corporate representative or by proxy and holding shares in the Company conferring a right to vote at the SGM being shares of the Company on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares of the Company conferring that right.

The ordinary resolution to be proposed at the SGM to approve the Disposal will be determined by way of a poll by the Independent Shareholders.

RECOMMENDATION

After taken into consideration the factors stated above in this letter, the Directors consider that the terms and conditions of the Disposal Agreement are fair and reasonable so far as the interests of the Group and the Shareholders are concerned and the Disposal is in the interests of the Group and the Shareholders as a whole.

INDEPENDENT BOARD COMMITTEE

The Independent Board Committee comprising Mr Yang Lin, Richard, Mr Li Fat Chung and Mrs Wong Lam Kit Yee, who are independent non-executive Directors, have been established to advise the Independent Shareholders in respect of the Disposal. Having taken into consideration the advice from Tai Fook, the Independent Board Committee is of the view that the terms and conditions of the Disposal Agreement are fair and reasonable so far as the interests of the Group and the Independent Shareholders are concerned and the Disposal is in the interests of the Group and the Independent Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the SGM for approving the Disposal.

FURTHER INFORMATION

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

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

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



11 November 2004

To the Independent Shareholders

Dear Sir or Madam,

DISPOSAL OF EC-FOUNDER (PRC)

MAJOR AND CONNECTED TRANSACTION

We refer to the circular dated 11 November 2004 issued to the shareholders of EC-Founder (Holdings) Company Limited (the “Circular”), of which this letter forms part. Unless the context otherwise requires, 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 terms and conditions of the Disposal Agreement are fair and reasonable so far as the interests of the Group and the Independent Shareholders are concerned and the Disposal is in the interests of the Group and the Independent Shareholders as a whole.

Tai Fook has been appointed as the independent financial adviser to advise us in connection with the Disposal.

Having taken into account the opinion of Tai Fook and, in particular, the principal factors, reasons and recommendation set out in the letter from Tai Fook on pages 12 to 19 of the Circular, we consider that the terms and conditions of the Disposal Agreement are fair and reasonable so far as the interests of the Group and the Independent Shareholders are concerned and the Disposal is in the interests of the Group and the Independent Shareholders as a whole. We therefore recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the SGM for approving the Disposal.

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 Li Fat Chung Mrs Wong Lam Kit Yee
Independent Board Committee

* *For identification purpose only*

LETTER FROM TAI FOOK

The following is the text of a letter from Tai Fook in connection with the terms of the Disposal which has been prepared for the purpose of inclusion in this circular:



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

11 November 2004

Dear Sirs,

DISPOSAL OF EC-FOUNDER (PRC) MAJOR AND CONNECTED TRANSACTION

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee as to whether the terms and conditions of the Disposal Agreement are fair and reasonable and whether the Disposal is in the interests of the Group and the Independent Shareholders as a whole. Details of the Disposal are contained in the circular dated 11 November 2004 (the "Circular") to the Shareholders of which this letter forms part. Terms used in this letter shall have the same respective meanings as defined in the Circular unless the context otherwise requires.

On 20 October 2004, Founder Data entered into the Disposal Agreement with 方正軟件(蘇州)有限公司 (Founder Software (Suzhou) Company Limited*), 上海方正信息安全技術有限公司 (Shanghai Founder Information Security Technology Company Limited*), together as Purchasers, and Peking Founder. Pursuant to the Disposal Agreement, 方正軟件(蘇州)有限公司 (Founder Software (Suzhou) Company Limited*) and 上海方正信息安全技術有限公司 (Shanghai Founder Information Security Technology Company Limited*) have conditionally agreed to purchase from Founder Data 95% interest and 5% interest, respectively, in EC-Founder (PRC) and Founder Data has conditionally agreed to sell its entire equity interest in EC-Founder (PRC) to the Purchasers for an aggregate cash consideration of RMB 13.4 million (equivalent to approximately HK\$12.6 million). In addition, as part of the Disposal, the Remaining Group has agreed to waive the entire amount of the Current Accounts due from EC-Founder (PRC) to the Remaining Group outstanding at the date of Completion, which amounted to approximately RMB52.5 million (equivalent to approximately HK\$49.5 million) as at 30 June 2004.

* For identification purpose only

LETTER FROM TAI FOOK

The Disposal constitutes a major transaction for EC-Founder under the Listing Rules. As at the Latest Practicable Date, EC-Founder is an approximately 54.85% owned subsidiary of Founder. Peking Founder is the controlling shareholder of Founder, the controlling shareholder of EC-Founder, and thus a connected person of EC-Founder and Founder. The Purchasers are companies controlled by Peking Founder and thus associates of Peking Founder. Founder Data is a wholly-owned subsidiary of EC-Founder. Accordingly, the Disposal constitutes a connected transaction for EC-Founder under Rule 14A.13 of the Listing Rules. Approval from Independent Shareholders is required under the Listing Rules. Peking Founder and its associates (including Founder and its subsidiaries) will abstain from voting at the SGM in respect of the resolution for approving the Disposal.

As the independent financial adviser to the Independent Board Committee, our role is to give an independent opinion to the Independent Board Committee as to whether the terms and conditions of the Disposal Agreement are fair and reasonable so far as the Group and Independent Shareholders are concerned and the Disposal is in the interests of the Group and the Independent Shareholders as a whole. We are independent of EC-Founder and its associates.

In formulating our opinion, we have relied on the information and facts supplied to us by the management and directors of EC-Founder 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 the management and directors of EC-Founder 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 Founder, EC-Founder or any of its subsidiaries and associates.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the terms of the Disposal Agreement, we have considered the following principal factors and reasons:

1. THE DISPOSAL

1.1 Background of and reasons for the Disposal

The Group is principally engaged in (i) the provision of software solutions and services (the “Software Business”) in the PRC; and (ii) the Distribution Business, such as the distribution of servers, workstations, data storage devices and networking products, in the PRC. According to the segment information set out in the unaudited interim report for the six months ended 30 June 2004 of EC-Founder, about HK\$503.7 million (approximately 95%) and HK\$28.0 million (approximately 5%) of the total turnover of the Group for the six months ended 30 June 2004 were attributable to the Distribution Business and the Software Business respectively.

LETTER FROM TAI FOOK

The Software Business mainly focused on the provision of software solutions and services, especially for the financial institutes, selling and distribution of self-developed information security products and selling and distribution of other software products such as Geographic Information System, which is primarily carried out by EC-Founder (PRC) with the remaining part being the provision of internet advertising agency services carried out by another wholly-owned subsidiary of EC-Founder, Beijing AdTargeting Inc.. The Software Business had recorded a segmental loss of approximately HK\$3.6 million for the six months ended 30 June 2004 which was mainly attributable to EC-Founder (PRC). As advised by the Directors, due to the continuous loss of the business of EC-Founder (PRC), an impairment of goodwill of HK\$43.5 million was made in relation to EC-Founder (PRC) during the interim period for the six months ended 30 June 2004 which as a result, has increased the loss of the Group as compared to the results for the six months ended 30 June 2003. If the effect on the impairment of goodwill was excluded, the Group would record a net profit of approximately HK\$0.2 million for the six months ended 30 June 2004.

Performance of EC-Founder (PRC)

As set out in the letter from the Board in the Circular, EC-Founder (PRC) has been loss making since its establishment in 2000, and had recorded audited net loss of approximately HK\$25.0 million and approximately HK\$8.8 million for the two financial years ended 31 December 2002 and 2003 respectively prepared in accordance with the Hong Kong GAAP. EC-Founder (PRC) had an audited deficiency in net assets of approximately HK\$32.4 million as at 31 December 2003 and an unaudited deficiency in net assets of approximately HK\$37.4 million as at 30 June 2004 prepared in accordance with the Hong Kong GAAP.

It was stated in the annual report of EC-Founder for the year ended 31 December 2003 that the Software Business was facing fierce competition in the PRC market and the Group has cautiously reduced the operating expenses by streamlining the departmental structure of the Software Business and reducing the headcount. As explained in the letter from the Board in the Circular, EC-Founder further stated in its interim report for the six months ended 30 June 2004 that the performance of the Software Business was still affected by the fierce competition in the business and therefore narrowing down the profit margins of the Software Business projects, despite the fact that tight measures have been adopted to reduce overhead expenses. It was anticipated by the Directors in the 2004 interim report that there would be further scaling down of the Software Business both in terms of headcount and business units.

Furthermore, due to the thin contribution from the projects of the Software Business which was not enough to cover the overheads of the business, the Remaining Group has been providing funding to EC-Founder (PRC) for its business operation in the past few years through the Current Accounts. The Current Accounts amounted to approximately RMB52.5 million (equivalent to approximately HK\$49.5 million) as at 30 June 2004. Based on the existing financial conditions and operating performance of EC-Founder (PRC), the Directors expected that further funding will have to be provided to EC-Founder (PRC) if EC-Founder is to continue to maintain its interest in EC-Founder (PRC). However, the Directors believe that even with further funding, the future profitability of EC-Founder (PRC) is uncertain in view of the keen competition in the PRC software solutions and service market.

LETTER FROM TAI FOOK

Business strategy of the Remaining Group

On the other hand, the Distribution Business has become an increasingly important revenue contributor to the Remaining Group. As noted in the interim report of EC-Founder for the six months ended 30 June 2004, the performance of the Distribution Business has significant improvement and it has established a solid reputation in its sector as Beijing Founder Century Information System Co., Ltd., a wholly-owned subsidiary of EC-Founder which is engaged in the Distribution Business, was awarded by the Computer Commercial Press in June 2004 as the 6th Best Distributor among the top 500 distributors and also achieved the Best Improvement Award. The Distribution Business has recorded a segmental profit of approximately HK\$5.4 million for the year ended 31 December 2003 and approximately HK\$2.9 million for the six months ended 30 June 2004 respectively. As advised by the Directors, it is expected that the demand for information technology ("IT") products in the PRC will remain strong and the investments in the IT sector will continue to grow after PRC's accession into the World Trade Organisation and running up of the Olympic Games of 2008 to be held in Beijing. The Remaining Group wishes to capture such opportunity and focus on the development of the Distribution Business with a more certain business prospect, and more internal resources, including financial resources and management resources, of the Remaining Group will be devoted to the development of the Distribution Business after the Disposal.

Proceeds from the Disposal

As set out in the letter from the Board in the Circular, EC-Founder intends to use the net proceeds from the Disposal (estimated to be approximately HK\$11.6 million) as general working capital of the Remaining Group. The net proceeds from the Disposal will enhance the working capital position of the Remaining Group and can be used to fund the operation and development of the Distribution Business. As advised by the Directors, after completion of the Disposal, the Group will focus on the development of the Distribution Business in order to cope with the anticipated increase in demand for the IT products in coming years which in turn will hopefully improve the financial performance of the Remaining Group.

Conclusion

The financial results of the Group would continue to be impaired by EC-Founder (PRC) should EC-Founder (PRC) continue to incur operating losses in the future. We consider that the Disposal represents an opportunity for EC-Founder to dispose of a loss making business and a clean financial break between the Remaining Group and EC-Founder (PRC).

In view of: 1) the financial position of EC-Founder (PRC), the thin contribution from the projects carried out by EC-Founder (PRC) and therefore uncertain prospects of a return to profitability of EC-Founder (PRC); 2) the strategy of the Group to focus on the development of the Distribution Business, which is the important turnover generator of the Remaining Group, in order to capture the anticipated growth in demand of the IT products; 3) the availability of funds from Disposal for the development of the business of the Remaining Group; and 4) the Disposal would avoid unnecessary funding requirement of the Group in the loss-making business of EC-Founder (PRC), we consider that the Disposal is in the interests of the Group and the Independent Shareholders as a whole.

LETTER FROM TAI FOOK

1.2 Basis of consideration

The total consideration (the “Consideration”) of the Disposal is RMB13.4 million (equivalent to approximately HK\$12.6 million). The Consideration was determined after arm’s length negotiations between the parties to the Disposal Agreement, in particular, with reference to the unaudited deficiency in net assets of EC-Founder (PRC) as at 30 June 2004, and the outstanding balance of the Current Accounts of approximately RMB52.5 million (equivalent to approximately HK\$49.5 million) as at 30 June 2004. Pursuant to the Disposal Agreement, Founder Data has undertaken that the outstanding amount of the Current Accounts as at the date of Completion will not be different from the balance outstanding as at 30 June 2004. Nevertheless, the outstanding balance of the Current Accounts may be increased with the consent of the Purchasers and the parties to the Disposal Agreement have agreed that if the outstanding amount of the Current Accounts at the date of Completion exceeds the balance outstanding at 30 June 2004, the total consideration payable by the Purchasers will be increased by the said excess amount.

As at 30 June 2004, EC-Founder (PRC) recorded an unaudited deficiency in net assets of approximately RMB39.7 million (equivalent to approximately HK\$37.4 million) which include an outstanding balance of the Current Accounts of approximately RMB52.5 million (equivalent to approximately HK\$49.5 million). Excluding the Current Accounts, the unaudited net asset value of EC-Founder (PRC) as at 30 June 2004 was adjusted to be approximately HK\$12.1 million (the “Adjusted NTA”).

