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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive directors

Mr Cheung Shuen Lung (*Chairman*)

Mr Lei Hon Sang

Professor Wei Xin

Professor Zou Wei

Mr Yung Richard, Jr.

Non-executive director

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

Independent non-executive directors

Mr Yang Lin, Richard

Mr Lee Ying Biu, Andrew

COMPANY SECRETARY

Ms Tang Yuk Bo, Yvonne

REGISTERED OFFICE

Cedar House

41 Cedar Avenue

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

PRINCIPAL BANKERS

BNP Paribas Hong Kong Branch

Bank of China

The Hongkong and Shanghai Banking
Corporation Limited

LEGAL ADVISER

Koo and Partners

AUDITORS

Ernst & Young

Certified Public Accountants

15th Floor, Hutchison House

10 Harcourt Road

Central, Hong Kong

SHARE REGISTRARS AND TRANSFER OFFICE

Principal registrars:

Butterfield Corporate Services Limited

Rosebank Centre

14 Bermudiana Road

Hamilton

Bermuda

Hong Kong branch share registrars and transfer office:

Tengis Limited

4/F Hutchison House

10 Harcourt Road

Hong Kong

WEBSITE ADDRESS

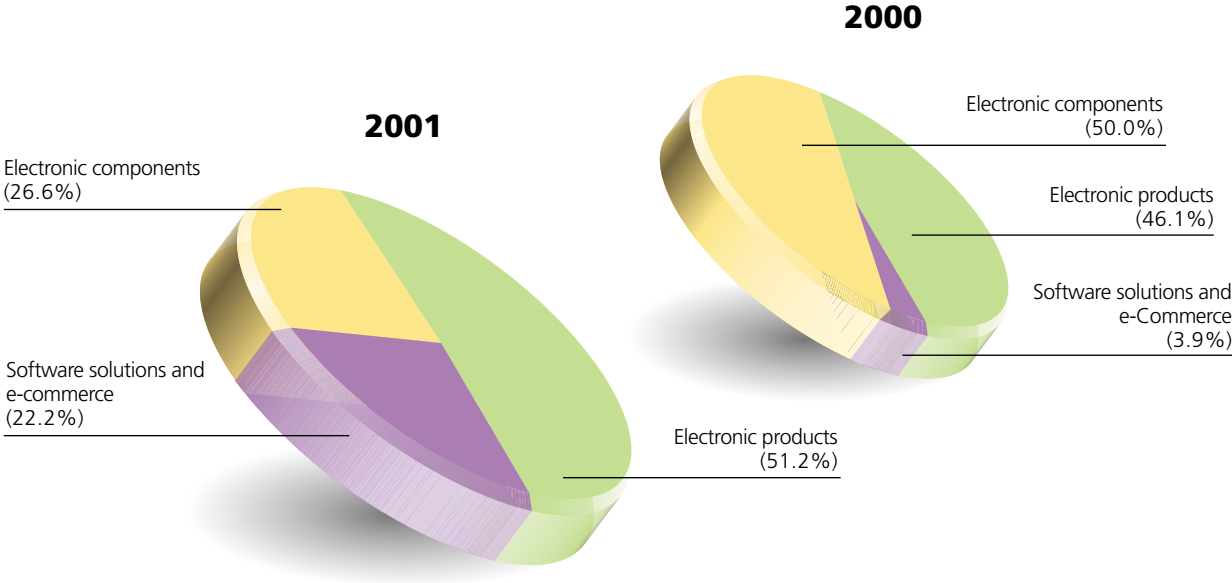
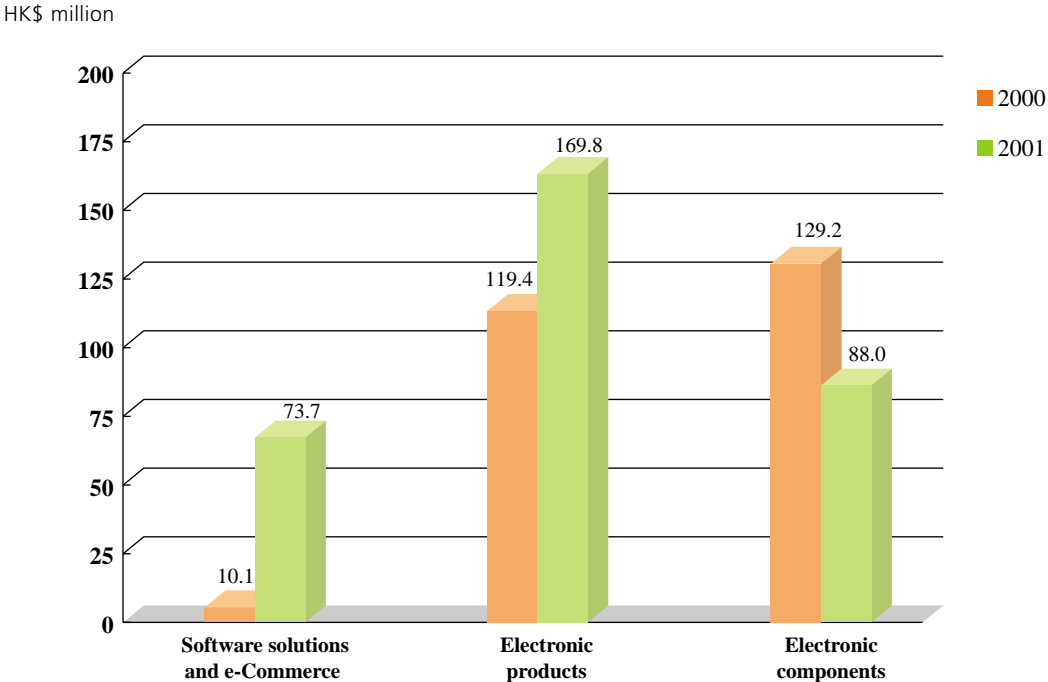
<http://www.ecfounder.com>

FINANCIAL HIGHLIGHTS

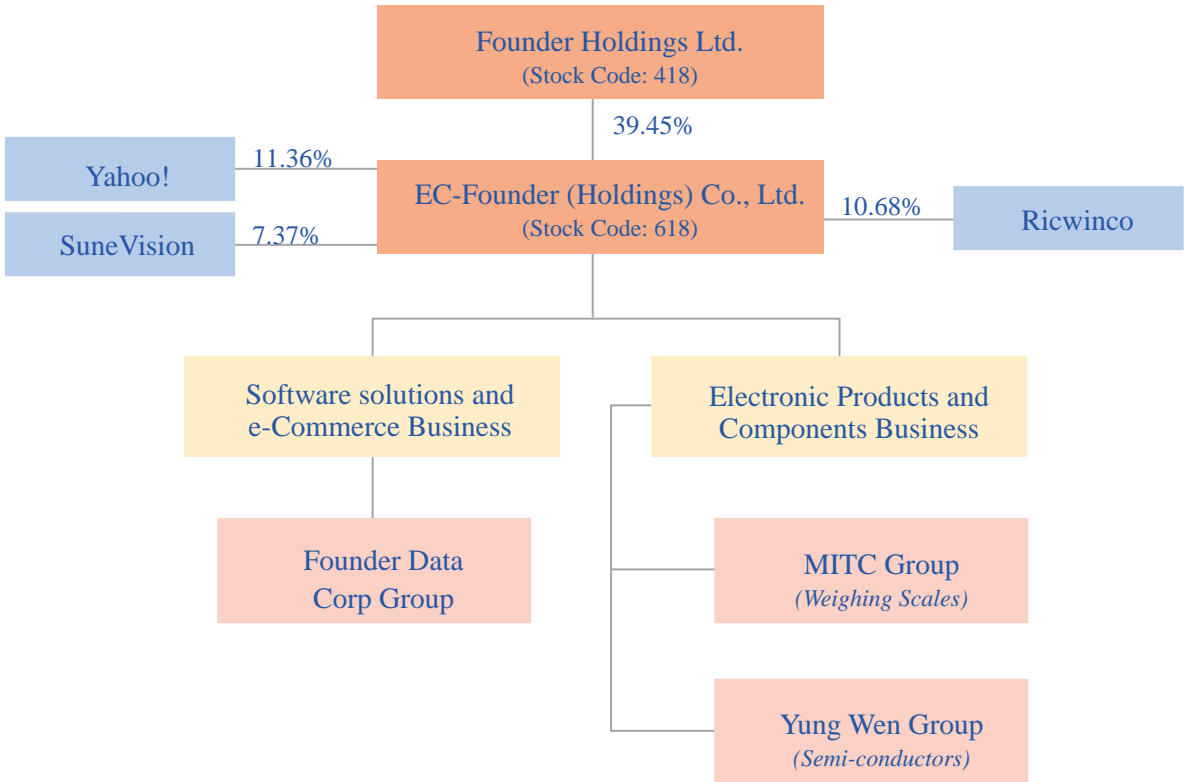
Year	2001	2000	1999	1998	1997
Turnover(HK\$' million)	331	259	314	367	333
Total assets(HK\$' million)	376	426	327	314	306
Total liabilities(HK\$' million)	192	173	140	145	90
Net assets(HK\$' million)	184	253	187	169	216
Net assets per share(HK\$)	0.22	0.31	1.05	0.95	1.22
Current assets ratio	1.49	1.68	1.19	1.27	2.25
Long term debt to equity ratio	0.011	0.018	0.035	0.034	0.007

FINANCIAL HIGHLIGHTS

Turnover by Business



ORGANISATION CHART



CHAIRMAN'S STATEMENT

I herein present the annual report for the results of the Group for the year ended 31 December 2001.

FINANCIAL REVIEW

Turnover

For the year ended 31 December 2001, the turnover of the Group was approximately HK\$331.5 million, an increase of approximately 28.1% from last year's approximately HK\$ 258.7 million. The increase was mainly due to the increases of approximately 88% in the turnover of continuing operations which includes the software solution and e-Commerce services business (the "Software business") and the manufacture and sale of electronic products business (the "Electronic products business") which mainly related to manufacture and distribution of weighing scales. The turnover of Software business increased significantly by more than 6 times from last year's approximately HK\$10.1 million to current year's approximately HK\$73.7 million. Also, there was an increase of approximately 42.2% in turnover of the Electronic products business which amounted to current year's turnover of approximately HK\$169.8 million. Nevertheless, the increase was dampened by the decrease of approximately 32% in discontinuing business — the manufacture and sale of electronic components business (the "Electronic components business") which mainly related to manufacture and distribution of semi-conductors.

Gross profit

The Group's gross profit was doubled to approximately HK\$56.6 million as compared to last year's approximately HK\$27.5 million. The increase was mainly due to the increase in gross profit of the Software business from last year's approximately HK\$3.8 million to current year's approximately HK\$23 million. On the other hand, the gross profit of Electronic products business increased by approximately HK\$25 million but the Electronic components business decreased by approximately HK\$15 million.

The Group's overall gross profit margin increased to approximately 17.1% compared to last year's approximately 10.6%. The increase in gross profit margin matched with the Group's strategy after the introduction of high growth and high profit margin's Software business. The gross profit margin of Software business was approximately 31.2% (2000: 38.2%). However, if the hardware costs which contributes no value added to the profit are excluded, the gross profit margin will be approximately 55%.

Other revenue and gains

The increase in other revenue and gains was mainly due to the profit guarantee which related to the losses incurred by the discontinuing operations — the Electronic components business. Such profit guarantee was made in accordance with the Management Agreement (as further disclosed in note 38 to the financial statements) entered by the Company on 17 May 2000.

FINANCIAL REVIEW *(continued)*

Expenses

The increase in selling and distribution costs and administrative expenses were due to increases of expenses in the Electronic products business and Software business as the increases in turnover and the inclusion of current full year's expenses of the Software business as compared to only a quarter's expenses were recorded in last year.

Liquidity

The Group maintained a net cash position of approximately HK\$52 million as at 31 December 2001 (2000: approximately HK\$64 million).

REVIEW OF OPERATIONS

Year 2001 marked a significant milestone for EC-Founder as it successfully forged into the lead in the Internet software solutions and the services industries in the PRC.

During the year, EC-Founder has been actively engaged in operation restructuring and repositioning in response to the changing market demand. By application of the software solutions in the PRC, the Company managed to establish an Internet-based, computerized and electronic operation and provides its business partners with the necessary business software accessories and application software solution services for the modern Cyber world. Customers can then capitalize on the synergy of their Internet-based operation and EC-Founder's cutting edge software innovations and technologies, thereby enhancing the operation efficiency and strengthening their market competitiveness.

During the year under review, EC-Founder continued to improve its service quality, and taking advantage of state-of-the-art technology, it endeavoured to develop and introduce from abroad the most advanced and rewarding products. Meanwhile, it also stepped up its efforts in marketing and product promotion by participating in a number of national and international promotional activities on Internet technology, such as The Fifth International Commercial Meeting on Electronics Technology and activities of The Fifth International Advanced High-tech Industries in Beijing held in May 2001, The PRC International Digital City Planning of Technology Equipment Exhibition, Comdex 2001 Exhibition in the US and the Conference of Spatial 2001 on the Application of Geographic Spatial Information. Such efforts were made to boost EC-Founder's brand promotion in the PRC and other overseas markets and helped to consolidate its position as a technology-based software and service provider. From these efforts, the Company achieved satisfactory results during the year and received wide recognition from the software technology market for its outstanding technology for customers. The operations were on a steady rise as the Company became a leading player well recognized in the industry.

