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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive directors

Mr Cheung Shuen Lung (*Chairman and President*)

Professor Xiao Jian Guo (*Deputy Chairman*)

Professor Wei Xin

Mr Zhang Zhao Dong

Independent non-executive directors

Dr Hu Hung Lick, Henry

Mr Li Fat Chung

COMPANY SECRETARY

Ms Tang Yuk Bo, Yvonne

AUDIT COMMITTEE

Dr Hu Hung Lick, Henry

Mr Li Fat Chung

AUDITORS

Ernst & Young

Certified Public Accountants

SOLICITORS

Norton Rose

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited

Fortis Bank Asia HK

Hang Seng Bank Limited

REGISTERED OFFICE

Canon's Court

22 Victoria Street

Hamilton HM12

Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Unit 1408, 14th Floor

Cable TV Tower

9 Hoi Shing Road

Tsuen Wan

New Territories

Hong Kong

SHARE REGISTRARS AND TRANSFER OFFICE

Principal registrars:

Butterfield Fund Services (Bermuda) Limited

Rosebank Centre

11 Bermudiana Road

Pembroke

Bermuda

Hong Kong branch share registrars and transfer office:

Computershare Hong Kong Investor Services Limited

Suite 1712-1716

17th Floor, Hopewell Centre

183 Queen's Road East

Hong Kong

LISTING INFORMATION

Main board of The Stock Exchange of Hong Kong Limited

Stock code: 0418

Board lot: 2,000 shares

INVESTOR RELATIONS

Public Relations Department

Founder Holdings Limited

Unit 1408, 14th Floor

Cable TV Tower

9 Hoi Shing Road

Tsuen wan

New Territories

Hong Kong

Telephone: (852) 2611 4114

Facsimile: (852) 2413 3218

Website: <http://www.founder.com.hk>

Email: ir@founder.com.hk

FINANCIAL HIGHLIGHTS

YEAR	2003	2002	2001	2000	1999
		(Restated)	(Restated)	(Restated)	(Restated)
Turnover (HK\$' million)	1,554	1,442	1,670	2,088	1,583
Total assets (HK\$' million)	961	820	1,105	1,491	1,164
Total liabilities (HK\$' million)	532	472	662	686	599
Net assets (HK\$' million)	342	333	418	775	562
Net asset value per share (HK\$)	0.30	0.30	0.37	0.69	0.50
Working capital ratio	1.53	1.40	1.37	1.84	1.71
Long term debt to equity ratio	N/A	0.007	0.008	0.005	0.008
Total number of staff (As at the end of the year)	2,080	1,968	2,520	2,673	2,400

MANAGEMENT DISCUSSION AND ANALYSIS

OVERALL PERFORMANCE

The Group's audited consolidated profit after tax and minority interests for the year ended 31 December 2003 amounted to HK\$7,215,000 (2002: loss of HK\$275,844,000). The Group recorded a moderate increase in turnover during the year by approximately 8% to HK\$1,553.8 million (2002: HK\$1,442.0 million). For the two years under review, gross profit percentage maintained at approximately 17.8%. Our cost control measures implemented in early 2003 further reduced our selling and distribution costs and administrative expenses by approximately 7% and 3% respectively if compared to 2002.

Impairment of goodwill was substantially reduced from HK\$189.1 million in 2002 to HK\$2.5 million in 2003. As a result of business restructuring, the electronic products business was disposed of in September 2003, thus resulting in a non-recurring loss on disposal of HK\$13.3 million and an impairment of fixed assets of HK\$3.8 million. If those exceptional losses were excluded, the Group would record a profit from operating activities of HK\$12.9 million rather than a loss of HK\$6.6 million.

Basic earnings per share for the year was HK0.6 cents (2002: loss of HK24.5 cents).

OPERATING REVIEW AND PROSPECTS

In 2003, we have implemented a series of actions to improve our operations. More effort and resources were devoted to new product development and new market exploration. Loss making or low margin businesses have been scaled down or terminated. Resources were re-allocated in order to enhance our competitiveness and productivity. Despite the harsh business environment caused by the outbreak of SARS in the first half of 2003, we still achieved a satisfactory improvement in our performance and all our three major business segments recorded segmental profit for the current year under review.

(A) Software development and systems integration for media sector

The turnover of the software development and systems integration business for the media sector for the current year maintained at HK\$571.9 million (2002: HK\$573.9 million) while its segment results significantly improved to a profit of HK\$23.9 million (2002: HK\$6.7 million).

Our flagship subsidiary, Beijing Founder Electronics Co., Ltd. was ranked as one of five most competitive PRC software enterprises in 2003. In November 2003, our Founder Apabi Digital Rights Management System has won the Award of Significant Technology and Invention (重大技術發明獎) from the Ministry of Information Industry. We have continued to strengthen the promotion campaign of our network publishing total solutions, Founder Apabi e-Book Solutions, in the PRC and to devote to our research and development activities for our traditional digital publishing and commercial printing business.

MANAGEMENT DISCUSSION AND ANALYSIS

For overseas market, we had completed the development and installation of the publishing systems for Nikkan Sports Printing Co., Ltd. in Japan and Singapore Press Holdings Limited in Singapore in 2003. Sales for our publishing solutions to western countries have also grown satisfactory in the recent years and annual sales exceeded US\$1 million in 2003.

In the past few years, to respond to the rapid development of internet and e-business, we have devoted our research and development resources to our E-Media strategy. Other than our traditional digital publishing and commercial printing technologies, we now also have our self-developed technologies in the area of digital rights protection, digital asset management and digital printing on-demand. As a leading professional software developer, we continue to promote the production and dissemination of digital information in the field of multi-media and trans-media.

(B) Software development and systems integration for non-media sector

The turnover of the software development and systems integration business in the non-media sector for the year decreased by 42% to HK\$175.8 million (2002: HK\$302.1 million) while its segment results resumed a profit of HK\$2.5 million (2002: loss of HK\$8.4 million).

Market competition in the systems integration business for the banking and security industries in the PRC was still severe during the year under review, turnover for the year was lower than expected. Other than our traditional sales in the banking and security sectors, we have also achieved satisfactory growth in sales in the government sector in the area of taxation, postal and security. We have further streamlined our operational team and tightened the control over operating expenses, thus improving our operational efficiency to face the keen market competition. Equipped with the Class One Computer Information Systems Integrator (一級計算機信息系統集成資質) status from the Ministry of Information Industry and the Gold Certified Partner (金牌認證伙伴) status with Cisco Systems, we are confident to gain more contracts from networking information system projects in the coming years.

(C) Distribution of information products

Our substantial restructuring and reengineering exercise in 2002 laid a solid foundation for the future development of our distribution business of information products. The turnover of the distribution business of information products for the year increased by 47% to HK\$756.8 million (2002: HK\$514.6 million) while its segmental results for the year recorded a profit of HK\$6.9 million (2002: loss of HK\$20.7 million).

The distribution business has gained its ranking from the 11th place in 2002 to the 7th place in 2003 among the top 100 distributors of information products in the PRC. Besides the headquarters in Beijing, the Group has established branch offices in Shanghai, Guangzhou and Chengdu and various representative offices in a number of cities in the PRC.

The internal demand for IT products in the PRC will remain strong as the PRC's gross domestic products is expected to continue to increase at an annual growth rate of approximately 7% to 8% for the next ten years. In addition, after PRC's accession into the World Trade Organisation and the running up of the Olympic Games of 2008 in Beijing, it is expected that the PRC IT industry will achieve a double digit compound annual growth rate over the next five years. In 2004, we have planned to expand our distribution network by establishing more offices throughout the PRC in order to capture the considerable development potential in the IT industry in the future.

MANAGEMENT DISCUSSION AND ANALYSIS

Employees

The Group has developed its human resources policies and procedures based on performance and merit. The Group ensures that the pay levels of its employees are competitive and employees are rewarded on a performance-related basis within the general framework of the Group's salary and bonus systems. The Group provides on-the-job training to its employees in addition to retirement benefit schemes and medical insurance.

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

Although the workforce of the Group was further streamlined in the first quarter of the year, the number of employees of the Group increased by 6% to approximately 2,080 as at 31 December 2003 as a result of the additional headcount contributed by the subsidiaries acquired during the year.

FINANCIAL REVIEW

Liquidity, financial resources and capital commitments

At 31 December 2003, the Group recorded total assets of HK\$960.7 million which were financed by liabilities of HK\$532.0 million, minority interests of HK\$86.7 million and equity of HK\$342.0 million. The Group's net asset value per share as at 31 December 2003 amounted to HK\$0.3 (2002: HK\$0.3) per share.

The Group had a total cash and bank balance of HK\$323.7 million as at 31 December 2003. After deducting total borrowings of HK\$5.5 million, the Group recorded a net cash balance of HK\$318.2 million as at 31 December 2003 as compared to HK\$208.9 million as at 31 December 2002. The Group's borrowings, which are subject to little seasonality, consist of mainly short term bank loans and revolving trust receipt loans. At 31 December 2003, the Group's gearing ratio, measured on the basis of total borrowings as a percentage of total shareholders' equity, was 0.02 (31 December 2002: 0.10) while the Group's working capital ratio was 1.53 (31 December 2002: 1.40).

At 31 December 2003, the Group did not have any material capital expenditure commitments.

Treasury policies

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

MANAGEMENT DISCUSSION AND ANALYSIS

Exposure to fluctuations in exchange rates and related hedges

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

Contracts

At 31 December 2003, the major contracts in hand for the software development and systems integration business amounted to approximately HK\$162.1 million, which are all expected to be completed within one year time.

Material acquisitions and disposals of subsidiaries and associates

On 19 March 2003, Founder (Hong Kong) Limited ("Founder HK"), a wholly-owned subsidiary of the Company, entered into a conditional sale and purchase agreement with EC-Founder (Holdings) Company Limited ("EC-Founder"), the then 39.45% owned associated company of the Company, for the disposal of Founder HK's entire equity interests in Founder Century (Hong Kong) Limited and Beijing Founder Century Information System Co., Ltd., both of which are engaged in the distribution business of information products. The disposal was completed on 1 July 2003. EC-Founder became an approximately 54.85% owned subsidiary of the Company upon the completion of the disposal.

On 1 August 2003, EC-Founder entered into a conditional disposal agreement for the disposal of the entire issued share capital of MIT Holdings Limited at a total cash consideration of HK\$45.5 million. MIT Holdings Limited and its subsidiaries are engaged in the electronic products business. The disposal was completed on 26 September 2003, resulted into an exceptional loss on disposal of subsidiaries amounting to HK\$13.3 million.

Charges on assets

At 31 December 2003, all the Group's land and buildings and investment properties in Hong Kong of approximately HK\$28.5 million and fixed deposits of approximately HK\$41.1 million were pledged to banks to secure banking facilities granted.

Contingent liabilities

At 31 December 2003, the Company had contingent liabilities in relation to guarantees given to banks and suppliers in connection with facilities granted to certain subsidiaries amounting to approximately HK\$45 million and HK\$15.6 million respectively.

At 31 December 2003, the Group had contingent liabilities in relation to bills discounted with recourse amounting to approximately HK\$3.7 million.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr Cheung Shuen Lung, aged 48, is the Chairman and President of the Company. He is an executive director of Peking University Founder Group Corporation and EC-Founder (Holdings) Company Limited, and the non-executive Chairman of PUC Founder (MSC) Berhad. He is a research fellow of the Enterprise Research Institute at Peking University and one of the founders of the Group. He has extensive experience in the information technology industry.

Professor Xiao Jian Guo, aged 47, is the Deputy Chairman of the Company. He is also the Vice-Chairman and Chief Technical Officer of Peking University Founder Group Corporation and a director of Founder Technology Group Corp. He is a professor and a supervisor of PhD students of Peking University. He graduated from the Department of Computer Science at the College of Dalian Ocean Communication with a bachelor degree in 1982 and obtained a master degree in Computer Science at Peking University.

Professor Wei Xin, aged 48, is an executive director of the Company and EC-Founder (Holdings) Company Limited. He is also the Chairman of Peking University Founder Group Corporation and Founder Technology Group Corp. Professor Wei obtained a master degree from the College of Economics at Peking University. He is also the Executive Dean of College of Education at Peking University.

Mr Zhang Zhao Dong, aged 54, is an executive director of the Company and the Chairman and executive director of EC-Founder (Holdings) Company Limited. He is also the Vice-Chairman and President of Peking University Founder Group Corporation and a director of Founder Technology Group Corp. Mr Zhang graduated from the Department of Geophysics at Peking University in 1977 and is a research fellow at Peking University.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr Hu Hung Lick, Henry, G.B.S., O.B.E., PhD, J.P., aged 84, has been practicing as barrister for over 49 years and is currently the President of Shue Yan College in Hong Kong, and a member of the China International Economic and Trade Arbitration Commission. Dr Hu is also an adviser to the China Research Committee of Juvenile Delinquency.