Ratio comparisons

EC-Founder (PRC) is principally engaged in the provision of software solutions and services, especially systems integration services. Since EC-Founder (PRC) has been loss making and as the entire amount of the Current Accounts outstanding at the date of Completion will be waived upon Completion, we have therefore used the Adjusted NTA for comparison purposes. Based on the Adjusted NTA as described above, the Consideration of approximately HK\$12.6 million represents a price-to-book ratio of approximately 1.04 times of EC-Founder (PRC). In the event that the outstanding balance of the Current Accounts as at the date of Completion exceeds the balance as at 30 June 2004 and the total consideration is therefore increased by the excess amount, the minimum price-to-book ratio will be in proximity to 1.00 time. We set out below the price-to-book multiples of certain comparable companies (the “Comparable Companies”), whose shares are listed on the main board of the Stock Exchange and whose principal

LETTER FROM TAI FOOK

businesses are similar to that of EC-Founder (PRC), for the purposes of ascertaining and indicating whether the Consideration is generally in line with the market:

Comparable Companies	Description of principal business	Price-to-book # (time)
Company A	Sale of computer equipment and related softwares, and provision of systems integration, development, maintenance and outsourcing services	0.82
Company B	Provision of systems integration services, and distribution of computer hardware, software and related accessories	0.93
Company C	Design, supply and integration of automation and control systems	0.94
Company D	Development of application software and provision of systems integration services	0.41
		Average: 0.78
EC-Founder (PRC)	Provision of software solutions and services	1.04

Price-to-book ratio was calculated based on the market capitalization as at the Latest Practicable Date and the latest published net tangible asset value.

Sources: Bloomberg and the Stock Exchange's website

We note that the services provided by the Comparable Companies may not be exactly identical to that of EC-Founder (PRC), but all of the Comparable Companies are principally engaged in the provision of IT services, especially systems integration services and we consider the Comparable Companies relevant and would have reflected the market's collective valuation for the similar nature of business engaged by EC-Founder (PRC).

As illustrated in the table above, the average price-to-book ratio of the Comparable Companies was approximately 0.78 time.

Conclusion

Taking into consideration that the Consideration represents a price-to-book ratio of 1.04 times of EC-Founder (PRC) (based on the Adjusted NTA), which represents a premium of approximately 33.3% to the average price-to-book ratio of the Comparable Companies, we are of the view that the Consideration is fair and reasonable so far as the Independent Shareholders as a whole are concerned.

LETTER FROM TAI FOOK

1.3 Financial effects of the Disposal

Net tangible asset value

The unaudited deficiency in net asset value of EC-Founder (PRC) as at 30 June 2004 was approximately RMB39.7 million (equivalent to approximately HK\$37.4 million). As mentioned above, upon Completion, the Current Accounts due from EC-Founder (PRC) to the Remaining Group will be waived. Excluding the Current Accounts, the unaudited net asset value of EC-Founder (PRC) as at 30 June 2004 would be approximately RMB12.8 million (equivalent to approximately HK\$12.1 million). As illustrated in the sub-paragraph headed “(A) Statement of pro forma unaudited net asset value” in the paragraph headed “Pro Forma Financial Information” set out in Appendix II to this Circular, assuming the Disposal had been completed and the Consideration had been paid in full as at 30 June 2004, an estimated net proceeds from the Disposal of approximately HK\$11.6 million (being the consideration of approximately HK\$12.6 million less expenses of approximately HK\$1 million) will be received as a result of the Disposal and accordingly, the net tangible asset value of the Group will decrease by approximately HK\$0.5 million, which we consider such a decrease is immaterial to the Group.

Working capital

According to the unaudited interim report of EC-Founder for the six months ended 30 June 2004, the Group had cash and cash equivalents (including pledged deposits) of approximately HK\$127.9 million as at 30 June 2004. As at 30 June 2004, EC-Founder (PRC) had cash and cash equivalents of approximately HK\$2.8 million. The net proceeds from the Disposal will generate net cash inflow of approximately HK\$11.6 million to the Remaining Group as well as reduce unnecessary funding requirement of the Remaining Group in a loss-making business. As illustrated in the sub-paragraph headed “(B) Statement of pro forma unaudited adjusted cash and cash equivalents” in the paragraph headed “Pro Forma Financial Information” set out in Appendix II to this Circular, assuming that the Disposal had been completed on 30 June 2004, deducting the cash and cash equivalents of EC-Founder (PRC) as at 30 June 2004 and adding the net proceeds of the Disposal, the cash and cash equivalents (including pledged deposits) of the Group will increase by approximately 6.9% to approximately HK\$136.7 million. As advised by the Directors, EC-Founder intends to use the net proceeds from the Disposal as general working capital of the Remaining Group.

LETTER FROM TAI FOOK

Earnings

For the year ended 31 December 2003, the Group recorded audited net loss of approximately HK\$22.8 million (including audited net loss of approximately HK\$8.8 million incurred by EC-Founder (PRC) for the year ended 31 December 2003) which represented a loss per ordinary share of EC-Founder (the "Share") of approximately HK\$0.024 and EC-Founder (PRC) recorded audited net loss of approximately HK\$8.8 million. As illustrated in the sub-paragraph headed "(C) Statement of pro forma unaudited adjusted earnings" in the paragraph headed "Pro Forma Financial Information" set out in Appendix II to this Circular, assuming the Disposal had taken place on 1 January 2003 and having not taken into account the accounting gain or loss that may be recorded as a result of the Disposal and the professional fees incurred in relation to the Disposal (please refer to the note to the sub-paragraph for details), the Remaining Group would have recorded an adjusted net loss of approximately HK\$14.0 million. Based on the weighted average of 960,945,601 Shares in issue during the year of 2003, the adjusted net loss per Share of the Company would decrease by approximately 38% from approximately HK\$0.024 to approximately HK\$0.015 for the year ended 31 December 2003. As the Group's turnover was principally contributed by the Distribution Business, we are of the view that the disposal of EC-Founder (PRC) would not have any adverse impact on the business operation of the Remaining Group and its earnings performance would be improved accordingly.

Conclusion

The Directors and we are of the view that the Disposal would enable the Group to dispose of a loss making business and apply its internal resources and the net proceeds from the Disposal to concentrate on the development of Distribution Business which has a higher growth potential and more attractive return rather than funding a loss making business. Taken into account that there will not be any material adverse effect on the net tangible asset value of the Group, and the improvement in the financial position of the Group in terms of the enhancement in working capital and the decrease in adjusted net loss per Share, we are of the view that the Disposal is in the interests of the Group and the Independent Shareholders as a whole.

RECOMMENDATION

In light of the above principal factors and reasons, we consider that the terms and conditions of the Disposal Agreement are fair and reasonable so far as the interests of the Group and Independent Shareholders are concerned and the Disposal is in the interests of the Group 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 ordinary resolution to be proposed at the SGM to approve the Disposal.

Yours faithfully,

For and on behalf of

Tai Fook Capital Limited

Derek C.O. Chan

April Chan

Deputy Managing Director

Director

1. UNAUDITED CONSOLIDATED INTERIM FINANCIAL STATEMENTS OF THE GROUP FOR THE SIX MONTHS ENDED 30 JUNE 2004

The following information was extracted from the unaudited consolidated interim financial statements of the Group for the six months ended 30 June 2004. Capitalised terms used in this sub-section shall have the same meanings as defined in the interim report of the Group for the six months ended 30 June 2004.

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

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

CONDENSED CONSOLIDATED BALANCE SHEET

		As at 30 June 2004 (Unaudited) HK\$'000	As at 31 December 2003 (Audited) HK\$'000
	<i>Notes</i>		
NON-CURRENT ASSETS			
Fixed assets		10,439	9,621
Goodwill		2,571	2,892
Interests in associates		24,252	21,473
Deferred tax		1,230	1,230
		<u>38,492</u>	<u>35,216</u>
CURRENT ASSETS			
Inventories		106,907	79,721
Systems integration contracts		679	1,980
Trade and bills receivables	9	198,274	152,013
Prepayments, deposits and other receivables		44,649	29,545
Pledged deposits		23,474	17,399
Cash and cash equivalents		104,438	142,070
		<u>478,421</u>	<u>422,728</u>
CURRENT LIABILITIES			
Trade and bills payables	10	293,220	223,946
Tax payable		15	25
Other payables and accruals		46,870	57,847
		<u>340,105</u>	<u>281,818</u>
NET CURRENT ASSETS		<u>138,316</u>	<u>140,910</u>
		<u>176,808</u>	<u>176,126</u>
CAPITAL AND RESERVES			
Issued capital		110,056	110,056
Reserves		66,752	66,070
		<u>176,808</u>	<u>176,126</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Issued share capital (Unaudited) <i>HK\$'000</i>	Share premium account (Unaudited) <i>HK\$'000</i>	Contributed surplus (Unaudited) <i>HK\$'000</i>	Exchange fluctuation reserve (Unaudited) <i>HK\$'000</i>	Revaluation reserve (Unaudited) <i>HK\$'000</i>	Accumulated losses (Unaudited) <i>HK\$'000</i>	Total (Unaudited) <i>HK\$'000</i>
At 1 January 2004	110,056	154,699	471,656	(111)	-	(560,174)	176,126
Exchange realignment	-	-	-	470	-	-	470
Impairment of goodwill	-	-	43,500	-	-	-	43,500
Net loss from ordinary activities attributable to shareholders for the period	-	-	-	-	-	(43,288)	(43,288)
At 30 June 2004	<u>110,056</u>	<u>154,699</u>	<u>515,156</u>	<u>359</u>	<u>-</u>	<u>(603,462)</u>	<u>176,808</u>
	Issued share capital (Unaudited) <i>HK\$'000</i>	Share premium account (Unaudited) <i>HK\$'000</i>	Contributed surplus (Unaudited) <i>HK\$'000</i>	Exchange fluctuation reserve (Unaudited) <i>HK\$'000</i>	Revaluation reserve (Unaudited) <i>HK\$'000</i>	Accumulated losses (Unaudited) <i>HK\$'000</i>	Total (Unaudited) <i>HK\$'000</i>
At 1 January 2003	82,056	118,299	488,759	181	3,777	(556,452)	136,620
Net loss from ordinary activities attributable to shareholders for the period	-	-	-	-	-	(206)	(206)
At 30 June 2003	<u>82,056</u>	<u>118,299</u>	<u>488,759</u>	<u>181</u>	<u>3,777</u>	<u>(556,658)</u>	<u>136,414</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	For the six months ended 30 June	
	2004	2003
	(Unaudited) <i>HK\$'000</i>	(Unaudited) <i>HK\$'000</i>
Net cash inflow/(outflow) from operating activities	(28,892)	2,246
Net cash inflow/(outflow) from investing activities	(8,839)	2,338
Net cash outflow from financing activities	—	(488)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(37,731)	4,096
Cash and cash equivalents at beginning of period	142,070	55,068
Effect of foreign exchange rate changes, net	99	—
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>104,438</u>	<u>59,164</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	101,532	31,543
Non-pledged time deposits with original maturity of less than three months when acquired	2,906	27,621
	<u>104,438</u>	<u>59,164</u>

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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 contracts; 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	2003	2004	2003	2004	2003	2004	2003	2004	2003
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	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	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	2003
	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
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 (<i>Note</i>)	–	(1,600)
Loss/(gain) on disposal of fixed assets	255	(99)
Interest income	(386)	(207)
	<u> </u>	<u> </u>

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 (“Honour Glory”), 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 the Disposal on 26 September 2003.

APPENDIX I**FINANCIAL INFORMATION**

The turnover, other revenue and gains, expenses and results of the discontinued operation which had been included in the consolidated profit and loss account were as follows:

	For the six months ended 30 June 2003 (Unaudited) HK\$'000
TURNOVER	84,579
Cost of sales	<u>(75,212)</u>
Gross profit	9,367
Other revenue and gains	2,267
Selling and distribution costs	(1,894)
Administrative expenses	(9,260)
Other operating income, net	<u>1,690</u>
PROFIT FROM OPERATING ACTIVITIES	2,170
Finance costs	<u>(162)</u>
PROFIT BEFORE TAX	2,008
Tax	<u>–</u>
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	<u><u>2,008</u></u>

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

	As at 30 June 2003 (Unaudited) HK\$'000
Total assets	128,297
Total liabilities	<u>(58,558)</u>
Net assets	<u><u>69,739</u></u>

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

	For the six months ended 30 June 2003 (Unaudited) HK\$'000
Operating	9,243
Investing	(3,588)
Financing	(488)
	<hr/>
Net cash inflows	<u>5,167</u>

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
	<hr/>	<hr/>
	<u>45</u>	<u>347</u>

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
	<hr/>	<hr/>
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).