CHAIRMAN'S STATEMENT

REVIEW OF OPERATIONS *(continued)*

Software business

In year 2001, it was the first full year's operation as compared to last year's only one quarter's results were recorded as the completion of acquisition of Software business by the Company took place in September 2000.

The significant increases in turnover and gross profit were mainly due to the completion of project for the China Construction Bank, the launch of self-developed network security product - FireGate firewall series and self-developed GIS products - Founder Mirage series in March 2001.

During the year, the Group has established a clear development direction and became a provider of Internet software-related technology, solutions and services in the PRC by providing quality products and services to governments and enterprises in the PRC. The Group's main business achievements are as follows:

Network security products and solutions

This business sector mainly involves product development and its application in protection software for the Internet and computer systems.

The Group successfully developed and launched its network security products and solutions - FireGate series in March 2001 and also obtained the licence for the product. During the year, the product passed the certification process of the Ministry of Public Security, the National Information Security Testing Evaluation and Certification Center, the military and the State Secrets Bureau, and became the second company in the PRC which successfully obtained a full set of complete certification and recommendation from all relevant regulatory departments in the PRC. In addition, the Group developed the first-ever anti-offensive simulated testing environment for network security in the PRC - "iTornado", which was also highly recognized by the relevant government authorities.

At present, the Group's sales network comprises 4 distributors, over 80 agents and 15 contract maintenance service providers with a nearly 100% customer coverage. Its customers including major corporate clients such as China Telecom, The People's Bank of China, Shanghai Telecom and China Construction Bank, Shenyang Branch. The Group also provides firewall products and services to government departments including the Headquarters of Chinese People's Armed Police Force, Wenzhou Central Tax Bureau, Sichuan Provincial Government and Shanghai Education Committee.

Moreover, the Group achieved outstanding performance in conducting the network security work on the official website of the Beijing 2008 Olympic Bidding Committee. It successfully protected the website from over 15,000 hacking attempts made by overseas hackers during the "May-Day War" in last year and was thus highly appraised and recognized by Beijing city government on several occasions.

REVIEW OF OPERATIONS *(continued)*

Geographic Information System

Geographic Information System (GIS) products mainly include GIS software for enterprises such as own-developed Founder Mirage series and the distribution for the US's MapInfo products.

During the period under review, the Group signed an OEM contract with RAE Company from the US for Founder Mirage, a GIS product owned-developed by the Group, which successfully explored the overseas export market for the Group.

In addition, the Group also developed a fundamental information system for aerial photography for the National Geomatics Center of China, providing the Center with features such as overall planning and design on aerial photography, auxiliary technical design, aerial photographic simulation and searching. The Group also won the bid for the construction of the geographic information system for the Forest Fire Protection Control and Forest Resources Monitor Control of Heilongjiang Forest Industrial Bureau, which helps the Ministry of Forest to break through constraints on the reforms of traditional policies, thereby promoting the modernization of operation management in forestry. As for the logistics transportation sector, the Group entered into a project agreement with 南海合興襪業有限公司 for software development of its marketing and logistics transportation management system. The Group also successfully implemented its initiatives on alliance partner management and sales operation of alliance partners. It also strengthened its efforts on the management of the purchase, sale and inventory arms and computerized management on logistics transportation.

As for the sale of its GIS product MapInfo in the Greater China region, through its more than 100 agents nationwide, the Group successfully obtained orders from 新疆克拉瑪依油田新港石油開發公司·廣東科龍·山東電信·北京市規劃委員會 as well as order from the National Geomatics Center and 11 provinces and autonomous regions including Guizhou, Jilin, Inner Mongolia, Jiangsu, Hubei, Hunan, Henan, Guangxi, Anhui, Ningxia and Yunnan. Moreover, the Group also made aggressive efforts to develop application for China Petroleum & Chemical Corporation and China Mobile.

On the front of research and development, the Group completed the address coding technology during the year, providing enhancement for spatial technology. It is expected that the application of this new technology can help to stretch the market reach of the Group.

e-Finance

The e-Finance software technology and services business mainly involves the provision of real-time computerized software technology and service platform for finance-related companies.

CHAIRMAN'S STATEMENT

REVIEW OF OPERATIONS *(continued)*

e-Finance *(continued)*

During the year, the Group established a "Major Customer Services System" for the China Construction Bank. A series of linkup tests was conducted during September 2001 and the system is expected to be in full operation in 2002. The introduction of the "Major Customer Services System" came as a result of the reforms on the auditing system in the securities market. The system not only helps to cater for enterprises' demand for B2B services but at the same time bridge the linkage between securities institutes and the China Construction Bank. Such efforts aim to develop new businesses such as B2B transfers and opening of margin accounts.

Enterprise/Government information solutions

The enterprise/Government information solutions business mainly involves the provision of computerized software services platform for enterprises/the Government to enhance departmental information and data exchange by means of single-platform services with an aim to streamline the customer and internal information system to enhance the service efficiency.

During the year under review, the Group developed an information solution for enterprises and the Government. As for enterprise information solutions, the Group entered into a contract with中國糧油食品進出口總公司 for the construction of the portal site (COFCO) and the FOODEC function site for its member companies as branch portals for the industry of food and oil import/export. The Group also developed in joint collaboration with海立美公司 an enterprise business administration system for the sale of air-conditioners. In addition, the Group also combined its EAP product with the EIP product of the US's Viador Company to develop a new version of EAP product. The new product is now at its final production stage and will soon be launched into the market.

Regarding Government information solutions, taking advantage of the PRC Government's aggressive boost to e-administration, the Group undertook the project of China Social Development Network (中社網) and the construction of Online Working Platform for Beijing Administration for Industry and Commerce Bureau (北京市工商局紅盾315網站). The Group was also engaged in the modification of the State Council General Office's main website and the construction of other ministry and departmental branch sites.

Electronic products business

The electronic products business was performing well in 2001 due to the well accepted products such as new body fat scale and glass scale. The decrease in prices of raw material such as plastic, steel iron and electronics parts contributed to decrease in the cost of production and therefore increased the gross profit in this sector.

REVIEW OF OPERATIONS *(continued)*

Electronic components business

As the market for semi-conductors has been deteriorating in the past few years, it affects heavily on the performance of Electronic components business. In order to protect the Group's financial position, the Company entered into a conditional disposal agreement to dispose the Electronic components business and the details were set out in the announcement of the Company on 8 April 2002. A circular contains more information about the disposal will be issued in due course.

FUTURE PROSPECTS

Following the PRC admission to the World Trade Organisation ("WTO"), external trading activities increase and international investment in the PRC also increase as well. As a result, PRC enterprises must make sustaining efforts to enhance operation efficiency and speed up their information exchange. With real-time communication with overseas business partners, enterprises are faced with the rapid development and fierce competition in the global market. This leads to increasing demand for Internet-based information products and services.

In addition, attributable for Beijing's winning bid for hosting 2008 Olympics, the Beijing Government gives full support of the infrastructure development of the city. Meanwhile, the government is determined to turn Beijing into a "Cyber City" which in turn paves ways for immense demand for different types of networking software products needed for cyber-urbanization, ranging from security network, geographic information technology, enterprise platform and other related networking software technology products and services. And this presents an excellent business opportunity for EC-Founder.

The PRC Government demonstrates full support to this respect. During 2001, it was stressed in the PRC's "Fifteen Year Plan" that capitalization should be adopted to promote industrialization so as to realize leaping progress in productivity, and that Government functions should be transformed in order to push ahead with the reforms in the Government. After the PRC's successful entry into the WTO and its winning bid for hosting the Olympics, the Government now considers to put more resources on the development of e-administration in a bid to strengthen its communication with the public and improve government policies. It is reported that the investment in e-administration in 2002 alone will be approximately RMB 1 billion. Moreover, the Government will also focus its efforts on the PRC advanced technology research and development "Project 863". During the 15-year span of the project, it will input huge investment for support. In particular, the "industrialization of geographic information system" is ranked as a key strategic technological project in "Fifteen Year Plan". Such move will provide tremendous growth opportunity for software technology and services providers.

CHAIRMAN'S STATEMENT

FUTURE PROSPECTS *(continued)*

EC-Founder will continue to focus on the development of its Internet software technology solutions business. Business focus will be placed on network security products, geographic information system, e-finance and enterprise/government information solutions. Complemented with its customer-oriented strategy to cater for market needs, the Group will make great efforts to develop its own advanced products and in joint efforts with international partners' software products in order to step up its marketing and promotion work for a larger market share.

Leveraging on its leading position in the software industry in the PRC, state-of-the-art technology and profound capability in research and development, EC-Founder will be able to further solidify its business foundation, and coupled with the insights and business strategies of the management, capture every upcoming opportunity in the market.

LIQUIDITY AND FINANCIAL RESOURCES

Net Assets

As at 31 December 2001, the Group recorded total assets of approximately HK\$376 million which were financed by liabilities of approximately HK\$192 million and equity of approximately HK\$184 million. The Group's net asset value as at 31 December 2001 decreased by approximately 27% to approximately HK\$184 million as compared to approximately HK\$253 million as at 31 December 2000.

Liquidity

The Group had total cash and bank balances of approximately HK\$118 million as at 31 December 2001 (2000: approximately HK\$98 million). After deducting bank loans and overdrafts of approximately HK\$66 million (2000: approximately HK\$34 million), the Group recorded a net cash balance of approximately HK\$52 million (2000: approximately HK\$64 million). As at 31 December 2001, the Group had the working capital to the ratio of 1.49 (2000: 1.68) and a long term debt to equity ratio of 1.1% (2000: 1.8%) with equity being defined as the total of capital and reserves.

Charge on assets

At 31 December 2001 certain land and buildings in the PRC and overseas of the Group and fixed deposits of approximately HK\$9 million were pledged to banks to secure banking facilities granted.

Treasury policies

The Group adopts conservative treasury policies and controls tightly over its cash and risk management. Cash is generally placed in short term deposits denominated in Hong Kong Dollars.

Contingent liabilities

At 31 December 2001 the Company had contingent liabilities in relation to guarantees given to banks in connection with facilities granted to certain subsidiaries amounting to approximately HK\$50 million.

EMPLOYEE AND REMUNERATION POLICIES

As of 31 December 2001, the Group had approximately 240, 1,350 and 480 employees for the Software business, Electronic products business and Electronic components business, respectively. These employees of which approximately 97% work in the PRC and 3% work in Hong Kong and elsewhere, respectively. The Company has also established a share option scheme and the share options are granted at Directors' discretion to motivate and reward the employees with outstanding performance.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

In the opinion of the Directors, the Company has complied with the Code of Best Practice (the "Code") as set out in Appendix 14 of the rules governing the listing of securities (the "Listing Rules") on the Stock Exchange of Hong Kong Limited (the "Stock Exchange"), throughout the accounting period 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 provisions of the Company's bye-laws.

The Company has established an audit committee in accordance with paragraph 14 of the Code throughout the accounting period covered by the annual report.

DETAILED RESULTS ANNOUNCEMENT

A detailed results announcement containing all the information required by paragraphs 45(1) to 45(3) of Appendix 16 of the Listing Rules of the Stock Exchange will be subsequently published on the Stock Exchange's website in due course.

Cheung Shuen Lung
Chairman

Hong Kong, 23 April 2002

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr Cheung Shuen Lung, aged 46, is the Chairman and executive director of the Company. Mr Cheung is also the President of Founder Holdings Limited (“Founder”), a substantial shareholder of the Company. He is a research fellow of the Enterprise Research Institute at Peking University and one of the founders of Founder. He has extensive experience in the information technology industry.

Mr Lei Hon Sang, aged 43, is the President and executive director of the Company. Mr Lei is also an executive director of Founder. He graduated from the Department of Computer Technology and Applied Mathematics of University of Hong Kong in 1983. Mr Lei has extensive experience in the information technology industry.

Professor Wei Xin, aged 46, is an executive director of the Company. He is also the executive director of Founder, Chairman of Peking University Founder Group Corporation, Chairman and President of Shanghai Founder Yanzhong Technology Group Co., Ltd. Professor Wei graduated from the College of Economics at Peking University. He is also the Executive Dean of College of Education at Peking University.

Professor Zou Wei, aged 38, is an executive director of the Company. He is also the Chief Technology Officer of EC-Founder Co., Ltd. in Beijing. He is an associate professor and a supervisor of post-graduates of the 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 mainly involved in the research and development of the software solutions and services business of the Group.

Mr Yung Richard Jr., aged 38, is a son of Mr Yung Chih Shin, Richard. He joined the Group in 1987 after graduated with a Business Administration degree from the University of Southern California. He is the managing director of Management Investment & Technology Company Limited and is mainly responsible for the electronic products business of the Group.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

NON-EXECUTIVE DIRECTORS

Professor Wang Xuan, aged 65, was appointed as the honorary co-chairman of the Company in September 2000. He is also the Chairman of Founder. He is a professor of Peking University and one of the founders of Founder. Professor Wang graduated from the Department of Mathematics at Peking University in 1958, and lectured and carried out research work at Peking University thereafter. Professor Wang is the winner of the State Supreme Science & Technology Award 2001 and a member of the Science Academy of China. He is also a member of the Standing Committee of the Ninth National People's Congress ("NPC") and the vice-chairman of NPC Education, Science, Culture and Public Health Committee. He is currently the director of the Institute of Computer Science and Technology at Peking University. Professor Wang resigned as the honorary co-chairman and non-executive director of the Company on 22 February 2002.