Mr Li Fat Chung, aged 43, is a partner of Chan, Li, Law & Co., Certified Public Accountants, in Hong Kong. He is a fellow member of the Association of Chartered Certified Accountants in the United Kingdom, the Hong Kong Society of Accountants and the Taxation Institute of Hong Kong. Mr Li received a master degree in Business Administration from University of Warwick, England.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Mr Wang Hui Min, aged 38, is a Vice-President of the Company and a director of Beijing Founder Electronics Co., Ltd. He is also an associate research fellow at Peking University and a director of Founder Technology Group Corp. Mr Wang graduated from the Peking University Research Institute of Computer Science and Technology in 1991 and obtained a master degree in computer science. He joined Peking University Founder Group Corporation after graduation and was responsible for the software development of electronic publishing systems. He joined the Group in 1992 and is currently responsible for the operation control function of the Company.

Ms Kwok Leung Chu, aged 39, is a Vice-President of the Company and the Chairman of Beijing Founder Order Computer System Co., Ltd. She is also the General Manager, Administration Department of Founder (Hong Kong) Limited. She obtained a master degree in Business Administration from Murdoch University, Australia in 2001. She is currently responsible for the operation of Beijing Founder Order Computer System Co., Ltd. and the administration function of Founder (Hong Kong) Limited.

Mr Fung Man Yin, Sammy, aged 44, is the Group Financial Controller of the Company. He is a fellow member of the Institute of Chartered Accountants in England and Wales and an associate member of the Hong Kong Society of Accountants. He is also a Certified Public Accountant in Hong Kong. Mr Fung holds a bachelor degree in Economics and Accounting from University of Newcastle Upon Tyne, England and worked with several international accounting firms in England and Hong Kong over 10 years. Before joining the Group in October 2000, he was the Group Financial Controller of a listed company in Hong Kong over 8 years.

Professor Zou Wei, aged 40, is an executive director, the Vice-President and the Chief Technology Officer of EC-Founder (Holdings) Company Limited. He is also an associate professor and a supervisor of post-graduates of Peking University. He obtained his master degree from the Science Academy of China in 1988 and subsequently obtained the second prize for National Scientific and Advancement in 1992. Professor Zou is mainly involved in the research and development of the software solutions and services business of EC-Founder (Holdings) Company Limited and its subsidiaries.

Mr Ren Wei Quan, aged 41, is the Chairman and President of Beijing Founder Electronics Co., Ltd. Mr Ren graduated from the Information & Electronics Engineering Department and the Electrical Engineering Department of Zhejiang University and obtained a master degree in engineering. Mr Ren taught and carried on science research work at high school. He joined Peking University Founder Group Corporation in 1993 and had been the General Manager of Hangzhou subsidiary of Peking University Founder Group Corporation, Vice-President of Founder Technology Group Corp. and executive Vice-President of Beijing Founder Electronics Co., Ltd. He has extensive experience in information product industry especially in the area of media publishing technique, operation management and human resources development.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr Liu Xiao Kun, aged 44, is the executive President of EC-Founder (Holdings) Company Limited. Mr Liu graduated from Sichuan University and holds a master degree in Economics. Mr Liu is mainly responsible for the overall management and operation of the software solutions and services business and information products distribution business of EC-Founder (Holdings) Company Limited and its subsidiaries.

Mr Guan Xiang Hong, aged 37, is a director and President of Founder International Inc. and a senior engineer certified by the Ministry of International Trade and Industry of Japan. He graduated from the Electrical Engineering Department at Peking University and has extensive experience in the factory automation and electronic publishing industry in Japan. He is mainly responsible for the Group's operations in Japan and South Korea.

Mr See Chiu Yeung, aged 38, is the President Assistant and the Asian Pacific Regional Business General Manager of Founder (Hong Kong) Limited. He is also a director of PUC Founder (MSC) Berhad and Founder GlobalTech Limited. He graduated from the Faculty of Electronic Engineering at Morrison Hill Technical Institute, Hong Kong in 1989 and obtained a master degree in Business Administration from Murdoch University, Australia in 2001. He has extensive experience in electronic publishing industry and is currently responsible for strategic planning and business development of the local and overseas business of Founder (Hong Kong) Limited.

Mr Teh Hon Seng, aged 40, graduated with a bachelor degree in Applied Science from University Sains Malaysia and has extensive experience in the computer and electronic publishing industry. He joined the Group in 1995 and is currently the Managing Director of PUC Founder (MSC) Berhad. He is responsible for the Group's operations in South East Asia.

REPORT OF THE DIRECTORS

The directors present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2003.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the principal subsidiaries are set out in note 16 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2003 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 17 to 72.

The directors do not recommend the payment of any dividend in respect of the year.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited financial statements and reclassified as appropriate, is set out on page 75. This summary does not form part of the audited financial statements.

FIXED ASSETS AND INVESTMENT PROPERTIES

Details of movements in the fixed assets and investment properties of the Group during the year are set out in note 13 to the financial statements. Further details of the Group's investment properties are set out on pages 73 to 74 of the Annual Report.

SHARE CAPITAL AND SHARE OPTIONS

There were no movements in either the Company's share capital or share options during the year.

PRE-EMPTIVE RIGHTS

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 32 to the financial statements.

REPORT OF THE DIRECTORS

DISTRIBUTABLE RESERVES

As at 31 December 2003, the Company's reserves available for distribution amounted to approximately HK\$216,785,000. In addition, the Company's share premium account, in the amount of approximately HK\$27,660,000, may be distributed in the form of fully paid bonus shares.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for less than 30% of the total sales for the year. Purchases from the Group's five largest suppliers accounted for approximately 55% (2002: 48%) of the total purchases for the year and purchases from the largest supplier included therein amounted to approximately 36% (2002: 21%).

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest suppliers.

DIRECTORS

The directors of the Company during the year were:

Executive directors:

Mr Cheung Shuen Lung
Professor Xiao Jian Guo
Professor Wei Xin
Mr Zhang Zhao Dong

Independent non-executive directors:

Dr Hu Hung Lick, Henry
Mr Li Fat Chung

In accordance with the bye-laws of the Company, Professor Wei Xin and Dr Hu Hung Lick, Henry will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 8 to 10 of the Annual Report.

DIRECTORS' SERVICE CONTRACTS

Professor Wei Xin has entered into a service contract with the Company for an initial fixed term of five years commencing on 31 March 2000 and may be terminated by either party giving not less than one year's written notice expiring at the end of or at any time after the initial five year term.

Apart from the foregoing, no director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS IN CONTRACTS

No director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 31 December 2003, the interests and short positions of the directors in the share capital of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code"), were as follows:

Long positions in ordinary shares of associated corporations:

EC-Founder (Holdings) Company Limited ("EC-Founder"), a subsidiary of the Company

Name of director	Number of ordinary shares held, capacity and nature of interest			Percentage of the associated corporation's issued share capital
	Directly beneficially owned	As trustee*	Total	
Mr Cheung Shuen Lung	36,890,100	63,459,100	100,349,200	9.12
Professor Xiao Jian Guo	8,703,300	—	8,703,300	0.79
Professor Wei Xin	3,956,000	63,459,100	67,415,100	6.13
Mr Zhang Zhao Dong	3,956,000	63,459,100	67,415,100	6.13

* 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 Corporation International Limited ("FDC") and its subsidiaries. FDC is incorporated in the British Virgin Islands with limited liability and is a wholly-owned subsidiary of EC-Founder.

The interests of the directors in the share options of EC-Founder are separately disclosed in note 31(b) to the financial statements.

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

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

REPORT OF THE DIRECTORS

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save as disclosed under the heading "Directors' interests and short positions in shares and underlying shares" above and in the share option scheme disclosures in note 31 to the financial statements, at no time during the year were rights to acquire benefits by means of the acquisition of shares in the Company granted to any director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES

At 31 December 2003, the following interest of 5% or more of the issued share capital of the Company was recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions:

Name	Capacity and nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital
Peking University Founder Group Corporation ("Peking Founder")	Directly beneficially owned	367,179,610	32.67

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

CONNECTED TRANSACTIONS

Details of the connected transactions of the Company are set out in notes 36(b) to 36(e) to the financial statements.

During the year, Beijing Founder Electronics Co., Ltd. ("Founder Electronics"), a subsidiary of the Company, paid rental expenses of approximately HK\$4,260,000 to Peking Founder pursuant to the lease agreements signed between Founder Electronics and Peking Founder in December 1995. The independent non-executive directors of the Company have reviewed this connected transaction and have confirmed to the board of directors that, in their opinion, such transaction (i) was conducted in the ordinary and usual course of the Group's business; (ii) was fair and reasonable so far as the interests of the shareholders of the Company as a whole are concerned; and (iii) was carried out in accordance with the lease agreements.

REPORT OF THE DIRECTORS

CONNECTED TRANSACTIONS *(continued)*

During the year, Founder Electronics, Beijing Founder Order Computer System Co., Ltd., Beijing Founder International Co., Limited and Beijing Founder Century Information System Co., Ltd., the subsidiaries of the Company, entered into lease agreements with Peking Founder and paid rental and management fee expenses of approximately HK\$14,008,000. The independent non-executive directors of the Company have reviewed these connected transactions and have confirmed to the board of directors that, in their opinion, such transactions (i) were conducted in the ordinary course of the Group's business; (ii) were fair and reasonable so far as the interests of the shareholders of the Company as a whole are concerned; (iii) were carried out in accordance with the lease agreements except that Peking Founder had waived the payment of rental deposit of HK\$1,194,000 to be made by Founder Electronics; and (iv) were within the prescribed limit of approximately HK\$23,260,000 as set out in the waiver letter issued by the Stock Exchange.

POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in note 37 to the financial statements.

CODE OF BEST PRACTICE

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

AUDIT COMMITTEE

The Company has an audit committee which was established in accordance with the requirements of the Code, for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises the two independent non-executive directors of the Company.

AUDITORS

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

Cheung Shuen Lung

Chairman

Hong Kong
2 April 2004

REPORT OF THE AUDITORS



To the members

Founder Holdings Limited

(Incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 17 to 72 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

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

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

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2003 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young

Certified Public Accountants

Hong Kong
2 April 2004

CONSOLIDATED PROFIT AND LOSS ACCOUNT*Year ended 31 December 2003*

	Notes	2003 HK\$'000	2002 HK\$'000 (Restated)
TURNOVER	5	1,553,796	1,442,015
Cost of sales		(1,276,880)	(1,184,551)
Gross profit		276,916	257,464
Other revenue and gains	5	61,851	44,752
Selling and distribution costs		(161,552)	(174,160)
Administrative expenses		(128,564)	(132,674)
Other operating expenses, net		(35,704)	(63,019)
Impairment of fixed assets		(3,777)	—
Impairment of goodwill		(2,528)	(189,070)
Loss on disposal of subsidiaries		(13,260)	(560)
LOSS FROM OPERATING ACTIVITIES	6	(6,618)	(257,267)
Finance costs	7	(2,071)	(4,607)
Share of profits and losses of:			
Jointly-controlled entity		1,028	1,896
Associates		3,836	(18,485)
LOSS BEFORE TAX		(3,825)	(278,463)
Tax	10	(3,790)	(2,538)
LOSS BEFORE MINORITY INTERESTS		(7,615)	(281,001)
Minority interests		14,830	5,157
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES			
ATTRIBUTABLE TO SHAREHOLDERS	11	7,215	(275,844)
EARNINGS/(LOSS) PER SHARE - BASIC	12	0.6 cents	(24.5) cents

CONSOLIDATED BALANCE SHEET

31 December 2003

	Notes	2003 HK\$'000	2002 HK\$'000 (Restated)
NON-CURRENT ASSETS			
Fixed assets	13	82,731	74,580
Intangible assets	14	932	—
Goodwill	15	7,055	—
Interest in a jointly-controlled entity	17	9,518	8,588
Interests in associates	18	38,660	71,127
Deferred tax assets	29	7,895	8,129
		146,791	162,424
CURRENT ASSETS			
Inventories	19	125,835	97,140
Systems integration contracts	20	52,466	56,309
Trade and bills receivables	21	248,281	196,302
Prepayments, deposits and other receivables	22	61,091	61,362
Short term investments	23	2,501	4,546
Pledged deposits	24	41,077	25,729
Cash and cash equivalents	25	282,660	216,383
		813,911	657,771
CURRENT LIABILITIES			
Trade and bills payables	26	266,499	199,294
Tax payable		144	794
Other payables and accruals	27	259,893	238,666
Interest-bearing bank and other borrowings	28	5,515	30,946
		532,051	469,700
NET CURRENT ASSETS		281,860	188,071
TOTAL ASSETS LESS CURRENT LIABILITIES		428,651	350,495
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	28	—	2,236
		428,651	348,259
MINORITY INTERESTS			
		86,667	15,713
		341,984	332,546
CAPITAL AND RESERVES			
Issued capital	30	112,380	112,380
Reserves	32	229,604	220,166
		341,984	332,546