9. 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:

	As at 30 June 2004 (Unaudited) HK\$'000	As at 31 December 2003 (Audited) HK\$'000
Within 6 months	185,648	146,392
7 – 12 months	10,581	3,412
13 – 24 months	487	1,619
Over 24 months	1,558	590
	<u>198,274</u>	<u>152,013</u>

Included in the Group's trade and bills receivables are amounts due from fellow subsidiaries, of approximately HK\$2,095,000 (2003: HK\$2,557,000), which are repayable on similar credit terms to those offered to the major customers of the Group.

10. TRADE AND BILLS PAYABLES

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

	As at 30 June 2004 (Unaudited) HK\$'000	As at 31 December 2003 (Audited) HK\$'000
Within 6 months	289,045	219,959
7 – 12 months	946	326
Over 12 months	3,229	3,661
	<u>293,220</u>	<u>223,946</u>

11. CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities as at 30 June 2004.

12. RELATED PARTY TRANSACTIONS

- (a) On 29 April 2003, the Group entered into a lease agreement with Peking University Founder Group Corporation (“Peking Founder”), the controlling shareholder of Founder Holdings Limited (“FHL”) – the controlling shareholder of the Company, to lease from Peking Founder certain premises in Beijing, the PRC, as its offices effective from 1 May 2003 to 31 December 2005. During the period, rental and management fee expenses of approximately HK\$2,146,000 (2003: Nil) were paid to Peking Founder according to the terms of the lease agreements.
- (b) During the period, the Group received commission income of approximately HK\$1,877,000 (2003: HK\$1,533,000) for the provision of advertising agency services from a subsidiary of Yahoo! Inc., a shareholder which held 8.47% of the shares of the Company.
- (c) During the period, products of approximately HK\$7,337,000 (2003: Nil) were sold to fellow subsidiaries. The sales of products were made according to published prices and conditions similar to those offered to other customers of the Group.
- (d) As at 30 June 2004, Peking Founder guaranteed banking facilities given by the PRC banks to the Group of approximately HK\$306,475,000 (2003: Nil) which were utilised to the extent of approximately HK\$255,495,000 (2003: Nil).
- (e) During the period, products of approximately HK\$22,518,000 (2003: Nil) were purchased from a company in which one director of a subsidiary was a shareholder. The purchase prices were determined based on actual costs incurred.
- (f) On 19 March 2003, the Company entered into a conditional sale and purchase agreement (the “S&P Agreement”) with Founder (Hong Kong) Limited (“FHK”), a wholly-owned subsidiary of FHL. Pursuant to the S&P Agreement, the Company acquired the entire interests in BJ Founder Century and Founder Century (Hong Kong) Limited from FHK. The acquisition was completed on 1 July 2003.
- (g) On 1 August 2003, the Company entered into a conditional disposal agreement with Honour Glory to dispose of the Electronic products business. Further details of the transaction are set out in note 4 to the unaudited condensed consolidated interim financial statements. The Disposal was completed on 26 September 2003.

2. AUDITED FINANCIAL STATEMENTS OF THE GROUP FOR THE YEAR ENDED 31 DECEMBER 2003

The following information was extracted from the audited consolidated financial statements of the Group for the year ended 31 December 2003 (the date to which the latest audited financial statements were made up). Capitalised terms used in this sub-section shall have the same meanings as defined in the annual report of the Group for the year ended 31 December 2003.

CONSOLIDATED PROFIT AND LOSS ACCOUNT

Year ended 31 December 2003

	<i>Notes</i>	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i> (Restated)
TURNOVER			
Continuing operations		506,835	70,825
Discontinued operations	6	118,137	241,108
		<hr/>	<hr/>
Cost of sales	5	624,972 (568,308)	311,933 (258,454)
		<hr/>	<hr/>
Gross profit		56,664	53,479
Other revenue and gains	5	6,503	9,646
Selling and distribution costs		(36,577)	(36,300)
Administrative expenses		(39,435)	(56,104)
Other operating expenses, net		(112)	(6,488)
Impairment of fixed assets		–	(1,226)
Impairment of goodwill		–	(36,500)
Loss on disposal of discontinued operations	6	(13,260)	(15,079)
		<hr/>	<hr/>
LOSS FROM OPERATING ACTIVITIES	7	(26,217)	(88,572)
Finance costs	8	(832)	(4,147)
Share of profits of associates		6,224	8,448
		<hr/>	<hr/>
LOSS BEFORE TAX			
Continuing operations		(2,371)	(68,588)
Discontinued operations	6	(18,454)	(15,683)
		<hr/>	<hr/>
		(20,825)	(84,271)
Tax	11	(2,002)	(2,028)
		<hr/>	<hr/>
LOSS BEFORE MINORITY INTERESTS		(22,827)	(86,299)
Minority interests		–	335
		<hr/>	<hr/>
NET LOSS FROM ORDINARY ACTIVITIES			
ATTRIBUTABLE TO SHAREHOLDERS	12	(22,827)	(85,964)
		<hr/> <hr/>	<hr/> <hr/>
LOSS PER SHARE – BASIC	13	2.4 cents	10.5 cents
		<hr/> <hr/>	<hr/> <hr/>

CONSOLIDATED BALANCE SHEET

31 December 2003

	<i>Notes</i>	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i> (Restated)
NON-CURRENT ASSETS			
Fixed assets	<i>14</i>	9,621	47,786
Goodwill	<i>15</i>	2,892	–
Interests in associates	<i>17</i>	21,473	22,864
Deferred tax	<i>29</i>	1,230	2,002
		<u>35,216</u>	<u>72,652</u>
CURRENT ASSETS			
Inventories	<i>18</i>	79,721	35,031
Systems integration contracts	<i>19</i>	1,980	–
Trade and bills receivables	<i>20</i>	152,013	48,744
Prepayments, deposits and other receivables	<i>21</i>	29,545	4,664
Pledged deposits	<i>22</i>	17,399	7,801
Cash and cash equivalents	<i>23</i>	142,070	55,068
		<u>422,728</u>	<u>151,308</u>
CURRENT LIABILITIES			
Systems integration contracts	<i>19</i>	–	2,411
Trade and bills payables	<i>24</i>	223,946	36,873
Tax payable		25	–
Other payables and accruals	<i>25</i>	57,847	32,921
Interest-bearing bank and other borrowings	<i>26</i>	–	12,533
		<u>281,818</u>	<u>84,738</u>
NET CURRENT ASSETS		<u>140,910</u>	<u>66,570</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		176,126	139,222
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	<i>27</i>	–	206
Finance lease payables	<i>28</i>	–	394
		<u>–</u>	<u>600</u>
		<u>176,126</u>	<u>138,622</u>
CAPITAL AND RESERVES			
Issued capital	<i>30</i>	110,056	82,056
Reserves	<i>32</i>	66,070	56,566
		<u>176,126</u>	<u>138,622</u>

CONSOLIDATED SUMMARY STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2003

	<i>Notes</i>	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i> (Restated)
Total equity at 1 January:			
As previously reported		136,620	184,373
Prior year adjustment:			
Statement of Standard Accounting Practice ("SSAP") 12 – restatement of deferred tax	29, 32	<u>2,002</u>	<u>2,536</u>
As restated		<u>138,622</u>	<u>186,909</u>
Issue of shares	30	28,000	–
Increase in share premium arising from issue of shares	32	36,400	–
Impairment of fixed assets recognised directly in revaluation reserve	32	(3,777)	–
Exchange differences on translation of the financial statements of foreign entities	32	<u>(292)</u>	<u>(715)</u>
Net gains/(losses) not recognised in the profit and loss account		<u>60,331</u>	<u>(715)</u>
Realisation of exchange fluctuation reserve upon disposal of discontinued operations	32	–	1,892
Impairment of goodwill previously eliminated against contributed surplus	32	–	36,500
Net loss from ordinary activities attributable to shareholders	32	<u>(22,827)</u>	<u>(85,964)</u>
Total equity at 31 December		<u><u>176,126</u></u>	<u><u>138,622</u></u>

CONSOLIDATED CASH FLOW STATEMENT*Year ended 31 December 2003*

	<i>Notes</i>	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		(20,825)	(84,271)
Adjustments for:			
Finance costs	8	832	4,147
Share of profits of associates		(6,224)	(8,448)
Interest income	5	(697)	(980)
Gain on deemed partial disposal of an associate	5	–	(48)
Depreciation	7	7,624	11,422
Impairment of fixed assets	7	–	1,226
Impairment of goodwill	7	–	36,500
Amortisation of deferred development costs	7	–	379
Amortisation of goodwill	7	321	–
Fixed assets write-off	7	–	1,943
Loss/(gain) on disposal of fixed assets	7	(123)	36
Loss on disposal of discontinued operations	7, 33(c)	13,260	15,079
Operating loss before working capital changes		(5,832)	(23,015)
Increase in inventories		(32,209)	(6,019)
Decrease/(increase) in systems integration contracts		(4,391)	2,584
Increase in trade and bills receivables		(2,925)	(8,953)
Decrease in prepayments		15,488	1,479
Decrease/(increase) in deposits and other receivables		(3,947)	913
Decrease in amounts due from related companies		–	2,819
Increase/(decrease) in trade and bills payables		70,270	(6,990)
Increase/(decrease) in accruals		(2,254)	4,488
Increase/(decrease) in other payables		(22,074)	4,162
Increase in trading receipts in advance		3,597	1,237
Increase in amounts due to fellow subsidiaries		5,771	–
Increase/(decrease) in amounts due to related companies		(36)	536
Exchange difference		(166)	(723)
Cash generated from/(used in) from operations		21,292	(27,482)
Interest received		697	980
Interest paid		(775)	(3,987)
Interest element on finance lease rental payments		(57)	(160)
Net cash inflow/(outflow) from operating activities		21,157	(30,649)

APPENDIX I
FINANCIAL INFORMATION

	<i>Notes</i>	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Net cash inflow/(outflow) from operating activities		21,157	(30,649)
CASH FLOWS FROM INVESTING ACTIVITIES			
Dividend received from an associate		2,935	–
Purchases of fixed assets and additions to construction in progress		(8,957)	(6,903)
Proceeds from disposal of fixed assets		1,010	131
Purchase of long term investment		(63)	–
Acquisition of subsidiaries	<i>33(b)</i>	35,126	–
Disposal of subsidiaries	<i>33(c)</i>	40,129	6,565
Advances of loans to an associate		–	(7,000)
Repayment of loans to an associate		3,450	10,250
Decrease in an amount due from an associate		–	11,297
Decrease in pledged deposits		41	40,512
Net cash inflow from investing activities		73,671	54,852
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment to minority shareholders upon dissolution of subsidiaries		–	(705)
Increase in trust receipt loans		191	9,258
New other loans		–	5,000
Repayment of other loans		–	(13,943)
New bank loans		–	7,581
Repayment of bank loans		(7,413)	(39,669)
Capital element of finance lease rental payments		(487)	(2,437)
Net cash outflow from financing activities		(7,709)	(34,915)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		87,119	(10,712)
Cash and cash equivalents at beginning of year		55,068	65,785
Effect of foreign exchange rate changes, net		(117)	(5)
CASH AND CASH EQUIVALENTS AT END OF YEAR		142,070	55,068
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	<i>23</i>	119,516	30,548
Non-pledged time deposits with original maturity of less than three months when acquired	<i>23</i>	22,554	24,520
		142,070	55,068

APPENDIX I**FINANCIAL INFORMATION****BALANCE SHEET***31 December 2003*

	<i>Notes</i>	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
NON-CURRENT ASSETS			
Fixed assets	<i>14</i>	161	190
Interests in subsidiaries	<i>16</i>	197,596	224,495
		<u>197,757</u>	<u>224,685</u>
CURRENT ASSETS			
Prepayments, deposits and other receivables	<i>21</i>	265	266
Cash and cash equivalents	<i>23</i>	27,838	26,786
		<u>28,103</u>	<u>27,052</u>
CURRENT LIABILITIES			
Other payables and accruals	<i>25</i>	3,232	3,529
NET CURRENT ASSETS			
		<u>24,871</u>	<u>23,523</u>
		<u>222,628</u>	<u>248,208</u>
CAPITAL AND RESERVES			
Issued capital	<i>30</i>	110,056	82,056
Reserves	<i>32</i>	112,572	166,152
		<u>222,628</u>	<u>248,208</u>

NOTES TO FINANCIAL STATEMENTS*31 December 2003***1. CORPORATE INFORMATION**

The head office and principal place of business 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:

- distribution of information products (acquired during the year – note 33 (b))
- provision of software solutions and services
- design, manufacture and distribution of electronic products (discontinued during the year – note 6)

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

2. IMPACT OF NEW AND REVISED SSAPs

The following new and revised SSAPs are effective for the first time for the current year's financial statements and have had a significant impact thereon:

- SSAP 12 (Revised): "Income taxes"
- SSAP 35: "Accounting for government grants and disclosure of government assistance"

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 of adopting these SSAPs, are summarised as follows:

SSAP 12 prescribes the accounting for income taxes payable or recoverable, arising from the taxable profit or loss for the current period (current tax); and income taxes payable or recoverable in future periods, principally arising from taxable and deductible temporary differences and the carry forward of unused tax losses (deferred tax).