Mr Yung Chih Shin, Richard, aged 67, a graduate of electrical engineering from Massachusetts Institute of Technology. He resigned as the chairman and executive director of the Company and became the honorary co-chairman of the Company in September 2000. Further to the resignation of Professor Wang, Mr Yung was re-designated as honorary chairman of the Company. He founded Management Investment & Technology Company Limited in 1975 and has extensive experience in marketing, product design, factory planning and production management in the electronic industry.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr Yang Lin, Richard, aged 73, is the vice-chairman of Chongqing Da Dah Navigation Co. Ltd., PRC, a director of Chongqing Taipan Storage (Petroleum) Ltd., PRC, and Taipan Storage (Petroleum) Pte. Ltd., Singapore and managing director of E-Hsiang Steamship Co. Ltd., Taiwan. He has extensive experience in providing agency, dealer and consultancy services for companies interested in the areas of Taiwan and the PRC. He has been a non-executive director of the Company since 1995.

Mr Lee Ying Bui, Andrew, aged 38, is a Partner of Robertsons, Solicitors and Notaries. Before joining Robertsons Double & Lee in 1990 as an Associate, Mr Lee served his articleship with Robert W.H. Wang & Co. He was admitted as a Partner since 1992. He was also admitted as lawyer in England and Wales and Australia. He mainly handles civil litigation cases and specialises in insurance cases. He was appointed as a non-executive director of the Company on 8 May 2000.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Ms Wang Da Hung, Linda, aged 35, is responsible for human resources function of the software solutions and services business in the PRC and she joined in 2001. She has extensive experiences in human resources management among various international companies in the PRC. Ms Wang graduated from Beijing Finance and Economics Institute, major in Economic Law.

Mr Ho Yui Pok, aged 36, is the financial controller of the Group. He has extensive experience in the accounting field and he was an audit manager of an international certified public accountants firm. Mr Ho holds a Master degree in Management Science and a Bachelor degree in Accounting from the University of Kent, England. He is an associate member of both the Hong Kong Society of Accountants and the Association of Chartered Accountants in England and Wales. He is also a Certified Public Accountant in Hong Kong. He is responsible for the financial function of the Group.

Mr Yung, Roger, aged 27, is a younger son of Mr Yung Chih Shin, Richard. He joined the Group in 1998 after graduation with a Business Administration degree from the University of San Francisco. Mr Yung is mainly responsible for the internal control and special project of the electronic products and electronic components business.

Mr Mak Kwok Hong, Eric, aged 46, is the vice-president of operations of Management Investment & Technology Company Limited and is responsible for all its manufacturing operations and related activities. He holds a Master of Science degree in Engineering Management from the City University of Hong Kong. Prior to joining the Group in 1985, he had extensive experience in industrial engineering and production material control with several major electronic manufacturing companies. He is mainly responsible for the management of electronic products business of the Group.

Mr Lam Ying Lun, England, aged 42, is the vice-president of marketing of Management Investment & Technology Company Limited. He has extensive experience in marketing of electrical and electronic products. Mr Lam has been with the Group since 1984. He is mainly responsible for the marketing activities of electronic products business of the Group.

Mr Shoji Asano, aged 55, is the managing director of Digital Semiconductor Co., Limited and DS Components Limited. He holds a Master of Science degree from the Waseda University and has extensive experience in research, ceramics, plastics, semi-conductor and steel. Before joining the Group in 1998, he was the managing director of a Japanese company engaged in semi-conductor business for 6 years. He is mainly responsible for the management of electronic components business of the Group.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the annual general meeting of EC-Founder (Holdings) Company 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 2002 at 10:00 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 2001.
2. To re-elect the retiring directors and to fix the remuneration of directors.
3. To re-appoint auditors and to authorize 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 recognized 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

NOTICE OF ANNUAL GENERAL MEETING

- (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.”

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);

NOTICE OF ANNUAL GENERAL MEETING

- (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 is 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."
- 7. **"THAT** subject to and conditional upon the Stock Exchange granting approval for the listing of and permission to deal in the shares which may fall to be issued by the Company pursuant to the exercise of options granted under the New Share Option Scheme (as defined in the circular to be despatched to the shareholders of the Company, the New Share Option Scheme (the rules of which are set out in the printed document marked "A" produced to this meeting and for the purpose of identification signed by the Chairman) be and is hereby approved and adopted in replacement of the existing share option scheme adopted by the Company on 7 May 2001 (the "Existing Share Option Scheme") and that the board of directors of the Company be and is hereby authorised to do all such acts and to take all such steps and actions and to execute all such documents on behalf of the Company as may be necessary or expedient in order to give effect to the New Share Option Scheme, including without limitation, to issue and allot shares in the capital of the Company on terms therein mentioned."

NOTICE OF ANNUAL GENERAL MEETING

8. **“THAT** subject to and conditional upon the passing of Resolution no. 7 set out in this Notice and the New Share Option Scheme taking effect in accordance with its terms, the Existing Share Option Scheme be hereby terminated.”

By Order of the Board

Tang Yuk Bo, Yvonne

Company Secretary

Hong Kong, 23 April 2002

Notes:

1. Any member entitled to attend and vote at the annual general meeting is entitled to appoint another person as his proxy to attend and, on a poll, vote instead of him. A member 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 personally or by proxy 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 member from attending and voting in person at the meeting or at any adjourned meeting.

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 2001.

PRINCIPAL ACTIVITIES

The principal activities of the Company are investment holding and provision of management services. Details of the principal activities of the subsidiaries are set out in note 17 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

SEGMENT INFORMATION

An analysis of the Group's turnover and contribution to results by principal activity and geographical area of operations for the year ended 31 December 2001 is set out in note 4 to the financial statements.

RESULTS AND DIVIDENDS

The Group's loss for the year ended 31 December 2001 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 32 to 86.

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

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets and liabilities of the Group for the last five financial years, as extracted from the audited financial statements and reclassified as appropriate, is set out on page 88. This summary does not form part of the audited financial statements.

FIXED ASSETS

Details of movements in the fixed assets of the Company and the Group during the year are set out in note 14 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year, together with reasons therefor, are set out in note 31 to the financial statements.

PRE-EMPTIVE RIGHTS

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

RESERVES

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

DISTRIBUTABLE RESERVES

At 31 December 2001, the Company's reserves available for distribution, calculated in accordance with the Companies Act 1981 of Bermuda (as amended) amounted to approximately HK\$78,518,000. In addition, the Company's share premium account, in the amount of approximately HK\$118,299,000 may be distributed in the form of fully paid bonus shares.

CHARITABLE CONTRIBUTIONS

During the year, the Group did not make any charitable contributions.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for approximately 56% (2000: 60%) of the total sales for the year and sales to the largest customer included therein amounted to approximately 18% (2000: 20%).

Purchases from the Group's five largest suppliers accounted for approximately 39% (2000: 53%) of the total purchases for the year and purchases from the largest supplier included therein amounted to approximately 19% (2000: 38%).

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

REPORT OF THE DIRECTORS

DIRECTORS

The directors of the Company during the year were:

Executive directors:

Mr Cheung Shuen Lung

Mr Lei Hon Sang

Professor Wei Xin

Professor Zou Wei

Mr Yung Richard, Jr.

Non-executive directors:

Professor Wang Xuan (resigned on 22 February 2002)

Mr Yung Chih Shin, Richard

Mr Yang Lin, Richard*

Mr Lee Ying Biu, Andrew*

** Independent non-executive directors*

Subsequent to the balance sheet date, on 22 February 2002, Professor Wang Xuan resigned as a director of the Company.

In accordance with the Company's bye-laws, Mr Yung Richard, Jr. and Mr Yang Lin, Richard 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 14 to 16 of the annual report.

DIRECTORS' SERVICE CONTRACTS

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

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in note 38 to the financial statements, no director had a material interest 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.

MANAGEMENT CONTRACTS

Save as disclosed in note 38 to the financial statements, no contract concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the year.

CONTRACTS OF SIGNIFICANCE

Save as disclosed in note 38 to the financial statements, no contracts of significance were entered into or existed during the year.

DIRECTORS' INTERESTS IN SHARES

At 31 December 2001, the interests of the directors in the share capital of the Company or its associated corporations, as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), were as follows:

Ordinary shares of the Company

Name of director	Number of ordinary shares held and nature of interest	
	Corporate	Personal
Mr Yung Chih Shin, Richard (<i>Note</i>)	87,680,000	—
Mr Cheung Shuen Lung	—	36,890,100
Mr Lei Hon Sang	—	21,890,100
Professor Wei Xin	—	3,956,000
	<u>87,680,000</u>	<u>62,736,200</u>

Subsidiary

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

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

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS IN SHARES *(continued)*

The interests of the directors in the share options of the Company are separately disclosed in the section "Share option scheme" below.

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

Save as disclosed above and as disclosed below under the heading "Directors' rights to acquire shares or debentures", none of the directors or their associates had any personal, family, corporate or other interests in the equity or debt securities of the Company or any of its associated corporations as defined in the SDI Ordinance and recorded in the register required to be maintained pursuant to Section 29 thereof.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from as disclosed under the headings "Directors' interests in shares" above and "Share option scheme" below, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company, its holding companies, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

SHARE OPTION SCHEME

As part of the incentive and rewarding programme, the Company adopted a share option scheme (the "Existing Scheme") on 7 May 2001 in parallel with the other share option scheme (the "Expired Scheme") adopted by the Company on 11 September 1991, under each of which employees of any of the Company and its subsidiaries are entitled to participate. While the Expired Scheme has expired on 10 September 2001 in accordance with its terms but all the other provisions of the Expired Scheme will remain in force and all such options granted under the Expired Scheme will remain valid and exercisable in accordance with the provisions of the Expired Scheme, the Existing Scheme shall remain operative for a period of 10 years from the date of its adoption.

SHARE OPTION SCHEME *(continued)*

Under the Existing Scheme, the total number of shares available for issue in respect of option amounted to 82,056,204 representing 10% of the issued share capital of the Company on 23 April 2002 whereas the maximum number of shares issuable to each eligible participant is limited to 25% of the aggregate number of shares issued and issuable under the Existing Scheme. An offer for share options may be accepted within 40 days from the date of offer, upon payment of a nominal consideration of HK\$1.00. The exercise period of share options granted under the Existing Scheme shall be determined by the directors of the Company when such options are granted, provided that such period shall not exceed a period of 10 years commencing on the date on which the options are deemed to be accepted in accordance with the terms. The subscription price in relation to each option under the Existing Scheme shall be determinable by the directors of the Company, being the higher of either (a) a price being not less than 80% of the average of the closing prices of the shares of the Company on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") for the five trading days immediately preceding the date on which the option is offered; or (b) the nominal value of the shares of the Company.

The Chapter 17 of the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange was however amended in August 2001 and came into effect on 1 September 2001, resulting in certain provisions under the Existing Scheme becoming obsolete. Pursuant to the new Chapter 17 of the Listing Rules of the Stock Exchange, among other things, provisions relating to the maximum number of shares in respect of which options may be granted, the maximum entitlement of each participant and the subscription price were amended. Therefore, the directors of the Company propose to the shareholders at the forthcoming annual general meeting that the Existing Scheme will be terminated and to adopt a new share option scheme to comply with such changes.

REPORT OF THE DIRECTORS

SHARE OPTION SCHEME (continued)

The following share options were outstanding under the Expired Scheme and Existing Scheme during the year:

Name or category of participant	Number of share options				Date of grant of share options	Exercise period of share options	Price of Company's shares		
	At 1 January 2001	Granted during the year	Lapsed during the year	At 31 December 2001			Exercise price of share options** HK\$	At grant date of options*** HK\$	At exercise date of options HK\$
Expired Scheme									
<i>Directors, chief executives and substantial shareholders</i>									
Mr Yung Chih Shin, Richard	3,000,000	—	—	3,000,000	30.1.1997	1.8.1997* to 31.7.2002	0.507	1.02	—
Mr Yung Richard, Jr.	2,400,000	—	—	2,400,000	30.1.1997	1.8.1997* to 31.7.2002	0.507	1.02	—
Mr Yung Richard, Jr.	—	2,700,000	—	2,700,000	18.5.2001	15.12.2001* to 14.12.2006	0.450	0.56	—
Sub-total	<u>5,400,000</u>	<u>2,700,000</u>	<u>—</u>	<u>8,100,000</u>					
<i>Other employees</i>									
In aggregate	2,400,000	—	—	2,400,000	30.1.1997	1.8.1997* to 31.7.2002	0.507	1.02	—
In aggregate	—	3,300,000	—	3,300,000	18.5.2001	15.12.2001* to 14.12.2006	0.450	0.56	—
Sub-total	<u>2,400,000</u>	<u>3,300,000</u>	<u>—</u>	<u>5,700,000</u>					
Total of Expired Scheme	<u><u>7,800,000</u></u>	<u><u>6,000,000</u></u>	<u><u>—</u></u>	<u><u>13,800,000</u></u>					
Existing Scheme									
<i>Directors, chief executives and substantial shareholders</i>									
Mr Cheung Shuen Lung	—	2,000,000	—	2,000,000	18.5.2001	18.5.2001 to 17.5.2011	0.450	0.56	—
Mr Lei Hon Sang	—	2,000,000	—	2,000,000	18.5.2001	18.5.2001 to 17.5.2011	0.450	0.56	—
Professor Wei Xin	—	2,000,000	—	2,000,000	18.5.2001	18.5.2001 to 17.5.2011	0.450	0.56	—
Professor Zou Wei	—	2,000,000	—	2,000,000	18.5.2001	18.5.2001 to 17.5.2011	0.450	0.56	—
Sub-total	<u>—</u>	<u>8,000,000</u>	<u>—</u>	<u>8,000,000</u>					
<i>Other employees</i>									
In aggregate	—	40,000,000	—	40,000,000	18.5.2001	18.5.2001 to 17.5.2011	0.450	0.56	—
Sub-total	<u>—</u>	<u>40,000,000</u>	<u>—</u>	<u>40,000,000</u>					
Total of Existing Scheme	<u><u>—</u></u>	<u><u>48,000,000</u></u>	<u><u>—</u></u>	<u><u>48,000,000</u></u>					

SHARE OPTION SCHEME *(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 the Company's share capital.
- *** The price of the Company's shares disclosed as at the date of the grant of the share options is the Stock Exchange closing price on the trading day immediately prior to the date of the grant of the options.