Cheung Shuen Lung
Director

Xiao Jian Guo
Director

CONSOLIDATED SUMMARY STATEMENT OF CHANGES IN EQUITY*Year ended 31 December 2003*

	<i>Notes</i>	2003 HK\$'000	2002 HK\$'000 (Restated)
Total equity at 1 January:			
As previously reported		324,417	408,336
Prior year adjustment:			
Statement of Standard Accounting Practice ("SSAP") 12 - restatement of deferred tax	29, 32	<u>8,129</u>	<u>9,480</u>
As restated		332,546	417,816
Exchange differences on translation of the financial statements of foreign entities	32	2,395	1,462
Share of general reserve of associates	32	38	42
Realisation of exchange fluctuation reserve upon partial disposal of a subsidiary	32	(210)	—
Net profit/(loss) from ordinary activities attributable to shareholders	32	7,215	(275,844)
Impairment of goodwill of subsidiaries remaining eliminated against contributed surplus	32	<u>—</u>	<u>189,070</u>
Total equity at 31 December		<u>341,984</u>	<u>332,546</u>

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2003

	Notes	2003 HK\$'000	2002 HK\$'000 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		(3,825)	(278,463)
Adjustments for:			
Finance costs	7	2,071	4,607
Share of profits and losses of a jointly-controlled entity and associates		(4,864)	16,589
Interest income	5	(2,552)	(1,582)
Gain on deemed partial disposal of an associate	5	—	(3,685)
Gain on partial disposal of a subsidiary	5, 33(b)	(3,496)	—
Loss on disposal of subsidiaries	6, 33(b)	13,260	560
Loss on disposal of fixed assets	6	210	3,446
Depreciation	6	17,110	22,263
Amortisation of trademark	6	—	922
Amortisation of goodwill	6	784	—
Impairment of goodwill	6	2,528	189,070
Impairment of fixed assets	6	3,777	—
Revaluation deficit/(surplus) of land and buildings	6	(1,588)	1,125
Revaluation deficit/(surplus) of investment properties	6	(290)	1,750
Unrealised gains on revaluation of short term investments	6	(71)	(7)
Operating profit/(loss) before working capital changes		23,054	(43,405)
Decrease/(increase) in inventories		(33,110)	61,738
Decrease in systems integration contracts		4,879	88,179
Decrease/(increase) in trade and bills receivables		(36,438)	30,765
Decrease/(increase) in prepayments		11,357	(20,046)
Decrease/(increase) in deposits and other receivables		(7,389)	11,787
Decrease in short term investments		2,116	534
Increase in trade and bills payables		67,967	88,695
Increase/(decrease) in accruals		17,987	(6,492)
Increase/(decrease) in other payables		(993)	398
Decrease in trading receipts in advance		(19,499)	(121,821)
Exchange differences		(4,890)	1,377
Cash generated from operations		25,041	91,709
Interest received		2,552	1,582
Interest paid		(2,050)	(4,607)
Interest element on finance lease rental payments		(21)	—
Overseas taxes refunded/(paid)		(1,368)	247
Net cash inflow from operating activities		24,154	88,931

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2003

	Notes	2003 HK\$'000	2002 HK\$'000 (Restated)
Net cash inflow from operating activities		<u>24,154</u>	<u>88,931</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of fixed assets and additions to construction in progress	13	(19,759)	(10,200)
Proceeds from disposal of fixed assets		2,697	10,829
Additions to intangible assets	14	(932)	—
Purchase of long term investment		(63)	—
Acquisition of subsidiaries	33(a)	59,164	—
Dividend received from associates		396	—
Decrease/(increase) in amounts due from associates		429	(1,352)
Decrease in amounts due to associates		(166)	(669)
Disposal of subsidiaries	33(b)	40,129	(4,317)
Increase in time deposits with original maturity of more than three months when acquired		(4,704)	—
Decrease/(increase) in pledged deposits		<u>(7,549)</u>	<u>17,030</u>
Net cash inflow from investing activities		<u>69,642</u>	<u>11,321</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank and other loans		3,248	83,893
Repayment of bank loans		(37,700)	(194,019)
Increase/(decrease) in trust receipt loans		2,895	(37,460)
Capital element of finance lease rental payments		<u>(156)</u>	<u>—</u>
Net cash outflow from financing activities		<u>(31,713)</u>	<u>(147,586)</u>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		62,083	(47,334)
Cash and cash equivalents at beginning of year		216,383	263,460
Effect of foreign exchange rate changes, net		<u>(510)</u>	<u>257</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR		<u><u>277,956</u></u>	<u><u>216,383</u></u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		211,973	195,153
Non-pledged time deposits with original maturity of less than three months when acquired		<u>65,983</u>	<u>21,230</u>
		<u><u>277,956</u></u>	<u><u>216,383</u></u>

BALANCE SHEET

31 December 2003

	Notes	2003 HK\$'000	2002 HK\$'000
NON-CURRENT ASSETS			
Interests in subsidiaries	16	356,714	219,374
Interest in an associate	18	—	74,449
		<u>356,714</u>	<u>293,823</u>
CURRENT ASSETS			
Other receivables	22	122	91
Cash and bank balances	25	4	82
		<u>126</u>	<u>173</u>
CURRENT LIABILITIES			
Accruals	27	15	114
NET CURRENT ASSETS		<u>111</u>	<u>59</u>
		<u>356,825</u>	<u>293,882</u>
CAPITAL AND RESERVES			
Issued capital	30	112,380	112,380
Reserves	32	244,445	181,502
		<u>356,825</u>	<u>293,882</u>

Cheung Shuen Lung
Director

Xiao Jian Guo
Director

NOTES TO FINANCIAL STATEMENTS

31 December 2003

1. CORPORATE INFORMATION

The head office and principal place of business of Founder Holdings 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:

- software development and systems integration
- distribution of information products

2. IMPACT OF NEW AND REVISED SSAPs

The following new and revised SSAPs and Interpretation 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"
- Interpretation 20 : "Income taxes - Recovery of revalued non-depreciable assets"

These SSAPs and Interpretation 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 adoption of these SSAPs and Interpretation which have had a significant effect on the financial statements, are summarised as follows:

SSAP 12 (Revised) 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 carryforward 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2003

2. IMPACT OF NEW AND REVISED SSAPs *(continued)*

Disclosures:

The related note disclosures are now more extensive than previously required. These disclosures are presented in notes 10 and 29 to the financial statements and include a reconciliation between the accounting profit/loss and the tax expense 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.

Interpretation 20 requires that a deferred tax asset or liability that arises from the revaluation of certain non-depreciable assets and investment properties is measured based on the tax consequences that would follow from the recovery of the carrying amount of that asset through sale. This policy has been applied by the Group in the calculation of deferred tax under SSAP 12 (Revised) in respect of the revaluation of its investment properties.

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 remeasurement of investment properties, land and buildings and equity investments, 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Jointly-controlled entities

A joint venture company is a company set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture company operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture company's operations and any distributions of surplus assets are shared by the venturers in proportion to their respective capital contributions.

A jointly-controlled entity is a joint venture company which is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's share of the post-acquisition results and reserves of jointly-controlled entities is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in jointly-controlled entities 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 jointly-controlled entities, which was not previously eliminated against consolidated reserves, is included as part of the Group's interests in jointly-controlled entities.

Associates

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Goodwill

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

Goodwill arising on acquisition 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 and jointly-controlled entities, 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, associates or jointly-controlled entities, 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 an 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of assets *(continued)*

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 for 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 investment properties and 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 land and buildings, other than investment properties, 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 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	Over the lease terms
Leasehold improvements	20% or over the lease terms, whichever is shorter
Machinery, equipment and moulds	12½% - 25%
Furniture, fixtures and equipment	10% - 33⅓%
Motor vehicles	20% - 30%

NOTES TO FINANCIAL STATEMENTS

31 December 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Fixed assets and depreciation *(continued)*

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.

Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are intended to be held on a long term basis for their investment potential. Such properties are not depreciated and are stated at their open market values on the basis of annual professional valuations performed at the end of each financial year.

Changes in the values of investment properties are dealt with as movements in the investment property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on a portfolio 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 an investment property, the relevant portion of the investment property revaluation reserve realised in respect of previous valuations is released to the profit and loss account.

Intangible assets

Research and development costs

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Operating leases

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

Short term investments

Short term investments are investments in equity securities held for trading purposes and are stated at their fair values on the basis of their quoted market prices at the balance sheet date, on an individual investment basis. The gains or losses arising from changes in the fair value of a security are credited or charged to the profit and loss account in the period in which they arise.

Inventories

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

Systems integration contracts

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Cash and cash equivalents

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

For the purpose of the balance 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, associates and interests in joint ventures, 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, associates and interests in jointly-controlled entities, 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax *(continued)*

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

NOTES TO FINANCIAL STATEMENTS

31 December 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Employee benefits

Paid leave carried forward

The Group provides paid annual leave to its employees under their employment contracts on a calendar year basis. Under certain circumstances, such leave which remains untaken as at the balance sheet date is permitted to be carried forward and utilised by the respective employees in the following year. An accrual is made at the balance sheet date for the expected future cost of such paid leave earned during the year by the employees and carried forward.

Retirement benefits schemes

The Group operates defined contribution retirement benefits schemes for those employees who are eligible to participate. 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 respective schemes. The assets of the schemes are held separately from those of the Group in independently administered funds.

When an employee leaves the Mandatory Provident Fund Exempted Occupational Retirement Schemes Ordinance retirement benefits scheme prior to his/her interest in the Group's employer contributions vesting fully, the ongoing contributions payable by the Group will be reduced by the relevant amount of forfeited employer contributions. In respect of the Mandatory Provident Fund retirement benefits scheme, the Group's employer mandatory contributions vest fully with the employees when contributed into the scheme except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the 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 Group 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 or the subsidiaries 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 or the subsidiaries 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.

NOTES TO FINANCIAL STATEMENTS

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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, jointly-controlled entities and associates are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries, jointly-controlled entities 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 ruling 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 into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

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:

- (a) the software development and systems integration for media business segment provides electronic publishing and broadcasting systems to media companies;
- (b) the software development and systems integration for non-media business segment provides banking and information systems to banks and financial institutions;
- (c) the distribution of information products segment relates to the distribution of computer hardware;
- (d) the corporate segment comprises corporate income and expense items; and
- (e) the "others" segment comprises principally the Group's design, manufacture and distribution of electronic products, internet printing services and publishing of newspapers and magazines.

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4. SEGMENT INFORMATION (continued)

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 asset, liability and expenditure information for the Group's business segments.

Group	Software development and systems integration for media business		Software development and systems integration for non-media business		Distribution of information products		Corporate		Others		Eliminations		Consolidated	
	2003	2002	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	HK\$'000	HK\$'000
Segment revenue:														
Sales to external customers	571,947	573,941	175,798	302,083	756,799	514,574	—	—	49,252	51,417	—	—	1,553,796	1,442,015
Intersegment sales	—	—	1,078	—	13,448	—	—	—	—	—	(14,526)	—	—	—
Total	571,947	573,941	176,876	302,083	770,247	514,574	—	—	49,252	51,417	(14,526)	—	1,553,796	1,442,015
Segment results	23,936	6,674	2,509	(8,407)	6,930	(20,741)	(18,962)	(26,766)	(4,018)	(19,979)			10,395	(69,219)
Interest income													2,552	1,582
Impairment of fixed assets													(3,777)	—
Impairment of goodwill													(2,528)	(189,070)
Loss on disposal of subsidiaries													(13,260)	(560)
Loss from operating activities													(6,618)	(257,267)
Finance costs													(2,071)	(4,607)
Share of profits and losses of:														
Jointly-controlled entity													1,028	1,896
Associates													3,836	(18,485)
Loss before tax													(3,825)	(278,463)
Tax													(3,790)	(2,538)
Loss before minority interests													(7,615)	(281,001)
Minority interests													14,830	5,157
Net profit/(loss) from ordinary activities attributable to shareholders													7,215	(275,844)

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4. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