The principal impact of the revision of this SSAP on these financial statements is described below:

Measurement and recognition:

- deferred tax assets and liabilities relating to the differences between capital allowances for tax purposes and depreciation for financial reporting purposes and other taxable and deductible temporary differences are generally fully provided for, whereas previously the deferred tax was recognised for timing differences only to the extent that it was probable that the deferred tax asset or liability would crystallise in the foreseeable future; and
- a deferred tax asset has been recognised for tax losses arising in the current/prior periods to the extent that it is probable that there will be sufficient future taxable profits against which such losses can be utilised.

Disclosures:

The related note disclosures are now more extensive than previously required. These disclosures are presented in notes 11 and 29 to the financial statements and include a reconciliation between the accounting loss and the tax charge for the year.

Further details of these changes and the prior year adjustment arising from them are included in the accounting policy for deferred tax in notes 3 and 29 to the financial statements.

SSAP 35 prescribes the accounting for government grants and other forms of government assistance. The adoption of this SSAP has had no significant impact for these financial statements on the amounts recorded for government grants. However, additional disclosures are now required and are detailed in notes 3 and 5 to the financial statements.

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, except for the periodic measurement of land and buildings, as further explained below.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2003. 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 the Company controls, 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.

Goodwill

Goodwill arising on the acquisition of subsidiaries and associates represents the excess of the fair 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 subject to a maximum of 20 years. In the case of associates, any unamortised goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

Prior to the adoption of SSAP 30 "Business combinations" in 2001, 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 the SSAP that permitted such goodwill to remain eliminated against consolidated reserves. Goodwill on acquisitions subsequent to the adoption of the SSAP is treated according to the SSAP 30 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	10% – 20%
Machinery, equipment and moulds	12.5% – 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 the direct costs of construction and testing during the period of construction. Construction in progress is reclassified to the appropriate category of fixed assets when completed and ready for use.

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.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis 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 short term deposits, and assets similar in nature to cash, which are not restricted as to use.

Income tax

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

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences:

- except where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries and associates, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax assets and unused tax losses can be utilised:

- except where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Government grants

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

Revenue recognition

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

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) from 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 MPF 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 (“Mainland China” or the “PRC”) are required to participate in a central pension scheme operated by the local municipal government. Contributions are made based on a percentage of the participating employees’ salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the central pension scheme.

Share option schemes

The Company operates share option schemes for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group’s operations. 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 ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

4. SEGMENT INFORMATION

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

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

Continuing operations:

- (a) the distribution of information products segment engages in the distribution of computer hardware;
- (b) the provision of software solutions and services segment engages in the provision of systems integrated solutions and services to financial institutions, enterprises and government departments in the PRC and the development and distribution of security and geographical information software solutions; and
- (c) the corporate segment comprises corporate income and expense items.

Discontinued operations:

- (a) the electronic products segment engaged in the design, manufacture and distribution of weighing scales products; and as further explained in notes 6(a) and 33(c) to these financial statements, the Group disposed of this entire business to Honour Glory Limited ("Honour Glory"), a company which is 90% owned by Mr Yung Richard, Jr., a director of the Company, during the year; and
- (b) the electronic components segment engaged in the design, manufacture and distribution of semi-conductor products; and as further explained in notes 6(b) and 33(c) to these financial statements, the Group disposed of this entire business to Ricwinco Investment Limited ("Ricwinco"), a company which is beneficially owned by Mr Yung Chih Shin, Richard, a non-executive director of the Company, on 28 June 2002.

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

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

(a) Business segments

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

Group	Distribution of information products		Provision of software solutions and services		Electronic products (Discontinued)		Electronic components (Discontinued)		Corporate		Consolidated	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Restated)											
Segment revenue:												
Sales to external customers	444,633	-	62,202	70,825	118,137	192,825	-	48,283	-	-	624,972	311,933
Segment results	5,447	-	(6,837)	(30,196)	(18,257)	4,631	-	(17,020)	(7,267)	(10,467)	(26,914)	(53,052)
Interest income											697	980
Impairment of goodwill											-	(36,500)
Loss from operating activities											(26,217)	(88,572)
Finance costs											(832)	(4,147)
Share of profits of associates											6,224	8,448
Loss before tax											(20,825)	(84,271)
Tax											(2,002)	(2,028)
Loss before minority interests											(22,827)	(86,299)
Minority interests											-	335
Net loss from ordinary activities attributable to shareholders											(22,827)	(85,964)

Group	Distribution of information products		Provision of software solutions and services		Electronic products (Discontinued)		Electronic components (Discontinued)		Consolidated	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Restated)									
Segment assets	365,633	-	38,414	51,725	-	120,518	-	-	404,047	172,243
Interests in associates	-	-	-	-	-	-	-	-	21,473	22,864
Unallocated assets	-	-	-	-	-	-	-	-	32,424	28,853
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total assets									457,944	223,960
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Segment liabilities	253,744	-	19,682	19,995	-	48,679	-	-	273,426	68,674
Unallocated liabilities	-	-	-	-	-	-	-	-	8,392	16,664
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities									281,818	85,338
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Other segment information:										
Depreciation and amortisation	519	-	2,399	3,399	4,706	6,282	-	1,952	7,945	11,801
Write-off of fixed assets	-	-	-	882	-	-	-	-	-	1,943
Impairment of fixed assets recognised in the profit and loss account	-	-	-	-	-	-	-	1,226	-	1,226
Impairment of fixed assets recognised directly in equity	-	-	-	-	3,777	-	-	-	3,777	-
Capital expenditure	848	-	3,335	958	5,174	6,184	-	241	9,357	7,383
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

(b) Geographical segments

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

Group	Mainland China		Hong Kong		United States of America		United Kingdom		Others		Eliminations		Consolidated	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Segment revenue:														
Sales to external customers	448,612	77,496	63,143	23,829	83,933	149,510	26,514	38,397	2,770	22,701	-	-	624,972	311,933
Intersegment sales	-	-	74,258	-	-	-	-	-	-	-	(74,258)	-	-	-
Total	448,612	77,496	137,401	23,829	83,933	149,510	26,514	38,397	2,770	22,701	(74,258)	-	624,972	311,933

Group	Mainland China		Hong Kong		United States of America		United Kingdom		Others		Consolidated			
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002		
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>		
Other segment information:														
Segment assets	374,506	100,891	83,438	83,216	-	26,288	-	10,439	-	3,126	457,944	223,960		
Capital expenditure	6,582	6,071	2,775	1,312	-	-	-	-	-	-	9,357	7,383		

5. TURNOVER, OTHER REVENUE AND GAINS

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

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

	Group	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover		
Distribution of information products	444,633	–
Provision of software solutions and services	62,202	70,825
Sales of electronic products	118,137	192,825
Sales of electronic components	–	48,283
	<u>624,972</u>	<u>311,933</u>
Total Turnover		
Other revenue		
Rental income	316	421
Interest income	697	980
Government grants (<i>Note</i>)	3,391	4,716
Others	1,219	3,481
	<u>5,623</u>	<u>9,598</u>
Gains		
Gain on disposal of fixed assets	123	–
Gain on deemed partial disposal of an associate	–	48
Others	757	–
	<u>880</u>	<u>48</u>
Total Other revenue and Gains	<u>6,503</u>	<u>9,646</u>

Note: Various government grants have been received for sales of self-developed software approved by the PRC tax authority and development of software in Mainland China. The government grants have been recognised upon sales of self-developed software and completion of development of software, respectively. There are no unfulfilled conditions or contingencies relating to these grants.

6. DISCONTINUED OPERATIONS

(a) Disposal of MIT Holdings Limited (“MIT”) – Electronic products business

On 1 August 2003, the Company entered into a conditional disposal agreement with Honour Glory to dispose of its entire issued share capital of MIT at a total cash consideration of HK\$45,500,000.

The principal activities of MIT and its subsidiaries (collectively the “MIT Group”) were the design, manufacture and distribution of electronic products. Upon the completion of the disposal, on 26 September 2003, the Group discontinued its electronic products operation.

(b) Disposal of Yung Wen Investment & Finance Limited (“YW”) – Electronic components business

On 4 April 2002, the Company entered into a conditional disposal agreement with Ricwinco to dispose of its entire interests in YW and to assign the indebtedness due to the Group by YW and its subsidiaries (collectively the “YW Group”) to Ricwinco at a total cash consideration of HK\$15,000,000. The disposal of the YW Group was completed on 28 June 2002.

The principal activities of the YW Group were the design, manufacture and distribution of electronic components.

The components of the loss on disposal of the discontinued operations of approximately HK\$13,260,000 (2002: HK\$15,079,000) are disclosed in note 33(c) to the financial statements.

The turnover, other revenue and gains, expenses and results of the discontinued operations which have been included in the consolidated profit and loss account are as follows:

	Electronic products		Electronic components
	Period ended	Year ended	Period ended
	26 September	31 December	28 June
	2003	2002	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
TURNOVER	118,137	192,825	48,283
Cost of sales	(108,197)	(152,558)	(48,570)
Gross profit/(loss)	9,940	40,267	(287)
Other revenue and gains	876	822	2,683
Selling and distribution costs	(2,485)	(2,803)	(1,572)
Administrative expenses	(14,988)	(32,800)	(2,511)
Other operating income/(expenses), net	1,690	(1,019)	–
Loss on disposal of discontinued operations	(13,260)	–	(15,079)
PROFIT/(LOSS) FROM OPERATING ACTIVITIES	(18,227)	4,467	(16,766)
Finance costs	(227)	(391)	(3,017)
Share of profits of an associate	–	–	24
PROFIT/(LOSS) BEFORE TAX	(18,454)	4,076	(19,759)
Tax	–	–	–
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	(18,454)	4,076	(19,759)

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

	Electronic products		Electronic components
	As at 26 September 2003 <i>HK\$'000</i>	As at 31 December 2002 <i>HK\$'000</i>	As at 28 June 2002 <i>HK\$'000</i>
Total assets	115,245	126,608	74,861
Total liabilities (<i>Note</i>)	(56,485)	(58,578)	(73,557)
Net assets	<u>58,760</u>	<u>68,030</u>	<u>1,304</u>

Note: The total liabilities relating to electronic components operation as at 28 June 2002 included an amount due to the Group by the YW Group of approximately HK\$28,775,000.

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

	Electronic products		Electronic components
	Period ended 26 September 2003 <i>HK\$'000</i>	Year ended 31 December 2002 <i>HK\$'000</i>	Period ended 28 June 2002 <i>HK\$'000</i>
Operating	2,998	10,266	(13,648)
Investing	(4,822)	(5,652)	11,014
Financing	(737)	(3,932)	1,873
Net cash inflows/(outflows)	<u>(2,561)</u>	<u>682</u>	<u>(761)</u>

7. LOSS FROM OPERATING ACTIVITIES

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

	Notes	Group	
		2003 HK\$'000	2002 HK\$'000
Amortisation of deferred development costs*		–	379
Auditors' remuneration		900	813
Cost of inventories sold		536,056	212,885
Cost of services provided		4,716	17,821
Depreciation	14	7,624	11,422
Fixed assets write-off		–	1,943
Goodwill:			
Amortisation for the year**	15	321	–
Impairment during the year		–	36,500
		<u>321</u>	<u>36,500</u>
Impairment of fixed assets		–	1,226
Loss on disposal of discontinued operations	33(c)	13,260	15,079
Provision and write-off for doubtful debts		1,012	5,954
Provision and write-off for obsolete inventories		2,551	6,433
Operating lease rentals in respect of:			
Land and buildings		6,084	6,583
Plant and machinery		–	158
		<u>6,084</u>	<u>6,741</u>
Staff costs (including directors' remuneration – note 9):			
Wages and salaries		48,537	72,617
Pension scheme contributions***		2,138	533
		<u>50,675</u>	<u>73,150</u>
Exchange losses/(gains), net		(740)	84
Loss/(gain) on disposal of fixed assets		<u>(123)</u>	<u>36</u>

* The amortisation of deferred development costs for prior year were included in "Cost of sales" on the face of the consolidated profit and loss account.

** The amortisation of goodwill for the year are included in "Other operating expenses, net" on the face of the consolidated profit and loss account.

*** As at 31 December 2003, the Group had no forfeited contributions available to reduce its contributions to the pension scheme in future years (2002: Nil).

8. FINANCE COSTS

	Group	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest on bank loans and overdrafts	775	1,634
Interest on other loans wholly repayable within five years	–	2,353
Interest on finance leases	57	160
	<u>832</u>	<u>4,147</u>

9. DIRECTORS' REMUNERATION

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

	Group	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Fees	300	1,494
Other emoluments:		
Salaries, bonuses and benefits in kind	4,958	7,514
Performance related bonuses	300	13,500
Pension scheme contributions	9	12
	<u>5,267</u>	<u>21,026</u>
	<u>5,567</u>	<u>22,520</u>

Fees include HK\$240,000 (2002: 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 (2002: Nil).