Summary details of the Company's share option scheme are also set out in note 31 to the financial statements.

The financial impact of share options granted 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 the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date are deleted from the outstanding options.

The directors do not consider it appropriate to disclose a theoretical value of the share options granted during the year to the directors and employees because a number of factors crucial for the valuation are subjective and uncertain. Accordingly, any valuation of the options based on various speculative assumptions would not be meaningful and would be misleading.

SUBSTANTIAL SHAREHOLDERS

At 31 December 2001, the following interests of 10% or more of the share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance:

Name of shareholder	<i>Notes</i>	Number of ordinary shares held	Percentage of the Company's share capital
Peking University Founder Group Corporation ("Peking Founder")	1	323,690,000	39.45
Founder Holdings Limited ("FHL")		323,690,000	39.45
Yahoo! Inc.		93,240,000	11.36
Ricwinco	2	87,680,000	10.68
Mr Yung Chih Shin, Richard	2	87,680,000	10.68

Notes:

1. Peking Founder is deemed to be interested in the 323,690,000 shares of the Company under the SDI Ordinance by virtue of its interest in FHL.
2. Ricwinco is beneficially owned by Mr Yung Chih Shin, Richard. The interests disclosed under Mr Yung Chih Shin, Richard represent its deemed interests in the shares of the Company by virtue of its interest in Ricwinco.

REPORT OF THE DIRECTORS

SUBSTANTIAL SHAREHOLDERS *(continued)*

Save as disclosed above, no person, other than the directors of the Company, whose interests are set out in the section "Directors' interests in shares" above, had registered an interest in the share capital of the Company that was required to be recorded pursuant to Section 16(1) of the SDI Ordinance.

CONNECTED TRANSACTIONS

Details of the connected transactions are set out in note 38 to the financial statements.

The independent non-executive directors of the Company have reviewed the related party transactions which are set out in note 38 to the financial statements, and have confirmed to the board of directors their opinion that such transactions were conducted in the ordinary course of the Group's business and were fair and reasonable so far as the shareholders of the Company are concerned.

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 Listing Rules of Stock Exchange, 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 provisions of the Company's bye-laws.

AUDIT COMMITTEE

The Company has an audit committee which was established in accordance with the requirements of the Code. 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

23 April 2002

To the members

EC-Founder (Holdings) Company Limited

(Incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 32 to 86 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

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

BASIS OF OPINION

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

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

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2001 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young

Certified Public Accountants

Hong Kong
23 April 2002

CONSOLIDATED PROFIT AND LOSS ACCOUNT

Year ended 31 December 2001

	<i>Notes</i>	2001 HK\$'000	2000 <i>HK\$'000</i> (Restated)
TURNOVER			
Continuing operations		243,443	129,438
Discontinuing operations	6	88,012	129,226
	5	331,455	258,664
Cost of sales		(274,810)	(231,194)
Gross profit		56,645	27,470
Other revenue and gains	5	45,507	6,735
Selling and distribution costs		(44,162)	(17,678)
Administrative expenses		(70,394)	(48,342)
Other operating expenses		(13,972)	(13,708)
Impairment of fixed assets		(38,180)	—
Impairment of goodwill		—	(452,259)
LOSS FROM OPERATING ACTIVITIES			
Continuing operations		(42,478)	(488,728)
Discontinuing operations	6	(22,078)	(9,054)
	7	(64,556)	(497,782)
Finance costs	8	(9,069)	(7,411)
Share of profits and losses of:			
Jointly-controlled entities		—	14,014
Associates		4,346	2,159
LOSS BEFORE TAX		(69,279)	(489,020)
Tax	11	(1,432)	(3,075)
LOSS BEFORE MINORITY INTERESTS		(70,711)	(492,095)
Minority interests		1,670	(5)
NET LOSS FROM ORDINARY ACTIVITIES			
ATTRIBUTABLE TO SHAREHOLDERS	12	(69,041)	(492,100)
LOSS PER SHARE			
Basic	13	8.4 cents	143.0 cents
Diluted		N/A	N/A

CONSOLIDATED STATEMENT OF RECOGNISED GAINS AND LOSSES

Year ended 31 December 2001

	<i>Notes</i>	2001 HK\$'000	2000 <i>HK\$'000</i> (Restated)
Exchange differences on translation of the financial statements of foreign entities	32	<u>(8)</u>	<u>190</u>
Net gains/(losses) not recognised in the profit and loss account		(8)	190
Net loss for the year attributable to shareholders:	32		
Current year/prior year — as previously reported		(69,041)	(39,841)
Effect of retrospective changes in accounting policy		<u>—</u>	<u>(452,259)</u>
		(69,041)	<u>(492,100)</u>
Goodwill realised in the profit and loss account on disposal of subsidiaries	32	—	949
Exchange fluctuation reserve realised in the profit and loss accounts on disposal of subsidiaries	32	<u>—</u>	<u>1,867</u>
Total recognised gains and losses		(69,049)	(489,094)
Goodwill eliminated directly against reserves		<u>—</u>	<u>(85,000)</u>
		(69,049)	<u>(574,094)</u>
<p>In addition to the gains and losses detailed above, certain gains and losses arose since 31 December 2000 as a result of a prior year adjustment arising from the changes in accounting policies summarised in note 2 to these financial statements, as follows:</p>			
For the year ended 31 December 2001, as reported above		(69,049)	
Recognised losses arising from a prior year adjustment, relating to year ended 31 December 2000		<u>(452,259)</u>	
Total recognised gains and losses arising since the last annual report		<u>(521,308)</u>	

CONSOLIDATED BALANCE SHEET

31 December 2001

	Notes	2001 HK\$'000	2000 HK\$'000 (Restated)
NON-CURRENT ASSETS			
Fixed assets	14	71,910	110,387
Intangible assets	15	1,270	4,980
Interests in associates	18	22,527	32,318
Long term investments	19	1,075	1,075
		<u>96,782</u>	<u>148,760</u>
CURRENT ASSETS			
Inventories	20	54,330	71,723
Trade and bills receivables	21	53,957	44,220
Other receivables	22	53,025	62,797
Pledged deposits	23	48,313	5,000
Cash and cash equivalents	23	69,691	93,384
		<u>279,316</u>	<u>277,124</u>
CURRENT LIABILITIES			
Trade and bills payables	24	82,562	76,895
Other payables and accruals	25	26,247	34,902
Other loans	26	9,852	15,000
Interest-bearing bank and other borrowings	27	68,685	37,715
		<u>187,346</u>	<u>164,512</u>
NET CURRENT ASSETS		<u>91,970</u>	<u>112,612</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>188,752</u>	<u>261,372</u>
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	28	279	663
Finance lease payables	29	1,764	3,956
		<u>2,043</u>	<u>4,619</u>
MINORITY INTERESTS		<u>2,336</u>	<u>3,331</u>
		<u>184,373</u>	<u>253,422</u>
CAPITAL AND RESERVES			
Issued capital	31	82,056	82,056
Reserves	32	102,317	171,366
		<u>184,373</u>	<u>253,422</u>

Cheung Shuen Lung
Director

Lei Hon Sang
Director

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2001

	<i>Notes</i>	2001 HK\$'000	2000 <i>HK\$'000</i> (Restated)
NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES	<i>33(a)</i>	5,105	(47,182)
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		3,576	3,218
Interest paid		(8,672)	(6,252)
Interest element on finance lease rental payments		(397)	(1,159)
Dividend received from short term investments		<u>—</u>	<u>29</u>
Net cash outflow from returns on investments and servicing of finance		<u>(5,493)</u>	<u>(4,164)</u>
TAX			
Taxes paid		<u>—</u>	<u>—</u>
INVESTING ACTIVITIES			
Purchases of fixed assets and additions to construction in progress		(9,746)	(16,079)
Proceeds from disposal of fixed assets		931	4,720
Acquisition of subsidiaries	<i>33(d)</i>	—	30,899
Proceeds from disposal of short term investments		—	1,719
Payment for deferred development costs		(154)	(1,908)
Repayment/(advances) of loans to associates		9,000	(19,360)
Disposal of subsidiaries	<i>33(e)</i>	—	11,617
Additional investment in an associate		(1,800)	—
Acquisition of an associate		(1,136)	—
Increase in pledged time deposits		<u>(43,313)</u>	<u>(5,000)</u>
Net cash inflow/(outflow) from investing activities		<u>(46,218)</u>	<u>6,608</u>
NET CASH OUTFLOW BEFORE FINANCING ACTIVITIES		<u>(46,606)</u>	<u>(44,738)</u>

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2001

	<i>Note</i>	2001 HK\$'000	2000 HK\$'000 (Restated)
NET CASH OUTFLOW BEFORE FINANCING ACTIVITIES		(46,606)	(44,738)
FINANCING ACTIVITIES	<i>33(b)</i>		
Proceeds from issue of share capital		—	108,385
Share issue expenses		—	(2,153)
Capital contributions by minority shareholders		675	—
Additions/(repayment) of other loans		(5,148)	5,000
Additions/(repayment) of bank loans		(7,129)	885
New bank loans		39,160	—
Capital element of finance lease rental payments		(4,859)	(2,908)
Net cash inflow from financing activities		22,699	109,209
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		(23,907)	64,471
Cash and cash equivalents at beginning of year		89,700	25,039
Effect of foreign exchange rate changes, net		(8)	190
CASH AND CASH EQUIVALENTS AT END OF YEAR		65,785	89,700
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		51,160	27,337
Time deposits with original maturity of less than three months when acquired		18,531	66,047
Bank overdrafts		(3,906)	(3,684)
		65,785	89,700

BALANCE SHEET

31 December 2001

	Notes	2001 HK\$'000	2000 HK\$'000
NON-CURRENT ASSETS			
Fixed assets	14	2,155	1,257
Interests in subsidiaries	17	255,114	699,388
		<u>257,269</u>	<u>700,645</u>
CURRENT ASSETS			
Loan to an associate	18	3,292	9,360
Other receivables	22	7,190	55,515
Cash and cash equivalents	23	19,405	61,456
		<u>29,887</u>	<u>126,331</u>
CURRENT LIABILITIES			
Other payables and accruals	25	8,283	11,772
NET CURRENT ASSETS			
		<u>21,604</u>	<u>114,559</u>
		<u>278,873</u>	<u>815,204</u>
CAPITAL AND RESERVES			
Issued capital	31	82,056	82,056
Reserves	32	196,817	733,148
		<u>278,873</u>	<u>815,204</u>

Cheung Shuen Lung
Director

Lei Hon Sang
Director

NOTES TO FINANCIAL STATEMENTS

31 December 2001

1. CORPORATE INFORMATION

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

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

- provision of software solutions and e-Commerce services
- design, manufacture and distribution of electronic products
- design, manufacture and distribution of electronic components
- provision of management services

2. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPs")

The following recently-issued and revised SSAPs and related Interpretations are effective for the first time for the current year's financial statements:

- SSAP 9 (Revised): "Events after the balance sheet date"
- SSAP 14 (Revised): "Leases"
- SSAP 18 (Revised): "Revenue"
- SSAP 26: "Segment reporting"
- SSAP 28: "Provisions, contingent liabilities and contingent assets"
- SSAP 29: "Intangible assets"
- SSAP 30: "Business combinations"
- SSAP 31: "Impairment of assets"
- SSAP 32: "Consolidated financial statements and accounting for investments in subsidiaries"
- Interpretation 12: "Business combinations — subsequent adjustment of fair values and goodwill initially reported"
- Interpretation 13: "Goodwill — continuing requirements for goodwill and negative goodwill previously eliminated against/credited to reserves"

2. **IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPs")** *(continued)*

These SSAPs prescribe new accounting measurement and disclosure practices. The major effects on the Group's accounting policies and on the amounts disclosed in these financial statements of those SSAPs and Interpretations which have had a significant effect on the financial statements, are summarised as follows:

SSAP 14 (Revised) prescribes the basis for lessor and lessee accounting for finance and operating leases, and the required disclosures in respect thereof. Certain amendments have been made to the previous accounting measurement treatments, which may be accounted for retrospectively or prospectively, in accordance with the requirements of this SSAP. This revised SSAP requirements have not had a material effect on the amounts previously recorded in the financial statements, therefore no prior year adjustment has been required. The disclosure changes under this SSAP have resulted in changes to the detailed information disclosed for finance leases and operating leases, which are further detailed in notes 29 and 35 to these financial statements.

SSAP 26 prescribes the principles to be applied for reporting financial information by segment. It requires that management assesses whether the Group's predominant risks or returns are based on business segments or geographical segments and determines one of these bases to be the primary segment information reporting format, with the other as the secondary segment information reporting format. The impact of this SSAP is the inclusion of significant additional segment reporting disclosures which are set out in note 4 to these financial statements.