Group	Software development and systems integration for media business		Software development and systems integration for non-media business		Distribution of information products		Others		Eliminations		Consolidated	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000 (Restated)
Segment assets	322,594	352,471	140,683	117,225	365,633	215,019	14,646	21,937	(6,678)	(2,280)	836,878	704,372
Interest in a jointly-controlled entity	9,518	8,588	—	—	—	—	—	—	—	—	9,518	8,588
Interests in associates	17,015	16,883	—	—	—	—	172	—	—	—	38,660	71,127
Unallocated assets	—	—	—	—	—	—	—	—	—	—	75,646	36,108
											960,702	820,195
Segment liabilities	167,858	186,761	95,088	102,708	253,744	153,466	17,217	13,435	(19,940)	(17,770)	513,967	438,600
Unallocated liabilities	—	—	—	—	—	—	—	—	—	—	18,084	33,336
											532,051	471,936
Other segment information:												
Amortisation	—	—	—	—	—	—	—	922			784	922
Depreciation	8,067	11,730	5,333	5,015	930	3,426	2,780	2,092			17,110	22,263
Impairment losses recognised in the profit and loss account	2,528	—	—	189,070	—	—	3,777	—			6,305	189,070
Capital expenditure	9,782	3,027	5,619	1,027	1,799	4,752	2,559	1,394			19,759	10,200

NOTES TO FINANCIAL STATEMENTS

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4. SEGMENT INFORMATION (continued)

(b) Geographical segments

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

Group

	Hong Kong		Mainland China		Overseas		Eliminations		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
Segment revenue:										
Sales to external customers	172,084	130,601	1,235,026	1,212,716	146,686	98,698	—	—	1,553,796	1,442,015
Intersegment sales	177,289	156,739	—	—	—	—	(177,289)	(156,739)	—	—
Total	<u>349,373</u>	<u>287,340</u>	<u>1,235,026</u>	<u>1,212,716</u>	<u>146,686</u>	<u>98,698</u>	<u>(177,289)</u>	<u>(156,739)</u>	<u>1,553,796</u>	<u>1,442,015</u>

	Hong Kong		Mainland China		Overseas		Consolidated	
	2003	2002	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(Restated)				(Restated)
Other segment information:								
Segment assets	242,595	248,284	635,856	499,420	82,251	72,491	960,702	820,195
Capital expenditure	<u>2,444</u>	<u>361</u>	<u>16,922</u>	<u>7,917</u>	<u>393</u>	<u>1,922</u>	<u>19,759</u>	<u>10,200</u>

NOTES TO FINANCIAL STATEMENTS

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5. TURNOVER, 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
	HK\$'000	HK\$'000
Turnover		
Software development and systems integration	747,745	876,024
Distribution of information products	756,799	514,574
Others	49,252	51,417
	<u>1,553,796</u>	<u>1,442,015</u>
Other revenue		
Interest income	2,552	1,582
Rental income	2,145	1,696
Government grants (<i>Note</i>)	27,885	20,904
Others	3,356	5,575
	<u>35,938</u>	<u>29,757</u>
Gains		
Gain on partial disposal of a subsidiary (<i>note 33(b)</i>)	3,496	—
Gain on deemed partial disposal of an associate	—	3,685
Others	22,417	11,310
	<u>25,913</u>	<u>14,995</u>
	<u>61,851</u>	<u>44,752</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 the sales of approved self-developed software and completion of development of related software, respectively. There are no unfulfilled conditions or contingencies relating to these grants.

NOTES TO FINANCIAL STATEMENTS

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6. LOSS FROM OPERATING ACTIVITIES

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

		Group	
	Notes	2003 HK\$'000	2002 HK\$'000
Amortisation of trademark*		—	922
Auditors' remuneration		2,330	2,500
Cost of inventories sold		1,183,471	1,100,486
Cost of services provided		13,239	10,103
Depreciation	13	17,110	22,263
Goodwill:	15		
Amortisation for the year**		784	—
Impairment arising during the year		2,528	189,070
		3,312	189,070
Impairment of fixed assets	13	3,777	—
Loss on disposal of fixed assets		210	3,446
Loss on disposal of subsidiaries	33(b)	13,260	560
Operating lease rentals in respect of land and buildings		30,237	29,824
Provision and write-off of doubtful trade debts		1,934	27,548
Reversal of provision and write-back of obsolete inventories		(8,189)	(7,484)
Revaluation deficit/(surplus) of:			
Land and buildings		(1,588)	1,125
Investment properties		(290)	1,750
Research and development costs:			
Current year expenditure		33,095	28,803
Staff costs (including directors' remuneration - note 8):			
Wages and salaries		168,396	176,301
Pension scheme contributions		12,678	7,769
Less: Forfeited contributions***		(4)	(87)
		181,070	183,983
Exchange losses/(gains), net		(2,130)	452
Gain on partial disposal of a subsidiary	33(b)	(3,496)	—
Gain on deemed partial disposal of an associate		—	(3,685)
Interest income		(2,552)	(1,582)
Net rental income		(2,145)	(1,696)
Unrealised gains on revaluation of short term investments		(71)	(7)

* The amortisation of the trademark for prior year was included in "Cost of sales" on the face of the consolidated profit and loss account.

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

*** At 31 December 2003, the forfeited contributions available to the Group to reduce its contributions to the pension schemes in future years were not material.

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7. FINANCE COSTS

	Group	
	2003	2002
	HK\$'000	HK\$'000
Interest on bank loans and overdrafts	2,050	4,607
Interest on finance leases	21	—
	<u>2,071</u>	<u>4,607</u>

8. DIRECTORS' REMUNERATION

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

	Group	
	2003	2002
	HK\$'000	HK\$'000
Fees	<u>744</u>	<u>974</u>
Other emoluments:		
Salaries, allowances and benefits in kind	2,639	1,602
Performance related bonuses	600	—
Pension scheme contributions	<u>79</u>	<u>40</u>
	<u>3,318</u>	<u>1,642</u>
	<u>4,062</u>	<u>2,616</u>

Fees include HK\$264,000 (2002: HK\$264,000) 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	4	9
HK\$1,500,001 - HK\$2,000,000	<u>2</u>	<u>—</u>
	<u>6</u>	<u>9</u>

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

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9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two (2002: two) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining three (2002: three) non-director, highest paid employees for the year are as follows:

	Group	
	2003	2002
	HK\$'000	HK\$'000
Salaries, allowances and benefits in kind	2,456	2,897
Performance related bonuses	1,593	—
Pension scheme contributions	35	71
	<u>4,084</u>	<u>2,968</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	—	2
HK\$1,000,001 - HK\$1,500,000	2	—
HK\$1,500,001 - HK\$2,000,000	1	1
	<u>3</u>	<u>3</u>

10. TAX

	Group	
	2003	2002
	HK\$'000	HK\$'000
		(Restated)
Group:		
Current - Hong Kong	8	17
Current - Elsewhere	710	438
Deferred (note 29)	1,715	1,351
	<u>2,433</u>	<u>1,806</u>
Share of tax attributable to:		
Jointly-controlled entity	98	142
Associates	1,259	590
	<u>1,357</u>	<u>732</u>
Total tax charge for the year	<u>3,790</u>	<u>2,538</u>

NOTES TO FINANCIAL STATEMENTS

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10. TAX (continued)

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.

Taxes on overseas profits have been calculated at the applicable rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

Beijing Founder Electronics Co., Ltd. ("Founder Electronics") is subject to PRC profits tax at a rate of 10% on its assessable profits for the three fiscal years which commenced in 2001 and ended on 31 December 2003. Beijing Founder Order Computer System Co., Ltd. ("Founder Order") is exempted from PRC profits tax for the three fiscal years which commenced in 1999 and ended on 31 December 2001 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") 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. EC-Founder Co., Ltd. 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. At present, the standard tax rate applicable to Founder Electronics, Founder Order, PRC Century and EC-Founder Co., Ltd. is 15%. No provision for PRC profits tax has been made for the year as the relevant PRC subsidiaries were either under their tax exemption period or had sufficient tax losses brought forward to offset against the assessable profits arising during the year.

A reconciliation of the tax expense applicable to profit/(loss) before tax using the statutory rates for the countries in which the Company, its subsidiaries, jointly-controlled entity 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:

NOTES TO FINANCIAL STATEMENTS

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10. TAX (continued)

Group - 2003

	Hong Kong		Mainland China		Overseas		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
Profit/(loss) before tax	<u>(36,605)</u>		<u>40,788</u>		<u>(8,008)</u>		<u>(3,825)</u>	
Tax at the statutory tax rate	(6,406)	17.5	13,460	33.0	(3,203)	40.0	3,851	(100.7)
Lower tax rate for specific provinces or local authority	—	—	(9,695)	(23.8)	(140)	1.8	(9,835)	257.1
Tax effect of unused tax losses not recognised	2,782	(7.6)	93	0.2	—	—	2,875	(75.1)
Income not subject to tax	(1,430)	3.9	(3,495)	(8.6)	—	—	(4,925)	128.8
Expenses not deductible for tax	4,397	(12.0)	1,450	3.6	4,266	(53.3)	10,113	(264.4)
Loss not subject to tax	1,953	(5.3)	—	—	—	—	1,953	(51.1)
Tax losses utilised from previous periods	<u>(242)</u>	0.6	<u>—</u>	—	<u>—</u>	—	<u>(242)</u>	6.3
Tax charge at the Group's effective rate	<u>1,054</u>	<u>(2.9)</u>	<u>1,813</u>	<u>4.4</u>	<u>923</u>	<u>(11.5)</u>	<u>3,790</u>	<u>(99.1)</u>

Group - 2002

Profit/(loss) before tax	<u>(262,282)</u>		<u>5,031</u>		<u>(21,212)</u>		<u>(278,463)</u>	
Tax at the statutory tax rate	(41,965)	16.0	1,660	33.0	(8,484)	40.0	(48,789)	17.5
Lower tax rate for specific provinces or local authority	—	—	(1,393)	(27.7)	19	—	(1,374)	0.5
Tax effect of unused tax losses not recognised	7,054	(2.7)	1,184	23.5	—	—	8,238	(2.9)
Income not subject to tax	(1,976)	0.8	(3,159)	(62.8)	(1,127)	5.3	(6,262)	2.2
Expenses not deductible for tax	34,787	(13.2)	3,201	63.7	10,030	(47.3)	48,018	(17.2)
Loss not subject to tax	2,777	(1.1)	—	—	—	—	2,777	(1.0)
Tax losses utilised from previous periods	<u>(70)</u>	—	<u>—</u>	—	<u>—</u>	—	<u>(70)</u>	—
Tax charge at the Group's effective rate	<u>607</u>	<u>(0.2)</u>	<u>1,493</u>	<u>29.7</u>	<u>438</u>	<u>(2.0)</u>	<u>2,538</u>	<u>(0.9)</u>

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11. NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit 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\$62,943,000 (2002: net loss of approximately HK\$96,647,000) (*note 32(b)*).

12. EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings/(loss) per share is based on the net profit attributable to shareholders for the year ended 31 December 2003 of approximately HK\$7,215,000 (2002 (restated): net loss of approximately HK\$275,844,000), and the weighted average of approximately 1,123,800,000 (2002: 1,123,800,000) ordinary shares in issue during the year.

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

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13. FIXED ASSETS

Group

	Investment properties	Land and buildings in Hong Kong	Land and buildings in Mainland China	Leasehold improvements	Machinery, equipment and moulds	Furniture, fixtures and equipment	Motor vehicles	Construction in progress	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost or valuation:									
At 1 January 2003	12,200	14,700	14,005	12,091	—	81,640	10,206	—	144,842
Additions	—	—	—	2,466	355	10,481	5,404	1,053	19,759
Acquisition of subsidiaries	—	20,783	—	15,305	36,318	17,470	5,656	583	96,115
Disposals	—	—	—	(2,987)	(24)	(9,443)	(3,677)	—	(16,131)
Disposal of subsidiaries	—	(20,783)	—	(12,577)	(37,342)	(4,375)	(4,867)	(549)	(80,493)
Surplus on revaluation	290	1,290	—	—	—	—	—	—	1,580
Transfers	1,790	(1,790)	—	—	693	—	—	(693)	—
Exchange realignment	—	—	(79)	14	—	182	(40)	—	77
At 31 December 2003	14,280	14,200	13,926	14,312	—	95,955	12,682	394	165,749
Accumulated depreciation and impairment:									
At 1 January 2003	—	—	944	11,132	—	51,628	6,558	—	70,262
Acquisition of subsidiaries	—	3,383	—	10,074	21,159	9,961	3,687	—	48,264
Provided during the year	—	403	297	711	1,037	13,208	1,454	—	17,110
Impairment during the year recognised in the profit and loss account	—	3,777	—	—	—	—	—	—	3,777
Disposals	—	—	—	(2,512)	(11)	(7,865)	(2,836)	—	(13,224)
Disposal of subsidiaries	—	(7,265)	—	(7,471)	(22,185)	(2,436)	(3,481)	—	(42,838)
Written back on revaluation	—	(298)	—	—	—	—	—	—	(298)
Exchange realignment	—	—	(5)	49	—	(44)	(35)	—	(35)
At 31 December 2003	—	—	1,236	11,983	—	64,452	5,347	—	83,018
Net book value:									
At 31 December 2003	14,280	14,200	12,690	2,329	—	31,503	7,335	394	82,731
At 31 December 2002	12,200	14,700	13,061	959	—	30,012	3,648	—	74,580
Analysis of cost or valuation:									
At cost	—	—	13,926	14,312	—	95,955	12,682	394	137,269
At 31 December 2003 valuation	14,280	14,200	—	—	—	—	—	—	28,480
	14,280	14,200	13,926	14,312	—	95,955	12,682	394	165,749

NOTES TO FINANCIAL STATEMENTS

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13. FIXED ASSETS *(continued)*

The Group's land and buildings in Hong Kong were revalued on 31 December 2003 by Centaline Surveyors Ltd., independent professionally qualified valuers, on an open market value, existing use basis.