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

	Number of directors	
	2003	2002
Nil – HK\$1,000,000	6	7
HK\$1,000,001 – HK\$1,500,000	–	1
HK\$1,500,001 – HK\$2,000,000	1	–
HK\$3,000,001 – HK\$3,500,000	1	–
HK\$9,000,001 – HK\$9,500,000	–	1
HK\$11,500,001 – HK\$12,000,000	–	1
	<u>8</u>	<u>10</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 two (2002: three) directors, details of whose remuneration are set out in note 9 above. Details of the remuneration of the remaining three (2002: two) non-director, highest-paid employees for the year are as follows:

	Group	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Salaries, bonuses and benefits in kind	2,426	2,573
Pension scheme contributions	30	24
	<u>2,456</u>	<u>2,597</u>

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

	Number of employees	
	2003	2002
Nil – HK\$1,000,000	3	–
HK\$1,000,001 – HK\$1,500,000	–	2
	<u>3</u>	<u>2</u>

11. TAX

	Group	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i> (Restated)
Group:		
Deferred tax (<i>note 29</i>)	772	534
Share of tax attributable to associates	<u>1,230</u>	<u>1,494</u>
Total tax charge for the year	<u>2,002</u>	<u>2,028</u>

Hong Kong profits tax has been provided at the rate of 17.5% (2002: 16%) on the estimated assessable profits arising in Hong Kong during the year. The increased Hong Kong profits tax rate became effective from the year of assessment 2003/2004, and so is applicable to the assessable profits arising in Hong Kong for the whole of the year ended 31 December 2003.

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 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. (“PRC 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 PRC Century is 15%. No provision for PRC profits tax has been made for the year 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 year.

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

Group – 2003

	Hong Kong		Mainland China		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Loss before tax	<u>(18,064)</u>		<u>(2,761)</u>		<u>(20,825)</u>	
Tax at the statutory tax rate	(3,161)	17.5	(911)	33.0	(4,072)	19.6
Lower tax rate for specific provinces or local authority	–	–	1,364	(49.4)	1,364	(6.5)
Tax effect of unused tax losses not recognised	1,429	(7.9)	–	–	1,429	(6.9)
Income not subject to tax	(491)	2.7	–	–	(491)	2.4
Expenses not deductible for tax	3,090	(17.1)	319	(11.6)	3,409	(16.4)
Loss not subject to tax	431	(2.4)	–	–	431	(2.1)
Tax losses utilised from previous periods	(68)	0.4	–	–	(68)	0.3
Tax charge at the Group's effective rate	<u>1,230</u>	<u>(6.8)</u>	<u>772</u>	<u>(28.0)</u>	<u>2,002</u>	<u>(9.6)</u>

Group – 2002

	Hong Kong		Mainland China		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Loss before tax	<u>(59,896)</u>		<u>(24,375)</u>		<u>(84,271)</u>	
Tax at the statutory tax rate	(9,583)	16.0	(8,044)	33.0	(17,627)	20.9
Lower tax rate for specific provinces or local authority	–	–	8,261	(33.9)	8,261	(9.8)
Tax effect of unused tax losses not recognised	2,250	(3.8)	–	–	2,250	(2.7)
Income not subject to tax	(595)	1.0	–	–	(595)	0.7
Expenses not deductible for tax	10,475	(17.5)	317	(1.3)	10,792	(12.8)
Profit not subject to tax	(316)	0.5	–	–	(316)	0.4
Tax losses utilised from previous periods	(737)	1.3	–	–	(737)	0.9
Tax charge at the Group's effective rate	<u>1,494</u>	<u>(2.5)</u>	<u>534</u>	<u>(2.2)</u>	<u>2,028</u>	<u>(2.4)</u>

12. NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders for the year ended 31 December 2003 dealt with in the financial statements of the Company, was approximately HK\$89,980,000 (2002: HK\$30,665,000) (note 32(b)).

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\$22,827,000 (2002 (restated): HK\$85,964,000), and the weighted average of 960,945,601 (2002: 820,562,040) ordinary shares in issue during the year.

Diluted loss per share for the years ended 31 December 2003 and 2002 have not been disclosed as the impact of the outstanding share options was anti-dilutive.

14. FIXED ASSETS

Group

	Land and buildings	Leasehold improvements	Machinery, equipment and moulds	Furniture, fixtures and office equipment	Motor vehicles	Construction in progress	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost or valuation:							
At 1 January 2003	20,783	14,256	34,115	17,031	5,540	488	92,213
Additions	-	1,550	1,755	1,776	1,219	3,057	9,357
Acquisition of subsidiaries	-	-	-	4,419	1,098	-	5,517
Transfer from construction in progress	-	829	1,501	224	442	(2,996)	-
Disposals	-	(2,878)	(29)	(956)	(326)	-	(4,189)
Disposal of subsidiaries	(20,783)	(12,577)	(37,342)	(3,493)	(4,867)	(549)	(79,611)
Exchange realignment	-	(18)	-	(80)	(7)	-	(105)
At 31 December 2003	-	1,162	-	18,921	3,099	-	23,182
Accumulated depreciation and impairment:							
At 1 January 2003	3,174	9,336	19,129	9,126	3,662	-	44,427
Acquisition of subsidiaries	-	-	-	3,222	429	-	3,651
Provided during the year	314	1,032	3,069	2,587	622	-	7,624
Impairment during the year recognised in the reserves	3,777	-	-	-	-	-	3,777
Disposals	-	(2,512)	(13)	(451)	(326)	-	(3,302)
Disposal of subsidiaries	(7,265)	(7,471)	(22,185)	(2,157)	(3,481)	-	(42,559)
Exchange realignment	-	(14)	-	(39)	(4)	-	(57)
At 31 December 2003	-	371	-	12,288	902	-	13,561
Net book value:							
At 31 December 2003	-	791	-	6,633	2,197	-	9,621
At 31 December 2002	17,609	4,920	14,986	7,905	1,878	488	47,786
Analysis of cost or valuation:							
At cost	-	1,162	-	18,921	3,099	-	23,182

An impairment loss of approximately HK\$3,777,000 was made to write down certain land and buildings to their recoverable amount which was determined based on their net selling price. The impairment loss was charged directly against the revaluation reserve.

No fixed assets of the Group were held under finance leases as at 31 December 2003. 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 as at 31 December 2002, amounted to approximately HK\$1,276,000 and HK\$879,000, respectively.

Company

**Furniture, fixtures
and office equipment**
HK\$'000

Cost:	
At 1 January 2003 and 31 December 2003	233
Accumulated depreciation:	
At 1 January 2003	43
Provided during the year	29
At 31 December 2003	72
Net book value:	
At 31 December 2003	161
At 31 December 2002	190

15. GOODWILL

The amounts of the goodwill capitalised as an asset, arising from the acquisition of subsidiaries, are as follows:

	Group <i>HK\$'000</i>
Cost:	
At beginning of year	-
Acquisition of subsidiaries (<i>note 33(b)</i>)	3,213
At 31 December 2003	3,213
Accumulated amortisation:	
At beginning of year	-
Amortisation provided during the year	321
At 31 December 2003	321
Net book value:	
At 31 December 2003	2,892
At 31 December 2002	-

As detailed in note 3 to the financial statements, on the adoption of SSAP 30 in 2001, the Group applied the transitional provision of SSAP 30 that permitted goodwill in respect of acquisitions which occurred prior to the adoption of the SSAP, to remain eliminated against consolidated reserves.

The amounts of the goodwill remaining in consolidated reserves as at 31 December 2003, arising from the acquisition of subsidiaries prior to the adoption of SSAP 30 in 2001, are as follows:

	Group	
	Goodwill eliminated against consolidated retained profits <i>HK\$'000</i>	Goodwill eliminated against consolidated contributed surplus <i>HK\$'000</i>
Cost:		
At beginning of year	17,103	520,156
Transfer to contributed surplus	(17,103)	17,103
	<hr/>	<hr/>
At 31 December 2003	–	537,259
Accumulated impairment:		
At beginning of year and 31 December 2003	–	488,759
	<hr/>	<hr/>
Net amount:		
At 31 December 2003	–	48,500
	<hr/> <hr/>	<hr/> <hr/>
At 31 December 2002	17,103	31,397
	<hr/> <hr/>	<hr/> <hr/>

16. INTERESTS IN SUBSIDIARIES

	Company	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Unlisted shares, at cost	450,071	524,213
Due from subsidiaries	300,057	203,426
Due to subsidiaries	–	(6,091)
	<hr/>	<hr/>
	750,128	721,548
Provision for impairment	(552,532)	(497,053)
	<hr/>	<hr/>
	197,596	224,495
	<hr/> <hr/>	<hr/> <hr/>

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

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
EC-Founder Co., Ltd.*	Mainland China	Registered US\$6,000,000	–	100	Provision of software solutions and services
EC-Founder (Hong Kong) Limited	Hong Kong	Ordinary HK\$2	–	100	Provision of software solutions and services
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
PRC Century*#	Mainland China	Registered RMB117,303,000	–	100	Distribution of information products
Founder Century (Hong Kong) Limited (“HK Century”)#	Hong Kong	Ordinary HK\$2	–	100	Distribution of information products

* Registered as wholly-foreign owned enterprises under the PRC law.

Acquired during the year.

During the year, the Group acquired HK Century and PRC Century from Founder (Hong Kong) Limited (“FHK”), a wholly-owned subsidiary of FHL. Further details of this acquisition are included in notes 33(b) and 36(a) to the financial statements.

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

17. INTERESTS IN ASSOCIATES

	Group	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Share of net assets	21,473	19,414
Loans to an associate	–	3,450
	<u>21,473</u>	<u>22,864</u>

The loans to an associate were unsecured, interest-free and repaid in 2003.

Particulars of the principal associates are as follows:

Name	Business structure	Place of incorporation/ registration and operations	Percentage of ownership interest indirectly attributable to the Group		Principal activities
			2003	2002	
MC.Founder Limited	Corporate	Hong Kong	36.69	36.69	Distribution of mobile phones
MC.Founder (Distribution) Limited	Corporate	Hong Kong	36.69	36.69	Distribution of mobile phones and provision of repair services
MC.Founder (Technology) Limited	Corporate	Hong Kong	36.69	36.69	Sales of data products

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.

18. INVENTORIES

	Group	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Raw materials	–	18,019
Work in progress	–	9,961
Finished goods	79,721	7,051
	<u>79,721</u>	<u>35,031</u>

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

19. SYSTEMS INTEGRATION CONTRACTS

	Group	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Gross amount due from contract customers	2,733	318
Gross amount due to contract customers	(753)	(2,729)
	<u>1,980</u>	<u>(2,411)</u>
Contract costs incurred plus recognised profits less recognised losses and foreseeable losses to date	21,434	8,532
Less: Progress billings	(19,454)	(10,943)
	<u>1,980</u>	<u>(2,411)</u>

20. TRADE AND BILLS RECEIVABLES

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. 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	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 6 months	146,392	44,457
7 – 12 months	3,412	1,460
13 – 24 months	1,619	2,827
Over 24 months	590	–
	<u>152,013</u>	<u>48,744</u>

Included in the Group's trade and bills receivables is an amount due from a fellow subsidiary, of approximately HK\$2,557,000 (2002: Nil), which is repayable on similar credit terms to those offered to the major customers of the Group.

21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Prepayments	21,333	963	257	258
Deposits and other receivables	8,212	3,701	8	8
	<u>29,545</u>	<u>4,664</u>	<u>265</u>	<u>266</u>

22. PLEDGED DEPOSITS

	Group	
	2003	2002
	HK\$'000	HK\$'000
Pledged for bank loans	–	7,801
Pledged for general banking facilities	17,399	–
	<u>17,399</u>	<u>7,801</u>

23. CASH AND CASH EQUIVALENTS

	Group		Company	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cash and bank balances	119,516	30,548	5,284	2,315
Time deposits	22,554	24,520	22,554	24,471
	<u>142,070</u>	<u>55,068</u>	<u>27,838</u>	<u>26,786</u>

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi (“RMB”) amounted to approximately HK\$111,157,000 (2002: HK\$19,853,000). 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.

24. TRADE AND BILLS PAYABLES

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

	Group	
	2003	2002
	HK\$'000	HK\$'000
Within 6 months	219,959	31,696
7 – 12 months	326	1,836
Over 12 months	3,661	3,341
	<u>223,946</u>	<u>36,873</u>

25. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Accruals	32,688	22,037	3,181	3,495
Other payables	9,449	7,192	10	–
Trading receipts in advance	9,939	3,656	–	–
Due to fellow subsidiaries	5,771	–	41	–
Due to related companies	–	36	–	34
	<u>57,847</u>	<u>32,921</u>	<u>3,232</u>	<u>3,529</u>

The amounts due to fellow subsidiaries are unsecured, interest-free and have no fixed terms of repayment, except for an amount of HK\$5,160,000 due to a fellow subsidiary as at 31 December 2003 which was repaid on 2 January 2004.

The amounts due to related companies were unsecured, interest-free and repaid in 2003.

26. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Notes	Group	
		2003	2002
		HK\$'000	HK\$'000
Trust receipt loans		–	4,498
Current portion of bank loans		–	7,499
	27	–	11,997
Current portion of finance lease payables	28	–	536
		<u>–</u>	<u>12,533</u>

27. INTEREST-BEARING BANK BORROWINGS

	Group	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Bank loans:		
Secured	–	7,309
Unsecured	–	396
	<u>–</u>	<u>7,705</u>
Trust receipt loans:		
Unsecured	–	4,498
	<u>–</u>	<u>12,203</u>
Bank loans and trust receipt loans repayable:		
Within one year or on demand	–	11,997
In the second year	–	190
In the third to fifth years, inclusive	–	16
	<u>–</u>	<u>12,203</u>
Portion classified as current liabilities (<i>note 26</i>)	–	(11,997)
Long term portion	<u>–</u>	<u>206</u>

28. FINANCE LEASE PAYABLES

The Group leased certain of its machinery, equipment and moulds and motor vehicles for its electronic products business.

At 31 December 2003, the total future minimum lease payments under finance leases and their present values were as follows:

Group	Minimum lease payments	Minimum lease payments	Present value of minimum lease payments	Present value of minimum lease payments
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Amounts payable:				
Within one year	–	557	–	532
In the second year	–	339	–	329
In the third to fifth years, inclusive	–	71	–	69
Total minimum finance lease payments	–	967	–	930
Future finance charges	–	(37)		
Total net finance lease payables	–	930		
Portion classified as current liabilities (<i>note 26</i>)	–	(536)		
Long term portion	–	394		

29. DEFERRED TAX

The movement in deferred tax assets during the year is as follows:

Group	Losses available for offset against future taxable profit	
	2003	2002
	HK\$'000	HK\$'000
At 1 January		
As previously reported	–	–
Prior year adjustment:		
SSAP 12 – restatement of deferred tax	2,002	2,536
As restated	2,002	2,536
Deferred tax charged to the profit and loss account during the year	(772)	(534)
Gross and net deferred tax assets at 31 December	1,230	2,002

The principal components of the Group's gross and net deferred tax assets not recognised in the financial statements are as follows:

	Group	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i> (Restated)
Tax losses	14,820	13,622
General provision for obsolete inventories	30	222
	<u>14,850</u>	<u>13,844</u>

The unused tax losses include an amount of approximately HK\$4,965,000 (2002: HK\$4,576,000) arising in Mainland China which is due to expire within two to five years for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of the unused tax losses and other deductible temporary differences as they have arisen in subsidiaries that have been loss-making for some time.

At 31 December 2003, there is no significant unrecognised deferred tax liability (2002: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries and associates as the Group has no liability to additional tax should such amounts be remitted due to the availability of double tax relief.

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

SSAP 12 (revised) was adopted during the year, as further explained in note 2 to the financial statements. This change in accounting policy has resulted in an increase in the Group's deferred tax assets as at 31 December 2003 and 2002 by approximately HK\$1,230,000 and HK\$2,002,000, respectively. As a consequence, the consolidated net loss attributable to shareholders for the years ended 31 December 2003 and 2002 have been increased by approximately HK\$772,000 and HK\$534,000, respectively and the consolidated accumulated losses at 1 January 2003 and 2002 have been reduced by approximately HK\$2,002,000 and HK\$2,536,000, respectively, as detailed in the note 32(a) to the financial statements.

30. SHARE CAPITAL

	Group and Company	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
<i>Authorised:</i>		
3,000,000,000 ordinary shares of HK\$0.10 each	<u>300,000</u>	<u>300,000</u>
<i>Issued and fully paid:</i>		
1,100,562,040 (2002: 820,562,040) ordinary shares of HK\$0.10 each	<u>110,056</u>	<u>82,056</u>

Pursuant to an ordinary resolution passed on 28 May 2003, 280,000,000 ordinary shares of HK\$0.10 each were allotted for the acquisition of HK Century and PRC Century at a total fair consideration of HK\$64,400,000.

A summary of the transaction during the year with reference to the above movement in the Company's issued ordinary share capital is as follows:

	Number of shares in issue	Issued share capital <i>HK\$'000</i>	Share premium account <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2002 and 1 January 2003	820,562,040	82,056	118,299	200,355
Shares issued	280,000,000	28,000	36,400	64,400
At 31 December 2003	<u>1,100,562,040</u>	<u>110,056</u>	<u>154,699</u>	<u>264,755</u>

31. SHARE OPTION SCHEMES

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 relationships 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 any member of the Group or of any substantial shareholder of the Company or of any associated company of the Company; (ii) any substantial shareholder of the Company; (iii) the chief executive or director (executive or non-executive or independent non-executive) of any member of the Group or of any substantial shareholder of the Company or of any associated company of the Company or (iv) any supplier, agent, customer, partner or business associate of, or adviser or consultant to, any member of the Group. The 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 a 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 was granted during the year under the New Scheme.

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

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

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

The following share options were outstanding under the 1991 Scheme and the 2001 Scheme at 1 January 2003 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 2003	Lapsed during the year	At 31 December 2003			
1991 Scheme						
<i>Directors</i>						
Mr Yung Richard, Jr.	2,700,000	–	2,700,000	18.5.2001	15.12.2001 to 14.12.2006	0.45
<i>Other employees</i>						
In aggregate	3,200,000	(3,200,000)	–	18.5.2001	15.12.2001 to 14.12.2006	0.45
Total under the 1991 Scheme	<u>5,900,000</u>	<u>(3,200,000)</u>	<u>2,700,000</u>			
2001 Scheme						
<i>Directors</i>						
Mr Cheung Shuen Lung	2,000,000	–	2,000,000	18.5.2001	18.5.2001 to 17.5.2011	0.45
Professor Wei Xin	2,000,000	–	2,000,000	18.5.2001	18.5.2001 to 17.5.2011	0.45
Professor Zou Wei	2,000,000	–	2,000,000	18.5.2001	18.5.2001 to 17.5.2011	0.45
Subtotal	<u>6,000,000</u>	<u>–</u>	<u>6,000,000</u>			
<i>Other employees</i>						
In aggregate	18,900,000	(17,000,000)	1,900,000	18.5.2001	18.5.2001 to 17.5.2011	0.45
Subtotal	<u>18,900,000</u>	<u>(17,000,000)</u>	<u>1,900,000</u>			
Total under the 2001 Scheme	<u>24,900,000</u>	<u>(17,000,000)</u>	<u>7,900,000</u>			

* 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.

1991 Scheme

At the balance sheet date, the Company had 2,700,000 share options outstanding under the 1991 Scheme, which represented approximately 0.2% of the Company's shares in issue as at that date. The exercise in full of the remaining share options under the 1991 Scheme would, under the present capital structure of the Company, result in the issue of 2,700,000 additional ordinary shares of the Company and additional share capital of HK\$270,000 and share premium of HK\$945,000 (before issue expenses).

2001 Scheme

At the balance sheet date, the Company had 7,900,000 share options outstanding under the 2001 Scheme, which represented approximately 0.7% of the Company's shares in issue as at that date. 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 7,900,000 additional ordinary shares of the Company and additional share capital of HK\$790,000 and share premium of HK\$2,765,000 (before issue expenses).

New Scheme

At the balance sheet date, the Company had no share option outstanding under the New Scheme. Subsequent to the balance sheet date:

- (a) On 2 January 2004, a total of 38,000,000 share options were granted under the New Scheme to certain employees of FHL and the Group. The exercise price of the share options is HK\$0.34 per share and the exercise period commenced on 3 January 2004 and will expire on 31 December 2013. The price of the Company's shares at the date of grant was HK\$0.34.
- (b) On 6 February 2004, a total of 32,000,000 share options were granted under the New Scheme to certain executive directors of the Company. The exercise price of the share options is HK\$0.381 per share and the exercise period commenced on 7 February 2004 and will expire on 5 February 2014. The price of the Company's shares at the date of grant was HK\$0.38.

32. RESERVES

(a) Group

	Share premium account <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Exchange fluctuation reserve <i>HK\$'000</i>	Revaluation reserve <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2002:						
As previously reported	118,299	452,259	(996)	3,777	(471,022)	102,317
Prior year adjustment: SSAP 12 – restatement of deferred tax (<i>note 29</i>)	–	–	–	–	2,536	2,536
As restated	118,299	452,259	(996)	3,777	(468,486)	104,853
Realisation upon disposal of discontinued operations	–	–	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 (restated)	–	–	–	–	(85,964)	(85,964)
At 31 December 2002	<u>118,299</u>	<u>488,759</u>	<u>181</u>	<u>3,777</u>	<u>(554,450)</u>	<u>56,566</u>
At 1 January 2003:						
As previously reported	118,299	488,759	181	3,777	(556,452)	54,564
Prior year adjustment: SSAP 12 – restatement of deferred tax (<i>note 29</i>)	–	–	–	–	2,002	2,002
As restated	118,299	488,759	181	3,777	(554,450)	56,566
Issue of shares	36,400	–	–	–	–	36,400
Impairment of fixed assets	–	–	–	(3,777)	–	(3,777)
Exchange realignment	–	–	(292)	–	–	(292)
Transfer of goodwill previously eliminated against retained profits	–	(17,103)	–	–	17,103	–
Net loss for the year	–	–	–	–	(22,827)	(22,827)
At 31 December 2003	<u>154,699</u>	<u>471,656</u>	<u>(111)</u>	<u>–</u>	<u>(560,174)</u>	<u>66,070</u>

	Share premium account <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Exchange fluctuation reserve <i>HK\$'000</i>	Revaluation reserve <i>HK\$'000</i>	Retained profits/ losses (accumulated) <i>HK\$'000</i>	Total <i>HK\$'000</i>
Reserves retained by:						
Company and subsidiaries	154,699	471,656	(111)	–	(580,847)	45,397
Associates	–	–	–	–	20,673	20,673
	<u>154,699</u>	<u>471,656</u>	<u>(111)</u>	<u>–</u>	<u>(560,174)</u>	<u>66,070</u>
31 December 2003	<u>154,699</u>	<u>471,656</u>	<u>(111)</u>	<u>–</u>	<u>(560,174)</u>	<u>66,070</u>
Company and subsidiaries	118,299	488,759	181	3,777	(573,064)	37,952
Associates	–	–	–	–	18,614	18,614
	<u>118,299</u>	<u>488,759</u>	<u>181</u>	<u>3,777</u>	<u>(554,450)</u>	<u>56,566</u>
31 December 2002	<u>118,299</u>	<u>488,759</u>	<u>181</u>	<u>3,777</u>	<u>(554,450)</u>	<u>56,566</u>

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.

Certain amounts of goodwill arising on the acquisition of subsidiaries in prior years remain eliminated against contributed surplus, further details of which are included in note 15 to the financial statements.

(b) Company

	Share premium account <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2002	118,299	528,980	(450,462)	196,817
Net loss for the year	–	–	(30,665)	(30,665)
	<u>118,299</u>	<u>528,980</u>	<u>(481,127)</u>	<u>166,152</u>
At 31 December 2002 and beginning of year	<u>118,299</u>	<u>528,980</u>	<u>(481,127)</u>	<u>166,152</u>
Issue of shares	36,400	–	–	36,400
Net loss for the year	–	–	(89,980)	(89,980)
	<u>154,699</u>	<u>528,980</u>	<u>(571,107)</u>	<u>112,572</u>
At 31 December 2003	<u>154,699</u>	<u>528,980</u>	<u>(571,107)</u>	<u>112,572</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 Company may make distributions to its shareholders out of the contributed surplus in certain circumstances.

33. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Major non-cash transactions

During the year, the Group had the following major non-cash transactions:

- (i) 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\$400,000 (2002: HK\$480,000).
- (ii) The Company allotted and issued 280,000,000 ordinary shares of HK\$0.10 each for the acquisition of subsidiaries.

(b) Acquisition of subsidiaries

	2003
	<i>HK\$'000</i>
Net assets acquired:	
Fixed assets	1,866
Inventories	51,579
Trade and bills receivables	125,936
Prepayments, deposits and other receivables	38,981
Pledged deposits	9,639
Cash and cash equivalents	45,446
Trade and bills payables	(151,973)
Tax payable	(25)
Other payables and accruals	(49,942)
	71,507
Goodwill on acquisition (<i>note 15</i>)	3,213
	74,720
Satisfied by:	
Cash	10,320
Issue of shares	64,400
	74,720

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

	2003
	<i>HK\$'000</i>
Cash consideration	(10,320)
Cash and cash equivalents acquired	45,446
	35,126
Net inflow of cash and cash equivalents in respect of the acquisition of subsidiaries	35,126

On 1 July 2003, the Group acquired the entire equity interests in HK Century and PRC Century from FHK. HK Century and PRC Century are engaged in the distribution of information products. Further details of the transaction are set out in note 36(a) to the financial statements. The purchase consideration for the acquisition was satisfied as to (i) HK\$10,320,000 in the form of cash, with HK\$5,160,000 being paid at the date of acquisition and the remaining HK\$5,160,000 being paid on 2 January 2004; and (ii) HK\$64,400,000 in the form of 280,000,000 ordinary shares of the Company being allotted at the completion date of the acquisition.