SSAP 30 prescribes the accounting treatment for business combinations, including the determination of the date of acquisition, the method for determining the fair values of the assets and liabilities acquired, and the treatment of goodwill or negative goodwill arising on acquisition. This SSAP requires the disclosure of goodwill in the non-current assets section of the consolidated balance sheet. It requires that goodwill is amortised to the consolidated profit and loss account over its estimated useful life. Interpretation 13 prescribes the application of SSAP 30 to goodwill arising from acquisitions in previous years which remains eliminated against consolidated reserves. The adoption of this SSAP and Interpretation 13 has resulted in a prior year adjustment, further details of which are included in notes 16 and 32 to these financial statements.

SSAP 31 prescribes the recognition and measurement criteria for impairment of assets. This SSAP is required to be applied prospectively and therefore, has had no effect on amounts previously reported in prior year financial statements.

SSAP 32 prescribes the accounting treatment and disclosures for the preparation and presentation of consolidated financial statements, and has had no significant impact on the preparation of these financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2001

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong SSAP, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2001. 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.

Subsidiaries

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

The Company's interests in subsidiaries are stated at cost less any impairment losses.

Joint venture companies

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, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

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

Joint venture companies *(continued)*

A joint venture company is treated as:

- (a) a subsidiary, if the Company has unilateral control over the joint venture company;
- (b) a jointly-controlled entity, if the Company does not have unilateral control, but has joint control over the joint venture company;
- (c) an associate, if the Company does not have unilateral or joint control, but holds generally not less than 20% of the joint venture company's registered capital and is in a position to exercise significant influence over the joint venture company; or
- (d) a long term investment, if the Company holds less than 20% of the joint venture company's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture company.

Jointly-controlled entities

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2001

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

Associates

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

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated 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 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 long term assets and are stated at cost less any impairment losses.

Goodwill

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

Goodwill arising on acquisitions is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life. In the case of associates, any unamortised goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

In prior years, goodwill arising on acquisitions was eliminated against consolidated reserves in the year of acquisition. The Group has adopted the transitional provision of SSAP 30 that permits goodwill on acquisitions which occurred prior to 1 January 2001, to remain eliminated against consolidated reserves. Goodwill on subsequent acquisitions is treated according to the new accounting policy above.

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

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

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

Related parties

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

Impairment of assets

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

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

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years.

A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

NOTES TO FINANCIAL STATEMENTS

31 December 2001

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

Fixed assets and depreciation

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

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

Leasehold land and buildings	Over the terms of the individual leases or 50 years, whichever is shorter
Leasehold improvements	5% - 10%
Machinery, equipment and moulds	6.67% - 25%
Furniture, fixtures and office equipment	12.5%
Motor vehicles	20%

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)***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 any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products not exceeding five years, commencing from the date when the products are put into commercial production.

The unamortised balance of deferred development costs is reviewed at the end of each period and is written off to the extent that the unamortised balance, taken together with further development and directly related costs, is impaired.

Leased assets

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

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

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

NOTES TO FINANCIAL STATEMENTS

31 December 2001

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

Long term investments

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

Inventories

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

Cash equivalents

For the purpose of the consolidated cash flow statement, cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance. For the purpose of balance sheet classification, cash equivalents represent assets similar in nature to cash, cash and bank balances represent assets which are not restricted as to use.

Deferred tax

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

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

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

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) from the rendering of services, when the transactions have been completed in accordance with the terms of the contracts;
- (c) rental income, on a time proportion basis over the lease terms; and
- (d) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

Foreign currencies

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

On consolidation, the financial statements of overseas subsidiaries and associates are translated into Hong Kong dollars at the applicable rates of exchange ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

Retirement benefits scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the scheme. The MPF Scheme has operated since 1 December 2000. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

NOTES TO FINANCIAL STATEMENTS

31 December 2001

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

Retirement benefits scheme *(continued)*

Prior to the MPF Scheme becoming effective, the Group operated a defined contribution retirement benefits scheme (the "Prior Scheme") for those employees who were eligible to participate in this scheme. This Prior Scheme operated in a similar way to the MPF Scheme, except that when an employee left the Prior Scheme before his/her interest in the Group's employer contributions vested fully, the ongoing contributions payable by the Group were reduced by the relevant amount of the forfeited employer's contributions. With effect from 1 December 2000, the Prior Scheme was terminated.

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

4. SEGMENT INFORMATION

SSAP 26 was adopted during the year, as detailed in note 2 to these financial statements. 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 other business segments. Summary details of the business segments are as follows:

- (a) the provision of software solutions and e-Commerce services segment is the development of security and geographical information softwares and the provision of system and integrated solutions and services to financial institutions, enterprises and government departments in the PRC which are in the process of computerisation;
- (b) the electronic products segment manufactures weighing scales and lighting products; and
- (c) the electronic components segment manufactures semi-conductor products.

As further explained in notes 6 and 37 to these financial statements, the Group entered into a conditional Disposal Agreement ("DA") to dispose of this segment to Ricwinco Investment Limited ("Ricwinco").

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

No intersegment sales and transfers were transacted during the year (2000: Nil).

NOTES TO FINANCIAL STATEMENTS

31 December 2001

4. SEGMENT INFORMATION *(continued)*

(a) Business segments

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

Group	Provision of software solutions and				Electronic components		Consolidated	
	e-Commerce services		Electronic products		2001	2000	2001	2000
	2001	2000	2001	2000	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:								
Sales to external customers	<u>73,681</u>	10,072	<u>169,762</u>	119,366	<u>88,012</u>	129,226	<u>331,455</u>	<u>258,664</u>
Segment results	<u>(35,046)</u>	(21,265)	<u>4,735</u>	(3,653)	<u>(23,392)</u>	(9,838)	<u>(53,703)</u>	<u>(34,756)</u>
Interest and other income							<u>4,761</u>	5,289
Unallocated expenses							<u>(15,614)</u>	(16,056)
Impairment of goodwill							<u>—</u>	<u>(452,259)</u>
Loss from operating activities							<u>(64,556)</u>	(497,782)
Finance costs							<u>(9,069)</u>	(7,411)
Share of profits and losses of:								
Jointly-controlled entities	—	—	—	14,014	—	—	—	14,014
Associates	—	—	—	—	7	—	<u>4,346</u>	<u>2,159</u>
Loss before tax							<u>(69,279)</u>	(489,020)
Tax							<u>(1,432)</u>	<u>(3,075)</u>
Loss before minority interests							<u>(70,711)</u>	(492,095)
Minority interests							<u>1,670</u>	<u>(5)</u>
Net loss from ordinary activities attributable to shareholders							<u>(69,041)</u>	<u>(492,100)</u>

NOTES TO FINANCIAL STATEMENTS

31 December 2001

4. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

Group	Provision of software solutions and				Electronic components		Consolidated	
	e-Commerce services		Electronic products		2001	2000	2001	2000
	2001	2000	2001	2000	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment assets	101,103	32,493	113,346	105,094	111,660	137,750	326,109	275,337
Interests in associates	—	—	—	—	3,348	—	22,527	32,318
Unallocated assets	—	—	—	—	—	—	27,462	118,229
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total assets							376,098	425,884
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Segment liabilities	7,915	17,951	38,226	25,479	54,385	56,892	100,526	100,322
Unallocated liabilities	—	—	—	—	—	—	88,863	68,809
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities							189,389	169,131
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Other segment information:								
Depreciation, amortisation and write-off	462	1,175	6,655	6,785	7,422	5,559	17,288	14,000
Impairment of fixed assets recognised in profit and loss account	2,376	—	—	—	35,804	—	38,180	—
Capital expenditure	1,244	4,347	4,261	6,319	3,754	2,578	12,836	17,987
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

NOTES TO FINANCIAL STATEMENTS

31 December 2001

4. SEGMENT INFORMATION *(continued)*

(b) Geographical segments

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

Group	Hong Kong		Elsewhere in the PRC		Singapore		United States of America		United Kingdom		Others		Consolidated	
	2001	2000	2001	2000	2001	2000	2001	2000	2001	2000	2001	2000	2001	2000
	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	<u>6,757</u>	<u>48,272</u>	<u>121,297</u>	<u>51,667</u>	<u>35,792</u>	<u>44,107</u>	<u>128,965</u>	<u>87,291</u>	<u>35,808</u>	<u>26,437</u>	<u>2,836</u>	<u>890</u>	<u>331,455</u>	<u>258,664</u>
Segment results	<u>(1,125)</u>	<u>(3,914)</u>	<u>(46,885)</u>	<u>(23,976)</u>	<u>(9,433)</u>	<u>(3,358)</u>	<u>3,440</u>	<u>(2,666)</u>	<u>999</u>	<u>(808)</u>	<u>(699)</u>	<u>(34)</u>	<u>(53,703)</u>	<u>(34,756)</u>
Other segment														
information:														
Segment assets	<u>97,527</u>	<u>131,109</u>	<u>174,698</u>	<u>174,915</u>	<u>7,219</u>	<u>14,576</u>	<u>23,323</u>	<u>13,802</u>	<u>8,024</u>	<u>2,728</u>	<u>65,307</u>	<u>88,754</u>	<u>376,098</u>	<u>425,884</u>
Capital														
expenditure	<u>1,378</u>	<u>4,838</u>	<u>8,504</u>	<u>13,149</u>	<u>18</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>2,936</u>	<u>—</u>	<u>12,836</u>	<u>17,987</u>

NOTES TO FINANCIAL STATEMENTS

31 December 2001

5. TURNOVER, OTHER REVENUE AND GAINS

Turnover represents the net invoiced value of goods sold, after allowance for returns and trade discounts and the value of services rendered during the year.

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

	2001	2000
	HK\$'000	HK\$'000
Turnover		
Provision of software solutions and e-Commerce services	73,681	10,072
Sales of electronic products	169,762	119,366
Sales of electronic components	88,012	129,226
	<u>331,455</u>	<u>258,664</u>
Other Revenue		
Rental income	421	421
Interest income	3,576	3,218
Other	764	1,650
	<u>4,761</u>	<u>5,289</u>
Gains		
Profit guarantees (<i>Note</i>)	40,746	1,446
	<u>45,507</u>	<u>6,735</u>

Note:

Pursuant to the Management Agreement ("MA") as further disclosed in note 38 to these financial statements, Ricwinco agreed to pay a guaranteed amount of approximately HK\$40,746,000 to the Group for the year ended 31 December 2001 during which the profit guarantee is effective. The Group recognised the profit guarantee amount of approximately HK\$40,746,000 payable by Ricwinco in the accounts as at 31 December 2001.

6. DISCONTINUING OPERATIONS

On 4 April 2002, the Company entered into a conditional DA to dispose of a group of subsidiaries representing its electronic components segment, in view of the strategic plan to concentrate businesses in the Group's core activities. Further details are set out in note 37 to these financial statements. The principal activity of the group of subsidiaries being disposed of is the design, manufacture and distribution of electronic components. The business being disposed of will be accounted for until the completion date of its disposal, at which time the assets and liabilities of the business will be deconsolidated and used to calculate the loss on disposal of discontinued operations.

In view of the decision to dispose of the electronic components segment, a provision for impairment of approximately HK\$36 million was made against its fixed assets based on an appraisal of their estimated net realisable values performed as at the balance sheet date by an independent professional firm of appraisers.

NOTES TO FINANCIAL STATEMENTS

31 December 2001

7. LOSS FROM OPERATING ACTIVITIES

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

	Group	
	2001	2000
	HK\$'000	HK\$'000
Depreciation	13,424	13,363
Impairment of goodwill	—	452,259
Impairment of fixed assets — note 6	38,180	—
Loss on disposal of an associate	1,115	—
Provision for doubtful debts	1,158	5,231
Amortisation and write-off of deferred development costs*	3,864	637
Minimum lease payments under operating leases:		
Land and buildings	7,172	4,687
Plant and machinery	155	311
	7,327	4,998
Auditors' remuneration	1,080	914
Staff costs (including directors' remuneration — note 9)		
Wages and salaries	81,563	58,719
Pension contributions	890	428
Less: Forfeited contributions	(189)	(119)
Net pension contributions **	701	309
	82,264	59,028
Loss on disposal of fixed assets	22	200
Foreign exchange losses/(gains), net	(114)	723
Gain on disposal of short term investments	—	(737)

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

** At 31 December 2001, the Group had no forfeited contributions available to reduce its contributions to the pension scheme in future years.

NOTES TO FINANCIAL STATEMENTS

31 December 2001

8. FINANCE COSTS

	Group	
	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Interest on bank loans and overdrafts	7,091	4,846
Interest on other loans wholly repayable within five years	1,581	1,406
Interest on finance leases	397	1,159
	<u>9,069</u>	<u>7,411</u>
Total interest	<u>9,069</u>	<u>7,411</u>

9. DIRECTORS' REMUNERATION

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

	Group	
	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Fees	660	—
Other emoluments:		
Salaries, bonuses and benefits in kind	8,943	8,745
Performance related bonuses	5,944	—
Pension scheme contributions	17	2
	<u>15,564</u>	<u>8,747</u>

Fees include HK\$240,000 (2000: Nil) payable to the independent non-executive directors. There were no other emoluments payable to the independent non-executive directors during the year (2000: Nil).