Had the Group's land and buildings in Hong Kong been carried at historical cost less accumulated depreciation and impairment losses, their carrying amounts would have been approximately HK\$33,853,000 (2002: HK\$34,694,000).

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

	Hong Kong HK\$'000	Mainland China HK\$'000	Total HK\$'000
At cost:			
Long term leases	—	13,926	13,926
At valuation:			
Medium term leases	14,200	—	14,200
	<u>14,200</u>	<u>13,926</u>	<u>28,126</u>

An impairment loss of approximately HK\$3,777,000 was charged to the consolidated profit and loss account for the current year to write down certain land and buildings to their recoverable amount which was determined based on their net selling price.

The Group's investment properties were revalued on 31 December 2003 by Centaline Surveyors Ltd., independent professionally qualified valuers, on an open market value, existing use basis. The investment properties are leased to third parties under operating leases, further summary details of which are included in note 35(a) to the financial statements.

The Group's investment properties are situated in Hong Kong and are held under medium term leases.

Further particulars of the Group's investment properties are included on pages 73 and 74 of the Annual Report.

All the land and buildings in Hong Kong and investment properties of the Group were pledged to banks to secure banking facilities (*note 28*).

NOTES TO FINANCIAL STATEMENTS

31 December 2003

14. INTANGIBLE ASSETS

	Group Deferred development costs <i>HK\$'000</i>
Cost and net book value:	
At beginning of year	—
Additions	932
	<hr/>
At 31 December 2003	932
	<hr/> <hr/>

15. GOODWILL

The amount of the goodwill capitalised as an asset in the consolidated balance sheet, arising from the acquisition of subsidiaries, is as follows:

	Group Goodwill <i>HK\$'000</i>
Cost:	
At beginning of year	—
Acquisition of subsidiaries (<i>note 33(a)</i>)	10,367
	<hr/>
At 31 December 2003	10,367
	<hr/>
Accumulated amortisation and impairment:	
At beginning of year	—
Amortisation provided during the year	784
Impairment during the year recognised in the profit and loss account	2,528
	<hr/>
At 31 December 2003	3,312
	<hr/>
Net book value:	
At 31 December 2003	7,055
	<hr/> <hr/>
At 31 December 2002	—
	<hr/> <hr/>

NOTES TO FINANCIAL STATEMENTS

31 December 2003

15. GOODWILL (continued)

An impairment loss of approximately HK\$2,528,000 was charged to the consolidated profit and loss account for the current year. The impairment loss was provided by the directors based on estimated recoverable amounts of the subsidiaries acquired, which were determined based on their value in use.

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 the acquisition which occurred prior to the adoption of the SSAP, to remain eliminated against consolidated reserves.

The amount of the goodwill remaining in consolidated reserves as at 31 December 2003, arising from the acquisition of a subsidiary prior to the adoption of SSAP 30 in 2001, is as follows:

	Group Goodwill eliminated against consolidated contributed surplus <i>HK\$'000</i>
Cost:	
At beginning of year and 31 December 2003	284,700
Accumulated impairment:	
At beginning of year and 31 December 2003	219,365
Net amount:	
At beginning of year and 31 December 2003	65,335

16. INTERESTS IN SUBSIDIARIES

	Company	
	2003	2002
	HK\$'000	HK\$'000
Unlisted shares, at cost	559,088	559,088
Shares listed in Hong Kong, at cost	388,090	—
Due to a subsidiary	(369,419)	(301,505)
	577,759	257,583
Provision for impairment	(221,045)	(38,209)
	356,714	219,374
Market value of listed shares	205,255	—

NOTES TO FINANCIAL STATEMENTS

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16. INTERESTS IN SUBSIDIARIES (continued)

The amount due to a subsidiary is unsecured, interest-free and has no fixed terms of repayment. Although this balance is technically currently repayable under the original terms of the transactions giving rise thereto, it has been deferred or subordinated for the longer term and is therefore classified as non-current.

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Founder (Hong Kong) Limited ("Founder HK")	Hong Kong	Ordinary HK\$110,879,989	100	—	Systems integration and investment holding
Founder Electronics##	Mainland China	Registered HK\$230 million	—	100	Software development and systems integration
Founder Electronics (HK) Limited	Hong Kong	Ordinary HK\$2	—	100	Systems integration
Sparkling Idea Limited	British Virgin Islands/ Hong Kong	Ordinary US\$1	—	100	Investment holding
Founder Order##	Mainland China	Registered HK\$50 million	—	100	Software development and systems integration
Founder Systems (BVI) Limited	British Virgin Islands/ Mainland China	Ordinary US\$1	—	100	Systems integration
EC-Founder (Holdings) Company Limited ("EC-Founder")+**	Bermuda/ Hong Kong	Ordinary HK\$110,056,204	54.85	—	Investment holding
PRC Century##	Mainland China	Registered RMB117,303,000	—	54.85	Distribution of information products
Founder Century (Hong Kong) Limited ("HK Century")	Hong Kong	Ordinary HK\$2	—	54.85	Distribution of information products

NOTES TO FINANCIAL STATEMENTS

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16. INTERESTS IN SUBSIDIARIES (continued)

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	—	54.85	Provision of software solutions and services
Beijing AdTargeting Inc.+##	Mainland China	Registered US\$300,000	—	54.85	Provision of internet advertising agency services
Royal Bright Limited	Hong Kong	Ordinary HK\$2	—	100	Property holding
Royal Leader Limited	Hong Kong	Ordinary HK\$2	—	100	Property holding
Royal Power Limited	Hong Kong	Ordinary HK\$2	—	100	Property holding
Sharp Century Limited	Hong Kong	Ordinary HK\$2	—	100	Property holding
True Luck Group Limited	British Virgin Islands/ Hong Kong	Ordinary US\$1	—	100	Investment holding
Founder Technology (Canada) Corp.*	Canada	Ordinary CAN\$100	—	100	Systems integration
PUC Founder (M) Sdn. Bhd.*	Malaysia	Ordinary RM500,000	—	100	Investment holding
Founder International Inc. ("Founder Inc.")*	Japan	Ordinary JPY112,650,000	—	88.19	Software development and systems integration
Power Print Inc.*	Japan	Ordinary JPY400 million	—	58.56	Provision of internet printing services
Beijing Founder International Co., Limited ("Beijing International")*##	Mainland China	Registered US\$500,000	—	88.19	Software development and systems integration

NOTES TO FINANCIAL STATEMENTS

31 December 2003

16. INTERESTS IN SUBSIDIARIES *(continued)*

- * Not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.
- ** Listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").
- ## Registered as wholly-foreign owned enterprise under the PRC law.
- + Acquired during the year.

During the year, the Group acquired additional interest in EC-Founder, the then associated company of the Group. EC-Founder became a subsidiary of the Group thereafter. Further details of this acquisition are included in notes 33(a) and 36(b) 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. INTEREST IN A JOINTLY-CONTROLLED ENTITY

	Group
	2003
	2002
	HK\$'000
	HK\$'000
Share of net assets	9,518
	8,588

Particulars of the jointly-controlled entity are as follows:

Name	Business structure	Place of incorporation/ registration and operations	Percentage of			Principal activities
			Ownership interest	Voting power	Profit sharing	
Beijing PeCan Information System Inc.	PRC equity joint venture	Mainland China	30	30	30	Software development and distribution of information products

The above investment in a jointly-controlled entity is indirectly held by the Company.

NOTES TO FINANCIAL STATEMENTS

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18. INTERESTS IN ASSOCIATES

	Group		Company	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Listed shares in Hong Kong, at cost	—	—	—	323,690
Share of net assets	37,555	69,759	—	—
Due from associates	1,105	1,534	—	—
Due to an associate	—	(166)	—	—
	38,660	71,127	—	323,690
Provision for impairment	—	—	—	(249,241)
	38,660	71,127	—	74,449
Market value of listed shares	27,527	97,127	—	74,449

The amounts due from/to associates are unsecured, interest-free and have no fixed terms of repayment.

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	
PUC Founder (MSC) Berhad*#	Corporate	Malaysia	35.93	35.93	Software development and systems integration
Beijing Founder Information Co., Ltd.*##	Corporate	Mainland China	18.52	55.16	Publishing of magazines
MC.Founder Limited+	Corporate	Hong Kong	20.12	—	Distribution of mobile phones

NOTES TO FINANCIAL STATEMENTS

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18. INTERESTS IN ASSOCIATES (continued)

Name	Business structure	Place of incorporation/ registration and operations	Percentage of ownership interest indirectly attributable to the Group		Principal activities
			2003	2002	
MC.Founder (Distribution) Limited+	Corporate	Hong Kong	20.12	—	Distribution of mobile phones and provision of repair services
MC.Founder (Technology) Limited+	Corporate	Hong Kong	20.12	—	Sales of data products

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

Listed on the Malaysian Exchange of Securities Dealing and Automated Quotation Market of the Malaysia Securities Exchange Berhad.

The ownership interest was partially disposed of and passively diluted during the year and was reclassified from interest in a subsidiary to interest in an associate. It was accounted for as an associate since 21 % of equity interests was held by a non wholly-owned subsidiary of the Group.

+ Acquired during the year.

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

19. INVENTORIES

	Group	
	2003 HK\$'000	2002 HK\$'000
Trading stocks	125,835	97,140

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

NOTES TO FINANCIAL STATEMENTS

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20. SYSTEMS INTEGRATION CONTRACTS

	Group	
	2003	2002
	HK\$'000	HK\$'000
Gross amount due from contract customers	53,190	56,309
Gross amount due to contract customers	(724)	—
	<u>52,466</u>	<u>56,309</u>
Contract costs incurred plus recognised profits less recognised losses and foreseeable losses to date	71,920	56,309
Less: Progress billings	(19,454)	—
	<u>52,466</u>	<u>56,309</u>

21. 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 six months for major customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management.

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
	HK\$'000	HK\$'000
Within 6 months	228,512	172,214
7-12 months	9,323	15,466
13-24 months	9,835	7,469
Over 24 months	611	1,153
	<u>248,281</u>	<u>196,302</u>

Included in the Group's trade and bills receivables are amounts due from the related companies of the Group of approximately HK\$186,000 (2002: HK\$9,051,000), which are repayable on similar credit terms to those offered to the major customers of the Group.

NOTES TO FINANCIAL STATEMENTS

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22. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Prepayments	34,165	44,448	—	—
Deposits and other receivables	26,926	16,914	122	91
	<u>61,091</u>	<u>61,362</u>	<u>122</u>	<u>91</u>

Included in the Group's prepayments, deposits and other receivables as at the balance sheet date is an amount of approximately HK\$6,295,000 (2002: HK\$3,908,000) paid in advance to a related company arising from purchases of products carried out in the ordinary course of business of the Group. The balance with the related company is unsecured and interest-free.

23. SHORT TERM INVESTMENTS

	Group	
	2003	2002
	HK\$'000	HK\$'000
Overseas listed equity investments, at market value	454	—
Overseas mutual fund, at market value	2,047	4,546
	<u>2,501</u>	<u>4,546</u>

24. PLEDGED DEPOSITS

The Group's bank deposits were pledged to banks to secure the banking facilities granted to the Group.

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25. CASH AND CASH EQUIVALENTS

	Group		Company	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cash and bank balances	211,973	195,153	4	82
Time deposits	70,687	21,230	—	—
	<u>282,660</u>	<u>216,383</u>	<u>4</u>	<u>82</u>

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to approximately HK\$197,464,000 (2002: HK\$160,442,000). The RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business in the PRC.