Since its acquisition, HK Century and PRC Century contributed approximately HK\$444,633,000 to the Group's consolidated turnover and a profit of approximately HK\$5,127,000 to the consolidated loss after tax.

(c) **Disposal of subsidiaries**

	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net assets disposed of:		
Fixed assets	37,052	16,747
Intangible assets	–	910
Interests in an associate	–	(7,882)
Long term investment	63	1,075
Inventories	39,098	25,145
Trade and bills receivables	25,592	14,166
Prepayment, deposits and other receivables	2,559	43,150
Cash and bank balances	10,881	8,435
Trade payables	(35,170)	(38,699)
Other payables and accruals	(10,020)	(3,749)
Other loans	–	(943)
Interest-bearing bank and other borrowings	(11,295)	(28,872)
Minority interests	–	(1,296)
Exchange fluctuation reserve	–	1,892
	<u>58,760</u>	<u>30,079</u>
Loss on disposal of subsidiaries (<i>note 6</i>)	<u>(13,260)</u>	<u>(15,079)</u>
	<u><u>45,500</u></u>	<u><u>15,000</u></u>
Satisfied by cash	<u><u>45,500</u></u>	<u><u>15,000</u></u>

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

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Cash consideration	45,500	15,000
Cash and bank balances disposed of	(10,881)	(8,435)
Bank overdrafts disposed of	5,510	–
	<u> </u>	<u> </u>
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	<u>40,129</u>	<u>6,565</u>

The subsidiaries disposed of in the year ended 31 December 2003 contributed approximately HK\$118,137,000 to the Group's consolidated turnover and loss of approximately HK\$5,194,000 to the consolidated loss after tax.

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

34. CONTINGENT LIABILITIES

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

	Group		Company	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Guarantees given to suppliers in connection with credit facilities granted to subsidiaries	–	–	19,441	–
Guarantee given to a supplier in connection with credit facilities granted to related companies	–	28,000	–	28,000
Guarantees given to banks in connection with facilities granted to a subsidiary	–	–	–	35,000
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	<u>–</u>	<u>28,000</u>	<u>19,441</u>	<u>63,000</u>

As at 31 December 2003, the guarantees given to suppliers in connection with credit facilities granted to subsidiaries by the Company were utilised to the extent of approximately HK\$19,441,000 (2002: Nil).

As at 31 December 2002, the guarantees given to a supplier in connection with facilities granted to related companies by the Company were utilised to the extent of approximately HK\$4,720,000.

As at 31 December 2002, the guarantees given to the banks in connection with facilities granted to a subsidiary by the Company were utilised to the extent of approximately HK\$8,532,000.

35. OPERATING LEASE ARRANGEMENTS AS LESSEE

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

At 31 December 2003, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	6,256	4,495
In the second to fifth years, inclusive	4,804	6,419
	11,060	10,914
	11,060	10,914

36. RELATED PARTY TRANSACTIONS

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

- (a) On 19 March 2003, the Company entered into a conditional sale and purchase agreement (the "S&P Agreement") with FHK. Pursuant to the S&P Agreement, the Company acquired the entire equity interests in HK Century and PRC Century from FHK (the "Acquisition"). Further details of the transaction are set out in note 33(b) to the financial statements. The Acquisition was completed on 1 July 2003.
- (b) On 1 August 2003, the Company entered into a conditional disposal agreement with Honour Glory to dispose of the electronic products business. Further details of the transaction are set out in note 6(a) to the financial statements. The disposal was completed on 26 September 2003.
- (c) Pursuant to the management agreement (the "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 was operated by the YW Group, and the weighing scale business, which was operated by the MIT 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 MIT Group would not be less than an amount equal to 6% of the net asset value of the YW Group and the MIT Group as at 28 September 2000. The period for which the profit guarantee was effective commenced from 1 October 2000 and expired on 30 September 2003. The disposal of the YW Group during 2002 and the MIT Group during the year released Ricwinco from its profit guarantee obligations in respect of the YW Group and the MIT Group under the MA respectively.
- (d) On 29 April 2003, the Group entered into lease agreements with Peking University Founder Group Corporation ("Peking Founder"), the controlling shareholder of FHL, to lease from Peking Founder certain premises in Beijing, the PRC, as its offices for an aggregate annual rental and management fees of approximately HK\$4,308,000 effective from 1 May 2003 to 31 December 2005. During the year, rental and management fee expenses of approximately HK\$2,138,000 (2002: Nil) were paid to Peking Founder according to the terms of the lease agreements. The balance due from/to Peking Founder included in deposits and other receivables and other payables and accruals as at 31 December 2003 were approximately HK\$713,000 (2002: Nil) and approximately HK\$1,338,000 (2002: Nil), respectively.

- (e) During the year, products of approximately HK\$11,016,000 (2002: Nil) were sold to fellow subsidiaries. The sales of products were made according to published prices and conditions similar to those offered to other customers of the Group.
- (f) During the year, the Group received commission income of approximately HK\$3,052,000 (2002: HK\$840,000) for the provision of advertising agency services from a subsidiary of Yahoo! Inc., a shareholder which held 8.47% of the shares of the Company.
- (g) During the year, products of approximately HK\$854,000 (2002: Nil) were purchased from a fellow subsidiary. The purchase of goods were made according to published prices and conditions similar to those offered by the fellow subsidiary to its own customers.
- (h) As at 31 December 2003, Peking Founder guaranteed banking facilities given by the PRC banks to the Group of approximately HK\$238,935,000 (2002: Nil) which were utilised to the extent of approximately HK\$177,128,000 (2002: Nil).
- (i) As at 31 December 2003, Peking Founder guaranteed credit facilities given by a supplier and utilised by the Group of approximately HK\$5,265,000 (2002: Nil).
- (j) During the year, products of approximately HK\$23,062,000 (2002: Nil) were purchased from a company in which one director of a subsidiary was a shareholder. The purchase prices were determined based on actual costs incurred. The balance due from the related company included in prepayments, deposits and other receivables as at 31 December 2003 was approximately HK\$6,295,000 (2002: Nil).
- (k) On 4 April 2002, the Company entered into a conditional disposal agreement with Ricwinco to dispose of the electronic components business. Further details of the transaction are set out in note 6(b) to the financial statements. The disposal was completed on 28 June 2002.
- (l) For the year ended 31 December 2002, the Group paid approximately HK\$1,560,000 advertising expenses to a subsidiary of Yahoo! Inc..
- (m) For the year ended 31 December 2002, raw materials of approximately HK\$23,701,000 were purchased from Discrete Association Semiconductors Pte. Limited ("DAS"), the then associate of the Company. The purchases of raw materials were made according to published prices and conditions similar to those offered to other customers of DAS.

For the year ended 31 December 2002, finished goods of approximately HK\$31,427,000 were sold to DAS. The sales of finished goods were made according to published prices and conditions similar to those offered to other customers of the Group.

For the year ended 31 December 2002, commissions of approximately HK\$902,000 were paid to DAS. The commissions paid were made based on 2.98% of the sales of semi-conductors to DAS.

37. POST BALANCE SHEET EVENT

On 2 January 2004 and 6 February 2004, 38,000,000 and 32,000,000 share options were granted by the Company to certain employees of FHL and the Group and certain executive directors of the Company, respectively, as further detailed in note 31 to the financial statements.

38. COMPARATIVE AMOUNTS

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

39. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 2 April 2004.

INDEBTEDNESS

As at 30 September 2004 (being the latest practicable date for the preparation of this statement), the Group had outstanding bank loan of approximately HK\$18.8 million which was not secured by any assets but guaranteed by Peking Founder.

Apart from intra-group liabilities, the 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 30 September 2004.

The Directors are not aware of any material changes to the indebtedness and contingent liabilities of the Group since 30 September 2004.

WORKING CAPITAL

Upon completion of the Disposal and after taking into account the present internal financial resources and the present banking facilities available to the Group, in the absence of unforeseen circumstances, the Directors are of the opinion that the Group will have sufficient working capital for its present requirements.

MATERIAL ADVERSE CHANGE

There has been no material change in the financial or trading position or prospects of the Group since 31 December 2003, the date to which the latest audited consolidated financial statements of the Group were made up.

PRO FORMA FINANCIAL INFORMATION

(A) Statement of pro forma unaudited net asset value

Set out below is a statement of pro forma unaudited adjusted net asset value of the Group, which was arrived at based on the unaudited consolidated net asset value of the Group as at 30 June 2004 and the unaudited deficiency in net asset value of EC-Founder (PRC) and the unaudited outstanding balance of the Current Accounts as at 30 June 2004, and assuming that the Disposal had taken place on 30 June 2004. Shareholders should note that this statement is made based on certain assumptions set out herein and is for illustration purpose only and because of its nature, it may not give a true picture of the financial position of the Company or the Group at any future date.

Unaudited net asset value of the Group as at 30 June 2004 <i>HK\$'million</i>	Less: unaudited net asset value of EC-Founder (PRC) after the waiver of the Current Accounts as at 30 June 2004 <i>HK\$'million</i>	Add: estimated net proceeds from the Disposal <i>HK\$'million</i>	Adjusted net asset value of the Remaining Group <i>HK\$'million</i>
<u>176.8</u>	<u>12.1</u>	<u>11.6</u>	<u>176.3</u>

(B) Statement of pro forma unaudited adjusted cash and cash equivalents

Set out below is a statement of pro forma unaudited adjusted cash and cash equivalents of the Group, which was arrived at based on the unaudited cash and cash equivalents of the Group as at 30 June 2004 and the unaudited cash and cash equivalents of EC-Founder (PRC) as at 30 June 2004, and assuming that the Disposal had been completed on 30 June 2004. Shareholders should note that this statement is made based on certain assumptions set out herein and is for illustrative purpose only and because of its nature, it may not give a true picture of the working capital position of the Company or the Group at any future date.

Unaudited cash and cash equivalents (including pledged deposits) of the Group as at 30 June 2004 <i>HK\$'million</i>	Less: unaudited cash and cash equivalents of EC-Founder (PRC) as at 30 June 2004 <i>HK\$'million</i>	Add: estimated net proceeds from the Disposal <i>HK\$'million</i>	Adjusted cash and cash equivalents of the Remaining Group <i>HK\$'million</i>
<u>127.9</u>	<u>2.8</u>	<u>11.6</u>	<u>136.7</u>

(C) Statement of pro forma unaudited adjusted earnings

Set out below is a statement of pro forma unaudited adjusted net loss of the Group, which was arrived at based on the audited consolidated net loss of the Group for the year ended 31 December 2003 and the audited net loss of EC-Founder (PRC) for the year ended 31 December 2003, and assuming that the Disposal had taken place on 1 January 2003. Shareholders should note that this statement is made based on certain assumptions set out herein and is for illustrative purpose only and because of its nature, it may not give a true picture of profitability of the Company or the Group at any future date.

<p>Audited net loss of the Group from operating activities attributable to Shareholders for the year ended 31 December 2003 <i>HK\$'million</i></p> <p style="text-align: right;"><u>(22.8)</u></p>	<p>Less: audited net loss of EC-Founder (PRC) for the year ended 31 December 2003 <i>HK\$'million</i></p> <p style="text-align: right;"><u>(8.8)</u></p>	<p>Adjusted net loss of the Remaining Group <i>HK\$'million</i></p> <p style="text-align: right;"><u>(14.0)</u></p>
<p>Audited net loss per share of the Company for the year ended 31 December 2003 (based on the weighted average number of shares in issue for the year ended 31 December 2003: 960,945,601 shares) <i>HK\$</i></p> <p style="text-align: right;"><u>(0.024)</u></p>		<p>Adjusted net loss per share of the Company (based on the weighted average number of shares in issue for the year ended 31 December 2003: 960,945,601 shares) <i>HK\$</i></p> <p style="text-align: right;"><u>(0.015)</u></p>

Note: The above statement of pro forma unaudited adjusted net loss of the Group has not taken into account the notional gain or loss on disposal as a result of the Disposal and the professional fees incurred in relation to the Disposal as such items are considered to be non-recurring and misleading, in particular the consideration of the Disposal was determined with reference to the net asset value of EC-Founder (PRC) after the waiver of the Current Accounts as at 30 June 2004, and the deficiency in net assets of EC-Founder (PRC) and the balance of the Current Accounts outstanding as at 1 January 2003 are substantially different from those as at 30 June 2004.

(D) Letter from Ernst & Young

The following is the text of a report, prepared for the sole purpose of inclusion in this circular, received from the independent reporting accountants, Ernst & Young, Certified Public Accountants, Hong Kong.



15th Floor
Hutchison House
10 Harcourt Road
Central
Hong Kong

11 November 2004

The Board of Directors
EC-Founder (Holdings) Company Limited
Unit 1408, 14th Floor
Cable TV Tower
No. 9 Hoi Shing Road
Tsuen Wan
New Territories
Hong Kong

Dear Sirs,

We report on the unaudited pro forma financial information of EC-Founder (Holdings) Company Limited (the “Company”) and its subsidiaries (the “Group”) set out on pages 76 to 77 of the circular of the Company dated 11 November 2004 (the “Circular”) issued in connection with the disposal of EC-Founder Co., Ltd. (the “Disposal”). The unaudited pro forma financial information has been prepared, for illustrative purposes only, to provide information about how the Disposal might have affected the financial information presented in respect of the Group.