NOTES TO FINANCIAL STATEMENTS

31 December 2001

9. DIRECTORS' REMUNERATION *(continued)*

The remuneration of the directors fell within the following bands:

	Number of directors	
	2001	2000
Nil - HK\$1,000,000	7	11
HK\$2,000,001 - HK\$2,500,000	—	1
HK\$4,500,001 - HK\$5,000,000	1	—
HK\$5,000,001 - HK\$5,500,000	—	1
HK\$9,000,001 - HK\$9,500,000	1	—

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

During the year, 10,700,000 share options were granted to the directors in respect of their services to the Group, further details of which are set out under the heading "Share option scheme" in the Report of the Directors on pages 26 to 29. No value in respect of the share options granted during the year has been charged to the profit and loss account.

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two (2000: two) directors, details of whose remuneration are set out in note 9 above. The details of the remuneration of the remaining three (2000: three) non-director, highest-paid employees are as follows:

	Group	
	2001 HK\$'000	2000 HK\$'000
Salaries, bonuses and benefits in kind	3,520	3,538
Pension scheme contributions	24	1
	<u>3,544</u>	<u>3,539</u>

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

	Number of employees	
	2001	2000
HK\$1,000,001 - HK\$1,500,000	<u>3</u>	<u>3</u>

During the year, 800,000 share options were granted to the two non-director, highest paid employees in respect of their services to the Group, further details of the share option scheme are included in the disclosures set out under the heading "Share option scheme" in the Report of the Directors on pages 26 to 29. No value in respect of the share options granted during the year has been charged to the profit and loss account.

NOTES TO FINANCIAL STATEMENTS

31 December 2001

11. TAX

No provision for Hong Kong or overseas tax has been made for the Company and its subsidiaries as they either have no assessable profits or have available tax losses brought forward from prior years to offset against current year estimated assessable profits. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	Group	
	2001	2000
	HK\$'000	HK\$'000
Share of tax attributable to:		
Jointly-controlled entities	—	2,359
Associates	<u>1,432</u>	<u>716</u>
Tax charge for the year	<u><u>1,432</u></u>	<u><u>3,075</u></u>

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

12. NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders for the year ended 31 December 2001 dealt with in the financial statements of the Company is approximately HK\$536,331,000 (2000: HK\$352,000).

13. LOSS PER SHARE

The calculation of basic loss per share is based on the net loss from ordinary activities attributable to shareholders for the year of approximately HK\$69,041,000 (2000: HK\$492,100,000), and the weighted average of approximately 820,562,000 (2000: 344,219,000) ordinary shares in issue during the year.

Diluted loss per share amounts for the years ended 31 December 2001 and 2000 have not been disclosed as the share options outstanding during these years had an anti-dilutive effect on the basic loss per share for these years.

NOTES TO FINANCIAL STATEMENTS

31 December 2001

14. FIXED ASSETS

Group

	Leasehold land and buildings <i>HK\$'000</i>	Leasehold improvements <i>HK\$'000</i>	Machinery, equipment and moulds <i>HK\$'000</i>	Furniture, fixtures and office equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Construction in progress <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost or valuation:							
At 1 January 2001	38,527	25,035	80,298	17,445	5,922	1,014	168,241
Additions	—	83	2,898	6,148	472	4,479	14,080
Transfer from construction in progress	—	673	4,144	260	—	(5,077)	—
Disposals	—	(377)	(24)	(1,389)	—	—	(1,790)
At 31 December 2001	<u>38,527</u>	<u>25,414</u>	<u>87,316</u>	<u>22,464</u>	<u>6,394</u>	<u>416</u>	<u>180,531</u>
Accumulated depreciation and impairment:							
At 1 January 2001	7,282	7,206	34,021	5,779	3,566	—	57,854
Provided during the year	1,407	2,681	5,923	2,630	783	—	13,424
Impairment during the year recognised in the profit and loss account	7,591	4,741	21,898	3,929	21	—	38,180
Disposals	—	(168)	(12)	(657)	—	—	(837)
At 31 December 2001	<u>16,280</u>	<u>14,460</u>	<u>61,830</u>	<u>11,681</u>	<u>4,370</u>	<u>—</u>	<u>108,621</u>
Net book value:							
At 31 December 2001	<u>22,247</u>	<u>10,954</u>	<u>25,486</u>	<u>10,783</u>	<u>2,024</u>	<u>416</u>	<u>71,910</u>
At 31 December 2000	<u>31,245</u>	<u>17,829</u>	<u>46,277</u>	<u>11,666</u>	<u>2,356</u>	<u>1,014</u>	<u>110,387</u>
Analysis of cost and valuation:							
At cost	20,527	25,414	87,316	22,464	6,394	416	162,531
At 1993 valuation	18,000	—	—	—	—	—	18,000
	<u>38,527</u>	<u>25,414</u>	<u>87,316</u>	<u>22,464</u>	<u>6,394</u>	<u>416</u>	<u>180,531</u>

NOTES TO FINANCIAL STATEMENTS

31 December 2001

14. FIXED ASSETS (continued)

Company

	Leasehold improvements	Furniture, fixtures and office equipment	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Cost:			
At 1 January 2001	840	417	1,257
Additions	5	3,439	3,444
Disposals	—	(5)	(5)
	845	3,851	4,696
At 31 December 2001			
Accumulated depreciation and impairment:			
At 1 January 2001	—	—	—
Provided during the year	85	80	165
Impairment during the year recognised in the profit and loss account	—	2,376	2,376
	85	2,456	2,541
At 31 December 2001			
Net book value:			
At 31 December 2001	760	1,395	2,155
At 31 December 2000	840	417	1,257

The net book value of the Group's fixed assets held under finance leases included in the total amount of machinery, equipment and moulds at 31 December 2001 amounted to approximately HK\$11,561,000 (2000: HK\$26,359,000).

NOTES TO FINANCIAL STATEMENTS

31 December 2001

14. FIXED ASSETS (continued)

Certain of the Group's leasehold land and buildings with a net book value of approximately HK\$15.4 million (2000: HK\$15.8 million) were revalued at 31 December 1993 by Messrs. C. Y. Leung & Company Limited, registered professional surveyors, at open market values, based on their existing use. The Group has relied upon the exemption from the requirement to revalue the entire class of leasehold land and buildings on a regular basis, granted under paragraph 80 of SSAP 17 "Property, plant and equipment".

Had these land and buildings been carried at cost less accumulated depreciation and impairment, they would have been included in the financial statements at approximately HK\$12 million (2000: HK\$12.3 million).

The leasehold land and buildings included five units of residential apartments with an aggregate net book value of approximately HK\$1,155,000 in Shanghai, the PRC, which are held under long term leases. The Group is in the process of obtaining the real estate certificates for these properties.

The net book value of fixed assets pledged to banks to secure certain of the Group's banking facilities as at 31 December 2001 amounted to approximately HK\$4,156,000 (2000: approximately HK\$6,969,000).

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

	Hong Kong <i>HK\$'000</i>	Elsewhere <i>HK\$'000</i>	Total <i>HK\$'000</i>
At cost:			
Freehold	—	2,783	2,783
Long term leases	—	9,550	9,550
Short term leases	—	8,194	8,194
	<u>—</u>	<u>20,527</u>	<u>20,527</u>
At 1993 valuation:			
Long term leases	<u>18,000</u>	<u>—</u>	<u>18,000</u>
	<u>18,000</u>	<u>20,527</u>	<u>38,527</u>

NOTES TO FINANCIAL STATEMENTS

31 December 2001

15. INTANGIBLE ASSETS

Group

	Deferred	
	development costs	
	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Cost:		
At 1 January	5,609	3,925
Additions	154	1,908
Written off	(3,177)	(224)
	<hr/>	<hr/>
At 31 December	2,586	5,609
	<hr/>	<hr/>
Accumulated amortisation:		
At beginning of year	629	216
Amortisation during the year	1,274	413
Written off	(587)	—
	<hr/>	<hr/>
At 31 December	1,316	629
	<hr/>	<hr/>
Net book value at 31 December	1,270	4,980
	<hr/> <hr/>	<hr/> <hr/>

NOTES TO FINANCIAL STATEMENTS

31 December 2001

16. GOODWILL

As detailed in note 2 to these financial statements, the Group has adopted the transitional provision of SSAP 30 which permits goodwill in respect of acquisitions which occurred prior to 1 January 2001 to remain eliminated against consolidated reserves.

Due to the adoption of SSAP 31, the Group has adopted a policy to assess goodwill eliminated against consolidated reserves for impairment. As a result, the Group has recognised an impairment of part of the goodwill previously eliminated against consolidated reserves, of approximately HK\$452,259,000, during the year, as detailed in the table below. This change of accounting policy has been accounted for retrospectively as a prior year adjustment in accordance with the transitional provisions of SSAP 30. Because this goodwill remains eliminated against consolidated contributed surplus and consolidated retained profits (see note 32), this prior year adjustment has resulted in a decrease of approximately HK\$452,259,000 in the amount of consolidated retained profits previously reported as at 31 December 2000. This prior year adjustment has had no effect on the results for the current year.

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

Group	Goodwill eliminated against consolidated contributed surplus <i>HK\$'000</i>	Goodwill eliminated against consolidated retained profits <i>HK\$'000</i>
Cost:		
At 1 January 2001 and at 31 December 2001	520,156	17,103
Accumulated impairment:		
At beginning of year:		
As previously reported	—	—
Prior year adjustment	452,259	—
As restated	452,259	—
At 31 December 2001	452,259	—
Net amount:		
At 31 December 2000 and 2001	67,897	17,103

NOTES TO FINANCIAL STATEMENTS

31 December 2001

17. INTERESTS IN SUBSIDIARIES

	Company	
	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Unlisted shares, at cost	621,581	507,623
Due from subsidiaries	221,549	261,694
Due to subsidiaries	(114)	(9,539)
	<u>843,016</u>	<u>759,778</u>
Provision for impairment	(587,902)	(60,390)
	<u><u>255,114</u></u>	<u><u>699,388</u></u>

The amounts due from/(to) subsidiaries are unsecured, interest-free and have no fixed terms of repayment, except for the balance due from a subsidiary of approximately HK\$12,000,000 which bears interest at Hong Kong dollar prime rate per annum.

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Management Investment & Technology Company Limited ("MITC") (b)	Hong Kong	Ordinary — HK\$2 Deferred — HK\$27,000,002	—	100	Design, manufacture and distribution of weighing scales and lighting products
Digital Semiconductor Co., Limited ("DS") (b)	Hong Kong	Ordinary-HK\$2 Deferred — HK\$15,787,200	—	100	Investment holding, marketing and distribution of semi-conductors and provision of subcontracting services

NOTES TO FINANCIAL STATEMENTS

31 December 2001

17. INTERESTS IN SUBSIDIARIES *(continued)*

Name	Place of incorporation/ registration and operations	Nominal value of issued/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Dongguan Chang Yeung Electronic Co., Ltd. ("Equity JV") (c)	PRC	HK\$21,326,347	—	(c)	Manufacture and distribution of semi-conductors
Golden Future Profits Limited	British Virgin Islands/ Hong Kong	US\$1	—	100	Manufacture and distribution of semi-conductors
DS Components Limited	Hong Kong	HK\$2	—	100	Marketing and distribution of semi-conductors
Digital Semiconductor (S) Pte. Limited	Singapore	S\$2	—	100	Marketing and distribution of semi-conductors
EC-Founder Co., Ltd.	PRC	US\$2,500,000	—	100	Provision of software solutions and e-Commerce services
EC-Founder (Hong Kong) Limited	Hong Kong	HK\$2	—	100	Provision of software solutions and e-Commerce services
Founder Data Corporation International Limited ("FDC")	British Virgin Islands	US\$20,000	100	—	Investment holding
Yung Wen Investment and Finance Limited ("YWIF")	British Virgin Islands/ Hong Kong	US\$2	100	—	Investment holding
Beijing AdTargeting Inc.	PRC	US\$300,000	—	100	Provision of internet advertising agency services

Notes:

- (a) The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.
- (b) The issued capital of all the above subsidiaries is in the form of ordinary/common shares, except for the subsidiary registered in the PRC whose capital is in the form of paid-up contributions, and HK\$27,000,002 and HK\$15,787,200 of the issued capital of MITC and DS respectively, which is in the form of non-voting deferred shares.
- (c) Equity JV is a Sino-foreign equity joint venture established in the PRC on 12 May 1992 with a tenure of 10 years. Pursuant to the joint venture agreement, DS is entitled to share in 85% of Equity JV's profits or losses. Subsequently on 3 April 1995, DS entered into a supplemental agreement with the PRC joint venture partner (the "JV Partner") whereby DS agreed to make certain annual payments to the JV Partner for the remaining tenure of Equity JV and that the JV Partner is not responsible for any losses of Equity JV. In return, the JV Partner agreed to give up all the rights of the profits and of the management and control of Equity JV. As a result, the directors are of the opinion that the Group has full control of the operations of Equity JV and the full entitlement of its profits or losses.

NOTES TO FINANCIAL STATEMENTS

31 December 2001

18. INTERESTS IN ASSOCIATES

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Share of net assets	12,980	2,781	—	—
Goodwill on acquisition	600	—	—	—
Loans to associates	8,947	29,537	3,292	9,360
	<u>22,527</u>	<u>32,318</u>	<u>3,292</u>	<u>9,360</u>

The loans to associates are unsecured, interest-free and repayable on demand except for the amounts of HK\$3,250,000 which bear interest at Hong Kong dollar prime rate plus 1.5% per annum and repayable in 2002.