26. TRADE AND BILLS PAYABLES

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

	Group	
	2003	2002
	HK\$'000	HK\$'000
Within 6 months	257,961	113,749
7-12 months	1,608	9,105
13-24 months	1,761	50,301
Over 24 months	5,169	26,139
	<u>266,499</u>	<u>199,294</u>

27. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Accruals	150,974	119,444	15	114
Other payables	22,931	17,512	—	—
Trading receipts in advance	85,988	101,710	—	—
	<u>259,893</u>	<u>238,666</u>	<u>15</u>	<u>114</u>

NOTES TO FINANCIAL STATEMENTS

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28. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Group	
	2003	2002
	HK\$'000	HK\$'000
Bank loans:		
Secured	—	3,137
Unsecured	—	26,413
	—	29,550
Trust receipt loans, secured	5,515	2,690
Other loan, unsecured	—	942
	<u>5,515</u>	<u>33,182</u>
Bank loans and trust receipt loans repayable:		
Within one year or on demand	5,515	30,004
In the second year	—	957
In the third to fifth years, inclusive	—	1,279
	<u>5,515</u>	<u>32,240</u>
Other loan repayable within one year or on demand	—	942
	<u>5,515</u>	<u>33,182</u>
Portion classified as current liabilities	<u>(5,515)</u>	<u>(30,946)</u>
Long term portion	<u>—</u>	<u>2,236</u>

The Group's trade finance facilities at the balance sheet date were secured by:

- (i) charges over the Group's investment properties which had an aggregate carrying value at the balance sheet date of approximately HK\$14,280,000 (2002: HK\$12,200,000);
- (ii) charges over the Group's land and buildings in Hong Kong which had an aggregate net book value at the balance sheet date of approximately HK\$14,200,000 (2002: HK\$14,700,000); and
- (iii) the pledge of the Group's bank deposits amounting to approximately HK\$41,077,000 (2002: HK\$25,729,000).

NOTES TO FINANCIAL STATEMENTS

31 December 2003

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	8,129	9,480
As restated	8,129	9,480
Acquisition of subsidiaries	1,481	—
Deferred tax charged to the profit and loss account during the year	(1,715)	(1,351)
Gross and net deferred tax assets at 31 December	7,895	8,129

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
	HK\$'000	HK\$'000
		(Restated)
Accelerated depreciation allowances	1,934	1,062
Tax losses	70,987	51,524
General provision for obsolete inventories	52	44
General provision for doubtful trade debts	28	260
	73,001	52,890

NOTES TO FINANCIAL STATEMENTS

31 December 2003

29. DEFERRED TAX (continued)

The unused tax losses include an amount of approximately HK\$19,862,000 (2002: HK\$15,027,000) 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 was 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, associates and jointly-controlled entity as the Group had 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\$7,895,000 and HK\$8,129,000 respectively. As a consequence, the consolidated net profit attributable to shareholders for the year ended 31 December 2003 has been decreased by approximately HK\$1,715,000 and the consolidated net loss attributable to shareholders for the year ended 31 December 2002 has been increased by approximately HK\$1,351,000. The consolidated accumulated losses at 1 January 2003 and 2002 have been reduced by approximately HK\$8,129,000 and HK\$9,480,000 respectively, as detailed in note 32(a) to the financial statements.

30. SHARE CAPITAL

	Group and Company	
	2003	2002
	HK\$'000	HK\$'000
Authorised:		
2,100,000,000 ordinary shares of HK\$0.10 each	210,000	210,000
Issued and fully paid:		
1,123,799,893 ordinary shares of HK\$0.10 each	112,380	112,380

NOTES TO FINANCIAL STATEMENTS

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31. SHARE OPTION SCHEMES

(a) Share option schemes of the Company

On 24 May 2002, the Company adopted a new share option scheme (the "New Scheme") in compliance with Chapter 17 of the Listing Rules which replaced the old share option scheme (the "Old Scheme") in force previously.

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, 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; and (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 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.

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

The offer of a grant of share options is deemed to have been accepted when the duplicate offer letter comprising the acceptance of the option 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2003

31. SHARE OPTION SCHEMES *(continued)***(a) Share option schemes of the Company** *(continued)*

The exercise price of the share options is determinable by the directors, but should be the highest of (i) the closing price of the shares of the Company as stated in the 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; and (iii) the nominal value of the shares of the Company.

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

As at 31 December 2003, no share options had been granted under the New Scheme since its adoption.

The Old Scheme was replaced by the New Scheme on 24 May 2002. However, the options granted under the Old Scheme remain in full force and effect.

The following share options were outstanding under the Old Scheme at 1 January 2003 and at the end of the year:

Category of participant	Number of share options outstanding at 1 January 2003 and 31 December 2003	Date of grant of share options	Exercise period of share options	Exercise price of share options* HK\$
<i>Other employees</i>				
In aggregate	700,000	16.4.1999	16.4.1999 to 6.12.2005	0.912

* 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.

At the balance sheet date, the Company had 700,000 share options outstanding under the Old Scheme, which represented approximately 0.06% of the Company's shares in issue as at that date. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 700,000 additional ordinary shares of the Company and additional share capital of HK\$70,000 and share premium of HK\$568,400 (before issue expenses).

On 2 January 2004, 58,000,000 share options were granted under the New Scheme to certain employees of the Group in respect of their services to the Group in the forthcoming years. The exercise price of the share options is HK\$0.84 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\$0.84.

NOTES TO FINANCIAL STATEMENTS

31 December 2003

31. SHARE OPTION SCHEMES *(continued)***(a) Share option schemes of the Company** *(continued)*

On 5 February 2004, 32,000,000 share options were granted under the New Scheme to the executive directors of the Company in respect of their services to the Group in the forthcoming years. The exercise price of the share options is HK\$1.104 per share and the exercise period commenced on 6 February 2004 and will expire on 4 February 2014. The price of the Company's shares at the date of grant was HK\$1.10.

(b) Share option schemes of EC-Founder

On 24 May 2002, EC-Founder, a subsidiary of the Company, adopted a new share option scheme (the "2002 Scheme") in compliance with Chapter 17 of the Listing Rules. As at 31 December 2003, no share options had been granted under the 2002 Scheme since its adoption.

The share option schemes adopted by EC-Founder 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>Other employees</i>						
In aggregate	<u>5,900,000</u>	<u>(3,200,000)</u>	<u>2,700,000</u>	18.5.2001	15.12.2001 to 14.12.2006	0.45
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	<u>2,000,000</u>	<u>—</u>	<u>2,000,000</u>	18.5.2001	18.5.2001 to 17.5.2011	0.45
Subtotal	<u>4,000,000</u>	<u>—</u>	<u>4,000,000</u>			
<i>Other employees</i>						
In aggregate	<u>20,900,000</u>	<u>(17,000,000)</u>	<u>3,900,000</u>	18.5.2001	18.5.2001 to 17.5.2011	0.45
Subtotal	<u>20,900,000</u>	<u>(17,000,000)</u>	<u>3,900,000</u>			
Total under the 2001 Scheme	<u>24,900,000</u>	<u>(17,000,000)</u>	<u>7,900,000</u>			

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31. SHARE OPTION SCHEMES (continued)**(b) Share option schemes of EC-Founder** (continued)

* 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 EC-Founder's share capital.

On 2 January 2004, 38,000,000 share options were granted by EC-Founder under the 2002 Scheme to certain employees of the Company, EC-Founder and its subsidiaries (collectively the "EC-Founder group") in respect of their services to the EC-Founder group in the forthcoming years. 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 EC-Founder's shares at the date of grant was HK\$0.34.

On 6 February 2004, 32,000,000 share options were granted by EC-Founder under the 2002 Scheme to certain executive directors of EC-Founder in respect of their services to EC-Founder in the forthcoming years. 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 EC-Founder's shares at the date of grant was HK\$0.38.

(c) Share option scheme of Founder Inc.

The following share options were outstanding under the share option scheme operated by Founder Inc., a subsidiary of the Company, at 1 January 2003 and at the end of the year:

Category of participant	Number of share options			Date of grant of share options*	Exercise period of share options	Exercise price of share options**
	At 1 January 2003	Lapsed during the year	At 31 December 2003			
<i>Other employees</i>						JPY
In aggregate	58	(3)	55	16.12.2000	17.12.2000 to 16.12.2010	4,720,000

* 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 Founder Inc.'s share capital.

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32. RESERVES

(a) Group

	Share premium account HK\$'000	Contributed surplus HK\$'000	Capital reserve HK\$'000	Land and buildings revaluation reserve HK\$'000	Exchange fluctuation reserve HK\$'000	General reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2002:								
As previously reported	27,660	613,445	64,754	601	(4,801)	42,999	(448,702)	295,956
Prior year adjustment:								
SSAP 12 - restatement of deferred tax (note 29)	—	—	—	—	—	—	9,480	9,480
As restated	27,660	613,445	64,754	601	(4,801)	42,999	(439,222)	305,436
Exchange realignment	—	—	—	—	1,462	—	—	1,462
Impairment of goodwill of subsidiaries remaining eliminated against contributed surplus	—	189,070	—	—	—	—	—	189,070
Share of general reserve of an associate	—	—	—	—	—	42	—	42
Net loss for the year (restated)	—	—	—	—	—	—	(275,844)	(275,844)
Transfer to general reserve	—	—	—	—	—	18	(18)	—
Transfer to capital reserve	—	—	3,685	—	—	—	(3,685)	—
At 31 December 2002 (restated)	<u>27,660</u>	<u>802,515</u>	<u>68,439</u>	<u>601</u>	<u>(3,339)</u>	<u>43,059</u>	<u>(718,769)</u>	<u>220,166</u>
At 1 January 2003:								
As previously reported	27,660	802,515	68,439	601	(3,339)	43,059	(726,898)	212,037
Prior year adjustment:								
SSAP 12 - restatement of deferred tax (note 29)	—	—	—	—	—	—	8,129	8,129
As restated	27,660	802,515	68,439	601	(3,339)	43,059	(718,769)	220,166
Realisation upon partial disposal of a subsidiary	—	—	—	—	(210)	—	—	(210)
Exchange realignment	—	—	—	—	2,395	—	—	2,395
Share of general reserve of associates	—	—	—	—	—	38	—	38
Net profit for the year	—	—	—	—	—	—	7,215	7,215
Transfer to general reserve	—	—	—	—	—	25	(25)	—
At 31 December 2003	<u>27,660</u>	<u>802,515</u>	<u>68,439</u>	<u>601</u>	<u>(1,154)</u>	<u>43,122</u>	<u>(711,579)</u>	<u>229,604</u>

NOTES TO FINANCIAL STATEMENTS

31 December 2003

32. RESERVES (continued)

(a) Group (continued)

	Share premium account HK\$'000	Contributed surplus HK\$'000	Capital reserve HK\$'000	Land and buildings revaluation reserve HK\$'000	Exchange fluctuation reserve HK\$'000	General reserve HK\$'000	Retained profits/ accumulated losses HK\$'000	Total HK\$'000
Reserves retained by:								
Company and subsidiaries	27,660	802,515	64,754	601	(815)	43,034	(724,670)	213,079
Jointly-controlled entity	—	—	—	—	82	—	7,836	7,918
Associates	—	—	3,685	—	(421)	88	5,255	8,607
At 31 December 2003	<u>27,660</u>	<u>802,515</u>	<u>68,439</u>	<u>601</u>	<u>(1,154)</u>	<u>43,122</u>	<u>(711,579)</u>	<u>229,604</u>
Company and subsidiaries	27,660	802,515	64,754	601	(3,877)	43,017	(676,559)	258,111
Jointly-controlled entity	—	—	—	—	82	—	6,906	6,988
Associates	—	—	3,685	—	456	42	(49,116)	(44,933)
At 31 December 2002	<u>27,660</u>	<u>802,515</u>	<u>68,439</u>	<u>601</u>	<u>(3,339)</u>	<u>43,059</u>	<u>(718,769)</u>	<u>220,166</u>

The contributed surplus of the Group originally represented the difference between the nominal value of the shares and the share premium account of Founder HK acquired pursuant to the group reorganisation on 31 March 2000, over the nominal value of the Company's shares issued in exchange therefor. Goodwill arising on the acquisition of subsidiaries in prior years remains eliminated against the contributed surplus, further details of which are included in note 15 to these financial statements.

The capital reserve of the Group arose from the increase in the non-distributable reserve of a subsidiary and an associate.

In accordance with the relevant PRC regulations, each of the Group's PRC subsidiaries, associate and jointly-controlled entity is required to transfer not less than 10% of its profit after tax, as determined in accordance with PRC accounting standards and regulations, to a general reserve until such reserve reaches 50% of its registered capital. The quantum of the annual transfer is subject to the approval of the board of directors of the PRC subsidiaries and jointly-controlled entity in accordance with their articles of association. During the year, no transfer to general reserve was made by the Group's PRC subsidiaries, associate and jointly-controlled entity on the above basis.

In accordance with the relevant Taiwanese regulations, each of the Group's Taiwanese subsidiaries and associates is required to transfer not less than 10% of its profit after tax, as determined in accordance with Taiwanese accounting standards and regulations, to a general reserve. During the year, the Taiwanese subsidiary and associates transferred in total approximately HK\$63,000 (2002: HK\$60,000), which represented 10% of their profit after tax, to the general reserve.