RESPONSIBILITIES

It is the responsibility solely of the directors of the Company to prepare the pro forma financial information in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

It is our responsibility to form an opinion, as required by the Listing Rules, on the pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

BASIS OF OPINION

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards and Bulletin 1998/8 “Reporting on pro forma financial information pursuant to the Listing Rules” issued by the Auditing Practice Board of the United Kingdom. Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the historical financial information with the source documents, considering the evidence supporting the adjustments and discussing the pro forma financial information with the directors of the Company.

Our work does not constitute an audit or a review in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants, and accordingly, we do not express any such assurance on the pro forma financial information.

OPINION

In our opinion:

- a. the pro forma financial information has been properly compiled on the basis stated;
- b. such basis is consistent with the accounting policies of the Company; and
- c. the adjustments are appropriate for the purposes of the pro forma financial information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

Yours Faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement herein misleading.

2. DISCLOSURE OF INTERESTS BY DIRECTORS

As at the Latest Practicable Date, the Directors and the chief executive of the Company had the following interests or short positions in the shares, debentures or underlying shares of the Company or its associated corporations (within the meaning of Part XV of the SFO) which had been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers in the Listing Rules, to be notified to the Company and the Stock Exchange:

(a) Long positions in ordinary shares of the Company

Name of director	Number of ordinary shares held as at the Latest Practicable Date, capacity and nature of interest				Total	Percentage of the Company's issued share capital
	Directly beneficially owned	Through controlled corporation	As trustee (Note 1)			
Mr Yung Chih Shin, Richard (Note 2)	-	87,680,000	-	87,680,000	7.97%	
Mr Cheung Shuen Lung	36,890,100	-	60,671,600	97,561,700	8.86%	
Mr Zhang Zhao Dong	3,956,000	-	60,671,600	64,627,600	5.87%	
Professor Wei Xin	3,956,000	-	60,671,600	64,627,600	5.87%	

Notes:

- These shares were held by F2 Consultant Limited as nominee on behalf of these directors who are acting in their capacity as the trustees of a discretionary trust for the employees of Founder Data and its subsidiaries.
- Mr Yung Chih Shin, Richard is interested in these shares through Ricwinco Investment Limited ("Ricwinco"), a company which is beneficially owned by Mr Yung Chih Shin, Richard.

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

(b) Directors' rights to acquire shares in the Company and any of its associated corporations

On 24 May 2002, the Company adopted a share option scheme (the "2002 Scheme") in compliance with Chapter 17 of the Listing Rule.

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

The following share options were outstanding under the 2001 Scheme and the 2002 Scheme as at the Latest Practicable Date:

Name or category of participant	Number of outstanding share options as at the Latest Practicable Date	Date of grant of share options*	Exercise period of share options	Exercise price of share of options** HK\$
2001 Scheme				
<i>Directors</i>				
Mr Cheung Shuen Lung	2,000,000	18.5.2001	18.5.2001 to 17.5.2011	0.450
Professor Wei Xin	2,000,000	18.5.2001	18.5.2001 to 17.5.2011	0.450

Name or category of participant	Number of outstanding share options as at the Latest Practicable Date	Date of grant of share options*	Exercise period of share options	Exercise price of share options** HK\$
2002 Scheme				
<i>Directors</i>				
Mr Zhang Zhao Dong	8,000,000	6.2.2004	7.2.2004 to 5.2.2014	0.381
Mr Cheung Shuen Lung	8,000,000	6.2.2004	7.2.2004 to 5.2.2014	0.381
Professor Wei Xin	8,000,000	6.2.2004	7.2.2004 to 5.2.2014	0.381

* *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.*

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or the chief executive of the Company had any interest or short position in the securities of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required to be notified to the Company 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 provisions of the SFO) or pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers in the Listing Rules or which are required, pursuant to section 352 of the SFO, to be entered in the register referred to therein.

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which have been acquired or disposed of by or leased to any member of the Group or are proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2003, being the date to which the latest published audited consolidated accounts of the Company were made up.

No Director was materially interested in any contract or arrangement subsisting at the Latest Practicable Date which was significant in relation to the business of the Group taken as a whole.

3. SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, so far as is known to, or can be ascertained after reasonable enquiry by, the Directors and the chief executive of the Company, the following corporation (not being a Director or the chief executive of the Company) had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or were, 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 the Company:

Long positions

Name of shareholder	Notes	Capacity	Number of ordinary shares held as at the Latest Practicable Date	Percentage of the Company's issued share capital
Peking Founder	1	Through a controlled corporation	603,690,000	54.85%
Founder		Beneficial owner	603,690,000	54.85%
Peking University Education Foundation		Beneficiary of a trust	2,330,000	0.21%
Peking University Education Foundation		Beneficial owner	93,240,000	8.47%
Ricwinco	2	Beneficial owner	87,680,000	7.97%
F2 Consultant Limited	3	Owned as nominee	60,671,600	5.51%
HSBC International Trustee Limited	4	Through a controlled corporation	60,500,000	5.50%
Sun Hung Kai Properties Limited	4	Through a controlled corporation	60,500,000	5.50%
Sunco Resources Limited	4	Through a controlled corporation	60,500,000	5.50%
SUNeVision Holdings Ltd.	4	Through a controlled corporation	60,500,000	5.50%
Hugh Profit Investments Ltd.	4	Through a controlled corporation	60,500,000	5.50%
Well Drive Holdings Limited		Beneficial owner	60,500,000	5.50%

Notes:

1. Peking Founder is deemed to be interested in 603,690,000 shares of the Company under the SFO by virtue of its interest in Founder.
2. Mr Yung Chih Shin, Richard is interested in these shares through Ricwinco.
3. F2 Consultant Limited holds the shares of the Company as nominee on behalf of the directors of Founder Data who are acting in their capacity as the trustees of a discretionary trust for the employees of Founder Data and its subsidiaries.

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

Save as disclosed herein, the Directors and the chief executive of the Company are not aware of any person (other than a Director or the chief executive of the Company or his associates or a member of the Group) who had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under provisions of Divisions 2 and 3 of Part XV of the SFO, or who has, 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 other member of the Group or had any options in respect of such capital as at the Latest Practicable Date.

4. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contracts with the Company or any other member of the Group which will not expire or is not determinable by the employer within one year without payment of compensation (other than statutory compensation).

5. COMPETING INTEREST

As at the Latest Practicable Date, none of the Directors nor their associates had interests in any business which competes or is likely to compete, directly or indirectly, with any business of the Group.

6. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by EC-Founder or its subsidiaries within two years preceding the date of this circular and which are or may be material:

- a. The agreement entered into by the Company and Founder (Hong Kong) Limited, a wholly-owned subsidiary of Founder, on 19 March 2003 in respect of the sale and purchase of the entire issued share capital of Founder Century (Hong Kong) Limited and the entire equity interest in Beijing Founder Century Information System Co., Ltd. at a total consideration of HK\$71.5 million. Details of the sale and purchase were set out in the circular of the Company dated 30 April 2003.
- b. The agreement entered into by the Company, Mr Yung Richard, Jr., who resigned as director of the Company from 1 November 2004, and Honour Glory Limited, a company controlled by Mr. Yung Richard, Jr., on 1 August 2003 in respect of the sale and purchase of the entire issued share capital of MIT Holdings Limited at a total consideration of HK\$45.5 million. Details of the sale and purchase were set out in the circular of the Company dated 25 August 2003.

- c. The deed made between EC-Founder and Ricwinco, a company controlled by Mr Yung Chih Shin, Richard, a non-executive Director, on 1 August 2003 in connection with the termination of the management agreement entered into between the Company and Ricwinco on 17 May 2000. Details of the agreement were set out in the circular of the Company dated 25 August 2003.
- d. The Disposal Agreement.

7. LITIGATION

As at the Latest Practicable Date, neither EC-Founder nor any of its subsidiaries were engaged in any litigation or arbitration of material importance and there were no litigation or claim of material importance known to the Directors to be pending or threatened by or against EC-Founder or any of its subsidiaries.

8. QUALIFICATIONS OF EXPERT

The following are the qualifications of the experts who have given opinions or advice which are contained in this circular:

Name	Qualification
Ernst & Young	Certified Public Accountants
Tai Fook	A licensed corporation under the SFO to carry out type 6 regulated activity

As at the Latest Practicable Date, Ernst & Young and Tai Fook were not beneficially interested in the securities of any member of the Group and did not have any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, Ernst & Young and Tai Fook did not have any direct or indirect interest in any assets which have been acquired or disposed of by or leased to any member of the Group or are proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2003, being the date to which the latest published audited consolidated accounts of the Company were made up.

Each of Ernst & Young and Tai Fook has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of their letters and references to their names, in the form and context in which they appear.

9. DOCUMENTS AVAILABLE FOR INSPECTION

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 (public holidays excluded) from the date of this circular up to and including 29 November 2004.

- a. the memorandum and bye-laws of the Company;
- b. the audited financial statements of the Group for each of the years ended 31 December 2002 and 2003;
- c. the unaudited interim report of the Group for the six months ended 30 June 2004;
- d. the letter from the Independent Board Committee, the text of which is set out on page 11 of this circular;
- e. the letter from Tai Fook to the Independent Board Committee, the text of which is set out from pages 12 to 19 of this circular;
- f. the letter from Ernst & Young in respect of the pro forma financial information on the Company set out in Appendix II to this circular;
- g. the material contracts referred to in paragraph 6 above; and
- h. the letters of consent from Ernst & Young and Tai Fook as referred to in paragraph 8 above.

10. GENERAL

- a. The branch share registrar and the transfer office of the Company in Hong Kong is Tengis Limited, G/F., Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong.
- b. The company secretary of the Company is Ms Tang Yuk Bo, Yvonne, ACIS, ACS.
- c. The qualified accountant of the Company is Mr Ho Yui Pok, Eleutherius, ACA, CPA

NOTICE OF SGM



(Incorporated in Bermuda with limited liability)

(Stock Code: 618)

NOTICE IS HEREBY GIVEN that a special general meeting (the “SGM”) of EC-Founder (Holdings) Company Limited (the “Company”) will be held at 10:00 a.m. on Monday, 29 November 2004 at Unit 1408, 14th Floor, Cable TV Tower, 9 Hoi Shing Road, Tsuen Wan, New Territories, Hong Kong for the purpose of considering and, if thought fit, passing the following resolution which will be proposed as an ordinary resolution:

ORDINARY RESOLUTION

“THAT:

- a. the conditional agreement dated 20 October 2004 (the “Agreement”) entered into between Founder Data Corporation International Limited (“Founder Data”), 方正軟件(蘇州)有限公司 (Founder Software (Suzhou) Company Limited**) and 上海方正信息安全技術有限公司 (Shanghai Founder Information Security Technology Company Limited**) (together, the “Purchasers”), and Peking University Founder Group Corporation in relation to the disposal of the entire equity interest in 北京方正數碼有限公司 (EC-Founder Co., Ltd.***) by Founder Data to the Purchasers, a copy of which has been produced to this meeting marked “A” and signed by the chairman of the meeting for the purpose of identification, the transactions contemplated under the Agreement and the implementation thereof be and are hereby approved, confirmed and ratified (***English translated names given for identification purpose only*); and
- b. the directors of the Company be authorised to take any such action, execute any such document and do any such other thing on behalf of the Company as they may consider necessary, appropriate or desirable in relation to, or in connection with, the implementation of the Agreement and the transactions contemplated thereunder.”

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

Hong Kong, 11 November 2004

Principal place of business in Hong Kong:

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

* *For identification purpose only*

NOTICE OF SGM

Notes:

- (1) Any shareholder entitled to attend and vote at the meeting is entitled to appoint another person as his proxy to attend and vote instead of him. A shareholder who is holder of two or more shares may appoint more than one proxy to attend on the same occasion. A proxy needs not be a shareholder of the Company but must be present in person at the meeting to represent the shareholder. Completion and return of the form of proxy will not preclude a shareholder from attending the meeting and voting in person. In such event, his form of proxy will be deemed to have been revoked.
- (2) Where there are joint holders of any share, any one of such joint holders may vote at the meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto, but if more than one of such joint holders be present at the meeting, that one of the said persons so present whose name stands first on the register of members of the Company in respect of such share shall alone be entitled to vote in respect thereof.
- (3) In order to be valid, the instrument appointing a proxy together with the power of attorney or other authority, if any, under which it is signed, or a notarially certified copy of that power or authority must be deposited at the principal place of business of the Company 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 any adjournment thereof.
- (4) In accordance with Chapter 14A of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), if Peking University Founder Group Corporation and its associates (as defined in the Listing Rules) (including the Purchasers, Founder Holdings Limited and their respective subsidiaries) hold shares of the Company as at the date of the meeting, they are required to abstain from voting on the above resolution.
- (5) The ordinary resolution as set out above will be determined by way of a poll.