Particulars of the principal associates are as follows:

Name	Business structure	Place of incorporation/ registration and operations	Percentage of equity indirectly attributable to the Group		Principal activities
			2001	2000	
Discrete Association Semiconductors Pte. Limited ("DAS") *	Corporate	Singapore	49**	—	Marketing and distribution of semi-conductors
MC.Founder Limited ("MCF")	Corporate	Hong Kong	40	40	Distribution of mobile phones
MC.Founder (Distribution) Limited ("MCFD")	Corporate	Hong Kong	40	40	Distribution of mobile phones
Founder iASPEC Limited	Corporate	British Virgin Islands	—	40#	Investment holding
Founder iASPEC (NB) Limited	Corporate	Hong Kong	—	26#	Provision of information technology consultancy services

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

** incorporated during the year

disposed of during the year

The financial statements of the above associates are coterminous with those of the Group, except for MCF and MCFD which have a financial year ending 31 March.

The above table lists the associates of the Group which, in the opinion of the directors, principally affected the results of 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2001

19. LONG TERM INVESTMENTS

	Group	
	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Club debenture, at cost	<u>1,075</u>	<u>1,075</u>

20. INVENTORIES

	Group	
	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Raw materials	22,147	32,247
Work in progress	24,993	25,146
Finished goods	<u>7,190</u>	<u>14,330</u>
	<u>54,330</u>	<u>71,723</u>

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

NOTES TO FINANCIAL STATEMENTS

31 December 2001

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 1 month, extending up to 5 months for major customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and overdue balances are reviewed regularly by senior management.

An aged analysis of the trade receivables as at the balance sheet date, based on invoice date is as follows:

	Group	
	2001	2000
	HK\$'000	HK\$'000
1 - 6 months	50,869	39,909
7 - 12 months	675	2,640
13 - 24 months	5,324	6,893
Over 24 months	5,236	1,767
	62,104	51,209
Provision	(8,147)	(6,989)
Total net of provision	53,957	44,220

NOTES TO FINANCIAL STATEMENTS

31 December 2001

22. OTHER RECEIVABLES

	Group		Company	
	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Prepayments	2,528	3,692	208	—
Deposits and other debtors	6,887	2,886	1,962	6
Due from related companies	43,610	56,219	5,020	55,509
	<u>53,025</u>	<u>62,797</u>	<u>7,190</u>	<u>55,515</u>

The amount due from related companies include approximately HK\$40,746,000 due from Ricwinco arising from the MA as further disclosed in notes 5 and 38 to these financial statements, approximately HK\$1,928,000 due from Founder Holdings Limited and its subsidiaries ("Founder Group") and approximately HK\$936,000 due from Management Investment and Technology International Inc. ("MITI") and its subsidiaries ("MITI Group"). Mr Yung Chih Shin, Richard beneficially owns Ricwinco which in turn beneficially owns MITI Group.

The maximum amounts outstanding during the year equal the year end balances. The amounts due from Ricwinco are secured by an escrow arrangement over approximately 13.2 million ordinary shares of the Company owned by Ricwinco, interest-free and repayable on demand.

The amounts due from the Founder Group and MITI Group are unsecured, interest-free and repayable on demand.

NOTES TO FINANCIAL STATEMENTS

31 December 2001

23. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Group		Company	
	2001	2000	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Cash and bank balances	51,160	27,337	874	484
Time deposits	<u>66,844</u>	<u>71,047</u>	<u>18,531</u>	<u>60,972</u>
	118,004	98,384	19,405	61,456
Less: Pledged time deposits:				
Pledged for short term				
bank loans	<u>(48,313)</u>	<u>(5,000)</u>	<u>—</u>	<u>—</u>
Cash and cash equivalents	<u>69,691</u>	<u>93,384</u>	<u>19,405</u>	<u>61,456</u>

24. TRADE AND BILLS PAYABLES

An aged analysis of trade and bills payables as at the balance sheet date, based on the payment due date, is as follows:

	Group	
	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
1 - 6 months	59,641	64,593
7 - 12 months	20,966	11,838
Over 12 months	<u>1,955</u>	<u>464</u>
	<u>82,562</u>	<u>76,895</u>

NOTES TO FINANCIAL STATEMENTS

31 December 2001

25. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Accruals	19,998	21,337	4,738	10,956
Other liabilities	5,964	8,587	3,545	—
Due to related companies	285	4,978	—	816
	<u>26,247</u>	<u>34,902</u>	<u>8,283</u>	<u>11,772</u>

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

26. OTHER LOANS

Other loans of HK\$8 million and HK\$1.9 million are unsecured, bear interest at 12% per annum and 5.4% per annum, respectively, and are repayable in 2002.

27. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Notes	Group	
		2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Bank overdrafts — unsecured		3,906	3,684
Trust receipts loans		13,724	20,498
Current portion of bank loans — secured		48,030	8,841
	28	65,660	33,023
Current portion of finance lease payables	29	3,025	4,692
		<u>68,685</u>	<u>37,715</u>

NOTES TO FINANCIAL STATEMENTS

31 December 2001

28. INTEREST-BEARING BANK BORROWINGS

	Group	
	2001	2000
	HK\$'000	HK\$'000
Bank overdrafts:		
Unsecured	3,906	3,684
Bank loans:		
Secured	48,309	9,504
Trust receipts loans:		
Secured	5,000	3,532
Unsecured	8,724	16,966
	13,724	20,498
	65,939	33,686
Bank overdrafts repayable within one year or on demand	3,906	3,684
Bank loans repayable:		
Within one year or on demand	61,754	29,339
In the second year	279	370
In the third to fifth years, inclusive	—	293
	62,033	30,002
	65,939	33,686
Portion classified as current liabilities — <i>note 27</i>	(65,660)	(33,023)
Long term portion	279	663

- (a) Certain of the Group's bank loans and trust receipts loans are secured by:
- (i) mortgages over the Group's land and building situated overseas which had an aggregate net book value at the balance sheet date of approximately HK\$2,588,000 (2000: HK\$2,644,000);
 - (ii) charges over the Group's land and buildings situated in the PRC which had an aggregate net book value at the balance sheet date of approximately HK\$1,568,000 (2000: HK\$4,326,000);
 - (iii) the pledge of certain of the Group's fixed deposits amounting to approximately HK\$48,313,000 (2000: HK\$5,000,000).
- (b) Approximately HK\$11,031,000 (2000: HK\$9,302,000) of the Group's unsecured bank overdrafts and trust receipts loans at the balance sheet date were guaranteed by Ricwinco, a substantial shareholder of the Company.

NOTES TO FINANCIAL STATEMENTS

31 December 2001

29. FINANCE LEASE PAYABLES

The Group leases certain of its machinery and equipment for its electronic products and components business. These leases are classified as finance leases and have remaining lease terms ranging from 1 to 5 years.

At 31 December 2001, the total future minimum lease payments under finance leases and their present values, were as follows:

Group	Minimum lease payments 2001 HK\$'000	Minimum lease payments 2000 HK\$'000	Present value of minimum lease payments 2001 HK\$'000	Present value of minimum lease payments 2000 HK\$'000
Amounts payable:				
Within one year	3,199	5,291	3,025	4,692
In the second year	1,103	2,938	1,032	2,692
In the third to fifth years, inclusive	750	1,392	732	1,264
	<u>5,052</u>	<u>9,621</u>	<u>4,789</u>	<u>8,648</u>
Total minimum finance lease payments	5,052	9,621	4,789	8,648
Future finance charges	<u>(263)</u>	<u>(973)</u>		
Total net finance lease payables	4,789	8,648		
Portion classified as current liabilities-note 27	<u>(3,025)</u>	<u>(4,692)</u>		
Long term portion	<u>1,764</u>	<u>3,956</u>		

SSAP 14 was revised and implemented during the year, as detailed in note 2 to these financial statements. Certain new disclosures are required and have been included above. The prior year comparative amounts for the new disclosures have also been included where appropriate.

NOTES TO FINANCIAL STATEMENTS

31 December 2001

30. DEFERRED TAX

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

	Group	
	2001	2000
	HK\$'000	HK\$'000
Accelerated depreciation allowances	(1,144)	(1,340)
Tax losses carried forward	6,072	7,415
	<u>4,928</u>	<u>6,075</u>

There are no significant potential deferred tax liabilities for which provision has not been made.

31. SHARE CAPITAL

	Group and Company	
	2001	2000
	HK\$'000	HK\$'000
Authorised:		
3,000,000,000 ordinary shares of HK\$0.10 each	<u>300,000</u>	<u>300,000</u>
Issued and fully paid:		
820,562,040 ordinary shares of HK\$0.10 each	<u>82,056</u>	<u>82,056</u>

NOTES TO FINANCIAL STATEMENTS

31 December 2001

31. SHARE CAPITAL *(continued)*

Share options

The Company operates two share option schemes which were adopted on 11 September 1991 (the "Expired Scheme") and 7 May 2001 (the "Existing Scheme"), further details of which are set out under the heading "Share option scheme" in the Report of the Directors on pages 26 to 29.

Expired Scheme

At the beginning of the year, there were 7,800,000 options outstanding under the Expired Scheme, which entitled the holders to subscribe for shares of the Company at any time during periods ranging from 1 August 1997 to 31 July 2002. The subscription price payable upon the exercise of these options was HK\$0.507, subject to adjustment.

During the year, the Company granted a total of 6,000,000 share options under the Expired Scheme for a nominal consideration of HK\$1 in total per grant. The share options granted entitled the holders to subscribe for shares of the Company at any time during periods from 15 December 2001 to 14 December 2006. The subscription price per share payable upon the exercise of these options was HK\$0.45, subject to adjustment.

No share options under the Expired Scheme were lapsed during the year.

At the balance sheet date, the Company had 13,800,000 share options outstanding under the Expired Scheme with exercise periods ranging from 1 August 1997 to 14 December 2006 and exercise prices ranging from HK\$0.45 to HK\$0.507. The exercise in full of the remaining share options under the Expired Scheme would, under the present capital structure of the Company, result in the issue of 13,800,000 additional shares and proceeds of approximately HK\$6,654,600.

Existing Scheme

During the year, the Company granted a total of 48,000,000 share options under the Existing Scheme for a nominal consideration of HK\$1 in total per grant. The share options granted entitled the holders to subscribe for shares of the Company at any time during period from 18 May 2001 to 17 May 2011. The subscription price per share payable upon the exercise of these options was HK\$0.45, subject to adjustment.

No share options under the Existing Scheme were lapsed during the year.

At the balance sheet date, the Company had 48,000,000 share options outstanding under the Existing Scheme with exercise period from 18 May 2001 to 17 May 2011 and exercise price of HK\$0.45. The exercise in full of the remaining share options under the Existing Scheme would, under the present capital structure of the Company, result in the issue of 48,000,000 additional shares and proceeds of approximately HK\$21,600,000.

NOTES TO FINANCIAL STATEMENTS

31 December 2001

32. RESERVES

Group

	Share premium account <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Exchange fluctuation reserve <i>HK\$'000</i>	Revaluation reserve <i>HK\$'000</i>	Non- distributable reserves <i>HK\$'000</i>	Retained profits/ (accumulated losses) <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2000	23,083	37,817	(3,045)	3,777	1,171	106,051	168,854
Issue of shares	97,369	479,520	—	—	—	—	576,889
Share issue expenses	(2,153)	—	—	—	—	—	(2,153)
Realisation of goodwill on disposal of subsidiaries	—	949	—	—	—	—	949
Realisation on disposal of subsidiaries	—	—	1,867	—	(1,171)	1,171	1,867
Goodwill arising on acquisition of subsidiaries	—	(518,286)	—	—	—	(17,103)	(535,389)
Exchange realignments	—	—	190	—	—	—	190
Loss for the year:							
As previously reported	—	—	—	—	—	(39,841)	(39,841)
SSAP 31 — impairment of goodwill eliminated against contributed surplus (<i>note 16</i>)	—	452,259	—	—	—	(452,259)	—
Loss for the year as restated	—	452,259	—	—	—	(492,100)	(39,841)
At 31 December 2000	<u>118,299</u>	<u>452,259</u>	<u>(988)</u>	<u>3,777</u>	<u>—</u>	<u>(401,981)</u>	<u>171,366</u>
At 1 January 2001							
At previously reported	118,299	—	(988)	3,777	—	50,278	171,366
Prior year adjustment:							
SSAP 31 — impairment of goodwill eliminated against contributed surplus (<i>note 16</i>)	—	452,259	—	—	—	(452,259)	—
At restated	<u>118,299</u>	<u>452,259</u>	<u>(988)</u>	<u>3,777</u>	<u>—</u>	<u>(401,981)</u>	<u>171,366</u>
Exchange realignments	—	—	(8)	—	—	—	(8)
Loss for the year	—	—	—	—	—	(69,041)	(69,041)
At 31 December 2001	<u>118,299</u>	<u>452,259</u>	<u>(996)</u>	<u>3,777</u>	<u>—</u>	<u>(471,022)</u>	<u>102,317</u>
Reserves retained by:							
Company and subsidiaries	118,299	452,259	(996)	3,777	—	(479,723)	93,616
Associates	—	—	—	—	—	8,701	8,701
At 31 December 2001	<u>118,299</u>	<u>452,259</u>	<u>(996)</u>	<u>3,777</u>	<u>—</u>	<u>(471,022)</u>	<u>102,317</u>
Company and subsidiaries	118,299	452,259	(988)	3,777	—	(403,424)	169,923
Associates	—	—	—	—	—	1,443	1,443
At 31 December 2000	<u>118,299</u>	<u>452,259</u>	<u>(988)</u>	<u>3,777</u>	<u>—</u>	<u>(401,981)</u>	<u>171,366</u>