NOTES TO FINANCIAL STATEMENTS

31 December 2003

32. RESERVES *(continued)***(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	27,660	448,209	(197,720)	278,149
Net loss for the year	—	—	(96,647)	(96,647)
At 31 December 2002 and beginning of year	27,660	448,209	(294,367)	181,502
Net profit for the year	—	—	62,943	62,943
At 31 December 2003	<u>27,660</u>	<u>448,209</u>	<u>(231,424)</u>	<u>244,445</u>

The contributed surplus of the Company represents the excess of the fair value of the shares of Founder HK acquired pursuant to the group reorganisation on 31 March 2000, over the nominal value of the Company's shares issued in exchange therefor. Under the Bermuda Companies Act 1981, the Company may make distributions to its members out of the contributed surplus in certain circumstances.

NOTES TO FINANCIAL STATEMENTS

31 December 2003

33. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Acquisition of subsidiaries

	2003 HK\$'000
Net assets acquired of:	
Fixed assets	47,851
Interests in associates	18,392
Deferred tax assets	1,481
Inventories	34,685
Systems integration contracts	1,036
Trade and bills receivables	41,135
Prepayments, deposits and other receivables	8,264
Pledged deposits	7,799
Cash and cash equivalents	59,164
Trade and bills payables	(34,478)
Other payables and accruals	(34,389)
Interest-bearing bank and other borrowings	(13,045)
Minority interests	(93,863)
	<u>44,032</u>
Goodwill on acquisition (note 15)	<u>10,367</u>
	<u><u>54,399</u></u>
Satisfied by:	
Reclassification to interests in subsidiaries from interests in associates	<u><u>54,399</u></u>
An analysis of the net inflow of cash and cash equivalents in respect of the acquisition of subsidiaries is as follows:	
	2003 HK\$'000
Cash and cash equivalents acquired	<u><u>59,164</u></u>

The subsidiaries acquired during the year contributed approximately HK\$68,837,000 to the Group's consolidated turnover and loss of approximately HK\$27,227,000 to the Group's consolidated loss after tax for the year ended 31 December 2003. The turnover and loss after tax amounts have excluded the former associates' contribution to the results prior to their becoming the subsidiaries.

NOTES TO FINANCIAL STATEMENTS

31 December 2003

33. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(continued)*

(b) Disposal/partial disposal of subsidiaries

	2003 HK\$'000	2002 HK\$'000
Net assets disposed of:		
Fixed assets	37,655	84
Intangible assets	—	3,060
Interests in associates	—	274
Long term investment	63	—
Inventories	39,100	—
Trade and bills receivables	25,594	3,994
Prepayments, deposits and other receivables	4,567	1,089
Short term investments	—	681
Cash and bank balances	10,881	4,317
Trade payables	(35,240)	(1,614)
Other payables and accruals	(10,657)	(1,947)
Interest-bearing bank and other borrowings	(15,123)	—
Minority interests	—	(5,592)
Exchange fluctuation reserve	(210)	—
	56,630	4,346
Loss on disposal (note 6)	(13,260)	(560)
Gain on partial disposal (note 6)	3,496	—
	46,866	3,786
Satisfied by:		
Cash	45,500	—
Interest in an associate	1,366	3,786
	46,866	3,786

NOTES TO FINANCIAL STATEMENTS

31 December 2003

33. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(b) Disposal/partial disposal of subsidiaries (continued)

An analysis of the net inflow/(outflow) of cash and cash equivalents in respect of the disposal/partial disposal of subsidiaries is as follows:

	2003 HK\$'000	2002 HK\$'000
Cash consideration	45,500	—
Cash and bank balances disposed of	(10,881)	(4,317)
Bank overdrafts disposed of	5,510	—
Net inflow/(outflow) of cash and cash equivalents in respect of the disposal/partial disposal of subsidiaries	40,129	(4,317)

The subsidiaries disposed/partially disposed of in 2003 contributed approximately HK\$33,598,000 to the Group's consolidated turnover and loss of approximately HK\$1,974,000 to the Group's consolidated loss after tax for that year.

The subsidiaries disposed of in 2002 contributed approximately HK\$23,829,000 to the Group's consolidated turnover and profit of approximately HK\$402,000 to the Group's consolidated loss after tax for that year.

34. CONTINGENT LIABILITIES

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

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Bills discounted with recourse	3,679	2,120	—	—
Guarantees given to banks in connection with facilities granted to subsidiaries	—	—	45,000	84,896
Guarantees given to suppliers in connection with credit facilities granted to subsidiaries	—	—	15,598	111,949
	3,679	2,120	60,598	196,845

As at 31 December 2003, the guarantees given by the Company to banks in connection with facilities granted to subsidiaries were utilised to the extent of approximately HK\$13,159,000 (2002: HK\$14,631,000).

As at 31 December 2003, the guarantees given by the Company to suppliers in connection with credit facilities granted to subsidiaries were not utilised.

NOTES TO FINANCIAL STATEMENTS

31 December 2003

35. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties (note 13 to the financial statements) under operating lease arrangements, with leases negotiated for terms ranging from three months to three years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

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

	Group	
	2003	2002
	HK\$'000	HK\$'000
Within one year	874	1,694
In the second to fifth years, inclusive	949	1,723
	1,823	3,417

(b) As lessee

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

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

	Group	
	2003	2002
	HK\$'000	HK\$'000
Within one year	26,406	23,672
In the second to fifth years, inclusive	24,945	26,525
	51,351	50,197

NOTES TO FINANCIAL STATEMENTS

31 December 2003

36. RELATED PARTY TRANSACTIONS

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

(a)	Notes	Group	
		2003 HK\$'000	2002 HK\$'000
Sales of goods to associates	(i)	2,004	379
Sales of goods to a company in which three directors of the Company were directors	(i)	1,405	11,109
Sales of goods to a company in which one director of a subsidiary was a shareholder	(i)	2,959	24,855
Purchases of goods from associates	(ii)	585	6,970
Purchases of goods from a company in which three directors of the Company were directors	(ii)	274	4,839
Purchase of goods from a company in which one director of a subsidiary was a shareholder	(iii)	39,429	16,833
Bank loan guarantees given by Peking University Founder Group Corporation ("Peking Founder"), a substantial shareholder of the Company	(iv)	—	18,846
Bank facilities guarantees given by Peking Founder	(v)	238,935	188,524
Credit facilities guarantee given by Peking Founder	(vi)	5,265	—

Notes:

- (i) The sales of goods were made according to published prices and conditions similar to those offered to other customers of the Group.
- (ii) The purchases of goods were made according to published prices and conditions similar to those offered by the related parties to their other customers.
- (iii) The purchase prices were determined based on actual costs incurred.
- (iv) The bank loan guarantees were given to PRC banks for the loans granted to a subsidiary.
- (v) The bank facilities guarantees were given to PRC banks for credit facilities granted to a subsidiary and utilised to the extent of approximately HK\$177,128,000 at 31 December 2003 (2002: HK\$113,168,000).
- (vi) The credit facilities guarantee was given to a supplier for credit facilities granted to and utilised by a subsidiary.

NOTES TO FINANCIAL STATEMENTS

31 December 2003

36. RELATED PARTY TRANSACTIONS *(continued)*

- (b) On 19 March 2003, Founder HK entered into a conditional sale and purchase agreement (the "S&P Agreement") with EC-Founder. Pursuant to the S&P Agreement, EC-Founder acquired the entire equity interests in HK Century and PRC Century from Founder HK (the "Acquisition"). The consideration was satisfied as to (i) HK\$10,320,000 in the form of cash, with HK\$5,160,000 being settled at the completion date of the Acquisition and the remaining HK\$5,160,000 being settled on 2 January 2004; and (ii) HK\$64,400,000 in the form of 280,000,000 ordinary shares of EC-Founder being allotted at the completion date of the Acquisition. The Acquisition was completed on 1 July 2003. EC-Founder became an approximately 54.85% owned subsidiary of the Company upon the completion of the Acquisition.
- (c) On 29 April 2003, Founder Electronics, Founder Order, Beijing International, PRC Century and EC-Founder Co., Ltd., the subsidiaries of the Company, entered into lease agreements with Peking Founder to lease from Peking Founder certain premises in Beijing, the PRC, as their offices, warehouse and staff canteen for an aggregate annual rental and management fees of approximately HK\$25,805,000 effective from 1 May 2003 to 31 December 2005. The lease agreements signed between the Group and Peking Founder in December 1995 were terminated on 30 April 2003. During the year, rental and management fee expenses of approximately HK\$19,452,000 (2002: HK\$12,868,000) were paid to Peking Founder. The directors considered that the rental and management fee expenses were paid in accordance with the terms of the lease agreements governing such transactions. The balances due from/to Peking Founder included in deposits and other receivables and other payables and accruals as at 31 December 2003 were approximately HK\$4,555,000 (2002: Nil) and HK\$11,966,000 (2002: Nil), respectively.
- (d) On 1 August 2003, EC-Founder entered into a conditional disposal agreement (the "DA") with Honour Glory Limited, which is 90% owned by Mr Yung Richard, Jr., a director of EC-Founder. Pursuant to the DA, EC-Founder disposed of the entire issued share capital of MIT Holdings Limited ("MIT") to Honour Glory Limited at a total cash consideration of HK\$45,500,000. The disposal was completed on 26 September 2003.
- (e) Pursuant to the management agreement (the "MA") dated 17 May 2000, Ricwinco Investment Limited ("Ricwinco"), a shareholder which held 7.97% of the shares of EC-Founder, 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 Yung Wen Investment & Finance Limited and its subsidiaries (collectively the "YW Group"), and the weighing scale business, which was operated by MIT and its subsidiaries (the "MIT Group"). Ricwinco has unconditionally guaranteed to EC-Founder that the aggregate of the audited consolidated profit after tax and minority interests of the YW Group and the MIT Group for each year 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 obligation in respect of the YW Group and the MIT Group under the MA respectively.
- (f) During the year, the Group received commission income of approximately HK\$1,499,000 (2002: Nil) for the provision of advertising agency services from a subsidiary of Yahoo! Inc., a shareholder which held 8.47% of the shares of EC-Founder.

NOTES TO FINANCIAL STATEMENTS

31 December 2003

37. POST BALANCE SHEET EVENTS

- (a) On 2 January 2004 and 5 February 2004, 58,000,000 and 32,000,000 share options were granted by the Company to certain employees of the Group and executive directors of the Company, respectively, as further detailed in note 31(a) to the financial statements.
- (b) On 2 January 2004 and 6 February 2004, 38,000,000 and 32,000,000 share options were granted by EC-Founder to certain employees of the Company and the EC-Founder group and certain executive directors of EC-Founder, respectively, as further detailed in note 31(b) to the financial statements.

38. COMPARATIVE AMOUNTS

As further explained in note 2 to the financial statements, due to the adoption of the new/revised SSAPs and Interpretation 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.

PARTICULARS OF INVESTMENT PROPERTIES

31 December 2003

Location	Use	Tenure	Attributable interest of the Group
Units 1, 2a, 2b, 3a, 3b, 4a, 4b and 5 on 14th Floor Cable TV Tower 9 Hoi Shing Road Tsuen Wan New Territories Hong Kong	Office premises/ warehouse for rental	Medium term lease	100%
Office car parking space P38 on 3rd Floor Cable TV Tower 9 Hoi Shing Road Tsuen Wan New Territories Hong Kong	Car parking space for rental	Medium term lease	100%
Residential car parking space No. 324 on Podium Level 2 Rhine Garden 38 Castle Peak Road Sham Tseng New Territories Hong Kong	Car parking space for rental	Medium term lease	100%
Flat B, 29th Floor, Block 3 Locwood Court Kingswood Villas 1 Tin Wu Road Tin Shui Wai Yuen Long New Territories Hong Kong	Residential premises for rental	Medium term lease	100%

PARTICULARS OF INVESTMENT PROPERTIES

31 December 2003

Location	Use	Tenure	Attributable interest of the Group
Flat B, 8th Floor, Block 2 and car parking space No. 60 on Level 1 Dragon Inn Court 9 Tsing Ha Lane Tuen Mun New Territories Hong Kong	Residential premises and car parking space for rental	Medium term lease	100%
Flat D, 12th Floor, Block 2 Belvedere Garden Phase 2 620 Castle Peak Road Tsuen Wan New Territories Hong Kong	Residential premises for rental	Medium term lease	100%

FIVE YEAR FINANCIAL SUMMARY

31 December 2003

A summary of the published results and of the assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the published audited financial statements, is set out below. The amounts in 1999, 2000, 2001 and 2002 have been adjusted for the effects of the retrospective change in accounting policy affecting income tax, as detailed in note 2 to these financial statements.

RESULTS

	Year ended 31 December				
	2003 HK\$'000	2002 HK\$'000 (Restated)	2001 HK\$'000 (Restated)	2000 HK\$'000 (Restated)	1999 HK\$'000 (Restated)
TURNOVER	<u>1,533,796</u>	<u>1,442,015</u>	<u>1,669,883</u>	<u>2,087,853</u>	<u>1,583,073</u>
PROFIT/(LOSS) FROM OPERATING ACTIVITIES	(8,689)	(261,874)	(365,160)	184,674	(228,053)
Share of profits and losses of:					
Jointly-controlled entities	1,028	1,896	1,371	1,445	5,602
Associates	<u>3,836</u>	<u>(18,485)</u>	<u>(27,962)</u>	<u>(6,499)</u>	<u>—</u>
PROFIT/(LOSS) BEFORE TAX	(3,825)	(278,463)	(391,751)	179,620	(222,451)
Tax	<u>(3,790)</u>	<u>(2,538)</u>	<u>984</u>	<u>1,039</u>	<u>3,724</u>
PROFIT/(LOSS) BEFORE MINORITY INTERESTS	(7,615)	(281,001)	(390,767)	180,659	(218,727)
Minority interests	<u>14,830</u>	<u>5,157</u>	<u>9,324</u>	<u>2,701</u>	<u>259</u>
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	<u>7,215</u>	<u>(275,844)</u>	<u>(381,443)</u>	<u>183,360</u>	<u>(218,468)</u>

ASSETS, LIABILITIES AND MINORITY INTERESTS

	31 December 2003 HK\$'000	31 December 2002 HK\$'000 (Restated)	31 December 2001 HK\$'000 (Restated)	31 December 2000 HK\$'000 (Restated)	31 December 1999 HK\$'000 (Restated)
TOTAL ASSETS	960,702	820,195	1,105,439	1,491,070	1,164,087
TOTAL LIABILITIES	(532,051)	(471,936)	(661,773)	(686,046)	(599,213)
MINORITY INTERESTS	<u>(86,667)</u>	<u>(15,713)</u>	<u>(25,850)</u>	<u>(29,622)</u>	<u>(2,424)</u>
	<u>341,984</u>	<u>332,546</u>	<u>417,816</u>	<u>775,402</u>	<u>562,450</u>

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the Annual General Meeting of Founder Holdings Limited (the “Company”) will be held at Unit 1408, 14th Floor, Cable TV Tower, 9 Hoi Shing Road, Tsuen Wan, New Territories, Hong Kong on 24 May 2004 at 11:15 a.m. for the following purposes:

1. To receive and consider the audited financial statements and the directors’ and auditors’ reports of the Company for the year ended 31 December 2003.
2. To re-elect the retiring directors and to fix the remuneration of directors.
3. To re-appoint auditors and to authorise the board of directors to fix their remuneration.

ORDINARY RESOLUTIONS

As special business, to consider and, if thought fit, pass with or without amendments, the following resolutions as ordinary resolutions of the Company:

4. **“THAT:-**

- (A) subject to paragraph (B) of this Resolution no. 4 below, the exercise by the directors of the Company during the Relevant Period (as defined in paragraph (C) of this Resolution no. 4 below) of all the powers of the Company to purchase Shares (as defined in paragraph (C) of this Resolution no. 4 below) on The Stock Exchange of Hong Kong Limited (“Stock Exchange”) or on any other stock exchange on which the Shares may be listed and which is recognised for this purpose by the Securities and Futures Commission of Hong Kong and the Stock Exchange, subject to and in accordance with all applicable laws, including the Hong Kong Code on Share Repurchases and the Rules Governing the Listing of Securities on the Stock Exchange or of any other stock exchange (as amended from time to time), be and is hereby generally and unconditionally approved;
- (B) the aggregate nominal amount of Shares which may be purchased or agreed conditionally or unconditionally to be purchased pursuant to the approval in paragraph (A) of this Resolution no. 4 above shall not exceed 10 per cent. of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing of this Resolution no. 4, and the said approval be limited accordingly; and
- (C) for the purposes of this Resolution no. 4:-
 - (i) “Relevant Period” means the period from (and including) the passing of this Resolution no. 4 until whichever is the earliest of:-
 - (a) the conclusion of the next annual general meeting of the Company;
 - (b) the expiration of the period within which the next annual general meeting of the Company is required by the bye-laws of the Company or any applicable law to be held; or
 - (c) the revocation or variation of this Resolution no. 4 by an ordinary resolution of the shareholders of the Company in general meeting; and
 - (ii) “Shares” means shares of all classes in the capital of the Company and warrants and other securities which carry a right to subscribe or purchase shares in the Company.”

NOTICE OF ANNUAL GENERAL MEETING

5. **“THAT:-**

(A) subject to paragraph (B) of this Resolution no. 5 below, the exercise by the directors of the Company during the Relevant Period (as defined in paragraph (C) of this Resolution no. 5 below) of all the powers of the Company to allot, issue, grant, distribute and otherwise deal with additional Shares (as defined in paragraph (C) of this Resolution no. 5 below) and to make, issue or grant offers, agreements, options, warrants and other securities which might require Shares to be allotted, issued, granted, or distributed or otherwise dealt with during or after the end of the Relevant Period, be and is hereby generally and unconditionally approved;

(B) the aggregate nominal amount of share capital allotted, issued, granted, distributed or otherwise dealt with or agreed conditionally or unconditionally to be allotted, issued, granted, distributed or otherwise dealt with (whether pursuant to an option, conversion or otherwise) by the directors of the Company pursuant to the approval in paragraph (A) of this Resolution no. 5 above, otherwise than pursuant to:-

- (i) a Rights Issue (as defined in paragraph (C) of this Resolution no. 5 below);
- (ii) the grant of options under the share option scheme of the Company or the exercise of any of the subscription rights attaching to any options that have been or may be granted thereunder;
- (iii) the exercise of rights of subscription or conversion under the terms of any warrant issued by the Company or any securities which are convertible into Shares; or
- (iv) any scrip dividend scheme or similar arrangement providing for allotment of Shares in lieu of the whole or part of any dividend on Shares in accordance with the bye-laws of the Company

shall not exceed the aggregate of:

- (a) 20 per cent. of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing this Resolution no. 5; and
- (b) (if the directors of the Company are so authorised by a separate resolution of the shareholders of the Company) the aggregate nominal amount of the share capital of the Company purchased by the Company subsequent to the passing of this Resolution no. 5 (up to a maximum equivalent to 10 per cent. of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing this Resolution no. 5),

and the said approval shall be limited accordingly; and

(C) for the purposes of this Resolution no. 5:-

- (i) “Relevant Period” means the period from the passing of this Resolution until whichever is the earliest of:-
 - (a) the conclusion of the next annual general meeting of the Company;
 - (b) the expiration of the period within which the next annual general meeting of the Company is required by the bye-laws of the Company or any applicable law to be held; and

NOTICE OF ANNUAL GENERAL MEETING

- (c) the revocation or variation of this Resolution no. 5 by an ordinary resolution of the shareholders of the Company in general meeting;
 - (ii) "Shares" means shares of all classes in the capital of the Company and warrants and other securities which carry a right to subscribe or purchase shares in the Company; and
 - (iii) "Rights Issue" means an offer of Shares open for a period fixed by the directors of the Company to holders of Shares on the register of members (and, if appropriate, to the holders of warrants and other securities which carry a right to subscribe or purchase shares in the Company on the relevant register) on a fixed record date in proportion to their then holdings of such Shares (and, if appropriate, such warrants and other securities), (subject to such exclusions or other arrangements as the directors of the Company may deem necessary or expedient in relation to fractional entitlements or having regard to any legal or practical restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any jurisdiction or territory applicable to the Company)."
6. "THAT subject to the passing of Resolutions nos. 4 and 5 set out in this Notice, the exercise by the directors of the Company of the powers referred to in paragraph (A) of Resolution no. 5 in respect of the share capital of the Company referred to in sub-paragraph (b) of paragraph (B) of Resolution no. 5, be and is hereby approved and authorised."

By Order of the Board
Tang Yuk Bo, Yvonne
Company Secretary

Hong Kong, 2 April 2004

Notes:

1. Any shareholder entitled to attend and vote at the Annual General Meeting is entitled to appoint another person as his proxy to attend and vote instead of him. A shareholder who is the holder of two or more shares may appoint more than one proxy to attend on the same occasion. A proxy need not be a shareholder of the Company.
2. Where there are joint holders of any share, any one of such joint holders may vote at the Annual General Meeting, either in person or by proxy, in respect of such share as if he were solely entitled thereto but if more than one of such joint holders is present at the Annual General Meeting, then one of the said persons so present whose name stands first on the register of members in respect of such share shall alone be entitled to vote in respect thereof.
3. To be valid, the instrument appointing a proxy, together with a power of attorney or other authority, if any, under which it is signed (or a notarially certified copy of such power or authority) must be deposited at the Company's principal place of business in Hong Kong at Unit 1408, 14th Floor, Cable TV Tower, 9 Hoi Shing Road, Tsuen Wan, New Territories, Hong Kong not less than 48 hours before the time appointed for holding the meeting or adjourned meeting (as the case may be). Delivery of an instrument appointing a proxy shall not preclude a shareholder from attending and voting in person at the meeting or at any adjourned meeting.
4. Concerning the Ordinary Resolution No. 2 above, Professor Wei Xin and Dr Hu Hung Lick, Henry will retire by rotation and, being eligible, offer themselves for re-election at the Annual General Meeting. Details of the above directors are set out in the circular to be enclosed with the Annual Report 2003.

Form of Proxy for Annual General Meeting

I/We ¹, _____ of _____ being the registered holder(s) of ² _____ share(s) of HK\$0.10 each in the capital of Founder Holdings Limited (the “Company”) hereby appoint ³ the Chairman of the meeting or _____ of _____ or failing him _____ of _____ as my/our proxy to vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held at Unit 1408, 14th Floor, Cable TV Tower, 9 Hoi Shing Road, Tsuen Wan, New Territories, Hong Kong on 24 May 2004 at 11:15 a.m. and at any adjournment thereof on the undermentioned resolutions referred to in the notice convening the Annual General Meeting, or if no such indication is given, as my/our proxy thinks fit.

	Resolutions	For ⁴	Against ⁴
1.	To receive and consider the audited financial statements and the directors’ and auditors’ reports of the Company for the year ended 31 December 2003.		
2.	(A) (a) To re-elect Professor Wei Xin as director.		
	(b) To re-elect Dr Hu Hung Lick, Henry as director.		
	(B) To fix the remuneration of directors.		
3.	To re-appoint auditors and authorise the board of directors to fix their remuneration.		
4.	Ordinary Resolution No. 4 of the Notice of Annual General Meeting (To give a general mandate to the board of directors to repurchase shares of the Company).		
5.	Ordinary Resolution No. 5 of the Notice of Annual General Meeting (To give a general mandate to the board of directors to issue additional shares).		
6.	Ordinary Resolution No. 6 of the Notice of Annual General Meeting (To extend the general mandate granted to the board of directors to issue additional shares).		

Signature(s) ⁵: _____

Date: _____

Notes:

- Full name(s) and address(es) to be inserted in **BLOCK CAPITALS**.
- Please insert the number of shares registered in your name(s). If no number is inserted, this proxy form will be deemed to relate to all the shares in the capital of the Company registered in your name(s).
- Any shareholder entitled to attend and vote at the Annual General Meeting is entitled to appoint one or more proxy to attend and vote in his stead. A proxy need not be a shareholder of the Company.
- IMPORTANT: IF YOU WISH TO VOTE FOR THE RESOLUTION, TICK THE BOX MARKED “FOR”. IF YOU WISH TO VOTE AGAINST THE RESOLUTION, TICK THE BOX MARKED “AGAINST”.** Failure to tick either box will entitle your proxy to cast your vote or abstain at his discretion. Your proxy will also be entitled to vote at his discretion on any resolution properly put to the said meeting other than those referred to in the notice convening the meeting.
- This proxy form must be signed by the appointor, or his attorney duly authorised in writing, or if such appointor be a corporation, either under its Common Seal or under the hand of an officer, attorney or other person so authorised.
- In the case of joint registered holders, the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the votes of the other joint holders. For this purpose, seniority will be determined by the order in which the names stand in the register of members in respect of the joint holding.
- To be valid, this proxy form together with any power of attorney or other authority (if any) under which it is signed or a notarially certified copy of such power or authority must be deposited at the Company’s principal place of business in Hong Kong at Unit 1408, 14th Floor, Cable TV Tower, 9 Hoi Shing Road, Tsuen Wan, New Territories, Hong Kong not later than 48 hours before the time of the meeting or any adjournment thereof.
- Any alterations made in this proxy form should be initialled by the person who signs it.
- The Notice of Annual General Meeting is set out in the Company’s Annual Report 2003.

* For identification purpose only