NOTES TO FINANCIAL STATEMENTS

31 December 2001

32. RESERVES (continued)

Group (continued)

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

Company

	Share premium account <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Retained profits/ (accumulated losses) <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2000	23,083	49,460	86,221	158,764
Issue of shares	97,369	479,520	—	576,889
Share issue expenses	(2,153)	—	—	(2,153)
Loss for the year	—	—	(352)	(352)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 31 December 2000 and 1 January 2001	118,299	528,980	85,869	733,148
Loss for the year	—	—	(536,331)	(536,331)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 31 December 2001	<u>118,299</u>	<u>528,980</u>	<u>(450,462)</u>	<u>196,817</u>

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2001

33. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of loss from operating activities to net cash inflow/(outflow) from operating activities

	Group	
	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i> (Restated)
Loss from operating activities	(64,556)	(497,782)
Interest income	(3,576)	(3,218)
Dividend income	—	(29)
Depreciation	13,424	13,363
Impairment of goodwill	—	452,259
Impairment of fixed assets	38,180	—
Amortisation and write-off of deferred development costs	3,864	637
Provisions for doubtful debts	1,158	5,231
Gain on disposal of short term investments	—	(737)
Loss on disposal of an associate	1,115	—
Decrease in amounts due from a venturer in a jointly-controlled entity	—	19,325
Other gains	(40,746)	(1,446)
Reserves release on disposal of subsidiaries	—	2,816
Loss on disposal of fixed assets	22	200
Increase in trade and bills receivables	(10,895)	(19,738)
Decrease/(increase) in inventories	17,393	(1,532)
Decrease/(increase) in prepayments, deposits and other debtors	(875)	5,344
Decrease/(increase) in an amount due from an associate	230	(677)
Increase in trade and bills payables	5,667	3,347
Decrease in other payables and accruals	(3,962)	(34,843)
Decrease in net amounts due from jointly-controlled entities	—	6,030
Decrease/(increase) in amount due from related companies	53,355	(710)
Increase/(decrease) in amount due to related companies	(4,693)	4,978
	<hr/> 5,105 <hr/>	<hr/> (47,182) <hr/>
Net cash inflow/(outflow) from operating activities	5,105	(47,182)

NOTES TO FINANCIAL STATEMENTS

31 December 2001

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

(b) Analysis of changes in group financing during the year

	Share capital (including share premium) <i>HK\$'000</i>	Bank and other loans <i>HK\$'000</i>	Finance lease obligations <i>HK\$'000</i>	Minority interests <i>HK\$'000</i>
At 1 January 2000	40,843	39,117	11,556	2,349
Cash inflow/(outflow) from financing, net	106,232	5,885	(2,908)	—
Share of profit after tax of subsidiaries	—	—	—	5
Non-cash capital contribution	—	—	—	200
Disposal of subsidiaries	—	—	—	(1,250)
Issue of ordinary shares for acquisition of subsidiaries	53,280	—	—	—
Subsidiaries acquired during the year	<u>—</u>	<u>—</u>	<u>—</u>	<u>2,027</u>
At 31 December 2000 and 1 January 2001	200,355	45,002	8,648	3,331
Cash inflow/(outflow) from financing, net	—	26,883	(4,859)	675
Inception of finance lease contracts	—	—	1,000	—
Share of loss after tax of subsidiaries	<u>—</u>	<u>—</u>	<u>—</u>	<u>(1,670)</u>
At 31 December 2001	<u><u>200,355</u></u>	<u><u>71,885</u></u>	<u><u>4,789</u></u>	<u><u>2,336</u></u>

(c) Major non-cash transactions

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

Additionally, the consideration for the disposal of an associate during the year was satisfied by a cash consideration of HK\$1,962,000 and fixed assets with a net book value of approximately HK\$3,334,000.

NOTES TO FINANCIAL STATEMENTS

31 December 2001

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

(d) Acquisition of subsidiaries

	2001	2000
	HK\$'000	HK\$'000
Net assets acquired:		
Interests in associates	—	10,838
Fixed assets	—	6,721
Cash and bank balances	—	30,899
Inventories	—	552
Accounts receivable, prepayments and other receivables	—	4,416
Accounts payable and other accrued liabilities	—	(43,477)
Minority interests	—	(2,027)
	<u>—</u>	<u>7,922</u>
Goodwill on acquisition	—	535,389
	<u>—</u>	<u>543,311</u>
	<u>—</u>	<u>543,311</u>
Satisfied by:		
Issue of shares	—	532,800
Incidental acquisition costs	—	10,511
	<u>—</u>	<u>543,311</u>
	<u>—</u>	<u>543,311</u>
Analysis of the net inflow of cash and cash equivalents in respect of the acquisition of subsidiaries:		
Cash and bank balances acquired	—	30,899
	<u>—</u>	<u>30,899</u>

For the year ended 2000, the subsidiaries acquired in that year contributed approximately HK\$2,065,000 to the Group's net operating cash flows, paid approximately HK\$158,000 in respect of the net returns on investments and servicing of finance, paid approximately HK\$15,382,000 in respect of investing activities but had no significant impact in respect of tax and the financing activities.

For the year ended 2000, the subsidiaries acquired in that year contributed approximately HK\$10 million to turnover and loss of approximately HK\$19 million to the consolidated loss before minority interests.

NOTES TO FINANCIAL STATEMENTS

31 December 2001

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

(e) Disposal of subsidiaries

	2001	2000
	HK\$'000	HK\$'000
Net assets disposed of:		
Fixed assets	—	362
Interests in jointly-controlled entities	—	64,781
Inventories	—	259
Cash and bank balances	—	383
Other receivables	—	1,564
Accounts payable and other accrued liabilities	—	(36)
Minority interests	—	(1,250)
	<u>—</u>	<u>66,063</u>
Satisfied by:		
Cash	—	12,000
Other receivables	—	54,063
	<u>—</u>	<u>66,063</u>

Analysis of the net inflow of cash and cash equivalents in respect of the disposal of subsidiaries:

	2001	2000
	HK\$'000	HK\$'000
Cash consideration	—	12,000
Cash and bank balances disposed of	—	(383)
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	<u>—</u>	<u>11,617</u>

For the year ended 2000, the subsidiaries disposed of in that year made no significant contribution to the turnover and contributed profits of approximately HK\$1,379,000 to the consolidated loss after tax.

For the year ended 2000, the subsidiaries disposed of in that year contributed approximately HK\$6,819,000 to the group's net operating cash flows, made no significant contribution in respect of net returns on investments and servicing of finance, utilised approximately HK\$7,011,000 for investing activities and made no significant contribution in respect of financing activities and tax.

NOTES TO FINANCIAL STATEMENTS

31 December 2001

34. CONTINGENT LIABILITIES

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

	Group		Company	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Bills discounted with recourse	10,288	10,820	—	—
Guarantees given to banks in connection with facilities granted to subsidiaries	50,500	47,500	50,500	47,500
	60,788	58,320	50,500	47,500

As at 31 December 2001, the bank facilities granted to the subsidiaries subject to guarantees given to the banks by the Company were utilised to the extent of approximately HK\$25 million (2000: HK\$31 million).

A maximum credit amount of approximately HK\$54 million for purchases from a trade creditor was subject to guarantee given by the Company to the trade creditor. The amounts were utilised to the extents of approximately HK\$39 million as at 31 December 2001.

In addition, the Company has given a corporate guarantee to secure other loan of HK\$5,000,000 (2000: HK\$10,000,000) borrowed by a subsidiary.

35. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its land and buildings under operating lease arrangements, with leases negotiated for a term of 1 year. The terms of the lease also require the tenant to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At 31 December 2001, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2001	2000
	HK\$'000	HK\$'000
Within one year	380	380

NOTES TO FINANCIAL STATEMENTS

31 December 2001

35. OPERATING LEASE ARRANGEMENTS *(continued)*

(b) As lessee

The Group leases certain of its office properties and machinery under operating lease arrangements. Leases for properties are negotiated for terms ranging from 1 to 5 years, and those for machinery for a term of 1 year.

At 31 December 2001, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
		(Restated)		(Restated)
Land and buildings:				
Within one year	6,563	6,299	151	151
In the second to fifth years, inclusive	11,940	14,851	113	264
After five years	—	2,017	—	—
	18,503	23,167	264	415
Others expiring within one year	—	10,530	—	—
	18,503	33,697	264	415

SSAP 14 (Revised), which was adopted during the year, requires lessors under operating leases to disclose the total future minimum operating lease receivables under non-cancellable operating leases, as detailed in note 35(a) above. This disclosure was not previously required. SSAP 14 (Revised) also requires lessees under operating leases to disclose the total future minimum operating lease payments, rather than only the payments to be made during the next year as was previously required. Accordingly, the prior year comparative amounts for operating leases as lessee in note 35(b) above, have been restated to accord with the current year's presentation.

NOTES TO FINANCIAL STATEMENTS

31 December 2001

36. COMMITMENTS

In addition to the operating lease commitments detailed in note 35(b) above, the Group had the following commitments at the balance sheet date:

Capital commitments

	Group	
	2001	2000
	HK\$'000	HK\$'000
Contracted for	—	780

37. POST BALANCE SHEET EVENTS

On 4 April 2002, the Group entered into a conditional DA with Ricwinco. Pursuant to the DA, the Company conditionally agreed to dispose of its entire issued share capital of YWIF and to assign the indebtedness due to the Group by YWIF and its subsidiaries (the "YWIF Group") to Ricwinco for a total cash consideration of HK\$15,000,000. In addition, Ricwinco conditionally agreed to procure the release of the Company from all existing guarantees and undertakings it had given in respect of liabilities of the YWIF Group except to a trade creditor aggregating HK\$28 million which will be released by no later than 31 March 2003. The DA constituted a discloseable and connected transaction for the purpose of Listing Rules and is subject to the independent shareholders approval at a special general meeting to be convened.

38. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances set out elsewhere in the notes to these financial statements, the Company had the following transactions with related parties during the year:

- (a) Pursuant to the MA dated 17 May 2000, Ricwinco was appointed as manager for a period of 3 years with responsibility for the management and conduct of the semi-conductor business, which is operated by YWIF Group and the weighing scale business, which is operated by MITC and its subsidiaries (the "MITC Group"). Ricwinco unconditionally guaranteed to the Company that the aggregate of the audited consolidated profit after tax and minority interests of YWIF Group and MITC Group should not be less than an amount equal to 6% of the net asset value of YWIF Group and MITC Group as at 28 September 2000. The period for which the profit guarantee is effective commenced on 1 October 2000 and expires on 30 September 2003. The MA constituted a major and connected transaction for the purpose of the Listing Rules. The amount of guaranteed profit recognised for the year ended 31 December 2001 is set out in note 5 to these financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2001

38. RELATED PARTY TRANSACTIONS *(continued)*

- (b) On 27 July 2001, FDC entered into an agreement (the "Agreement") with Yahoo! Holdings (Hong Kong) Limited ("Yahoo"), a subsidiary of a substantial shareholder of the Company. Pursuant to the Agreement, FDC committed to purchase advertising spaces in the amount of US\$1.2 million in Yahoo's portal on or before 31 December 2001. The Agreement constituted a major and connected transaction under the Listing Rules.
- (c) The Group entered into the following transactions with Digital Lighting Holdings Limited and its subsidiaries (the "DL Group") in which a substantial shareholder of the Company, Ricwinco, has significant interest.

		Group	
		2001	2000
	<i>Notes</i>	HK\$'000	<i>HK\$'000</i>
Sales of finished goods to the DL Group	<i>(i)</i>	—	95
Interest income received from the DL Group	<i>(ii)</i>	36	565
Reimbursement of service charges received from the DL Group	<i>(iii)</i>	556	556
Rental income received from the DL Group	<i>(iv)</i>	397	397
Sales of fixed assets to the DL Group	<i>(iv)</i>	—	1,078
		<u> </u>	<u> </u>

- (i) The sales of finished goods to the DL Group were made at cost plus a mark-up of 1.5%.
- (ii) The interest income received from the DL Group was calculated based on prime rate plus 0.25% to 0.5% per annum.
- (iii) The reimbursement of service charges received from the DL Group represented the reimbursement of actual general and administrative expenses received from the DL Group.
- (iv) The transactions were conducted at current market prices as determined between the two parties.

NOTES TO FINANCIAL STATEMENTS

31 December 2001

38. RELATED PARTY TRANSACTIONS *(continued)*

- (d) During the year, the Group entered into the following transactions with its substantial shareholder, the Founder Group.

		Group	
	<i>Notes</i>	2001	2000
		HK\$'000	HK\$'000
Sales of finished goods to the Founder Group	<i>(i)</i>	153	—
Purchases of finished goods from the Founder Group	<i>(ii)</i>	(2,174)	—
Reimbursement of service charges paid to the Founder Group	<i>(iii)</i>	(2,938)	—
Rental expenses paid to the Founder Group	<i>(iv)</i>	(151)	—
		<u> </u>	<u> </u>

- (i) The sales of finished goods were made according to the published prices and conditions similar to those offered to other customers of the Group.
- (ii) The directors consider that the purchases of finished goods were made according to the published prices and conditions similar to those offered to other customers of the supplier.
- (iii) The reimbursement of service charges paid to the Founder Group represented the reimbursement of actual general and administrative expenses paid to Founder Group.
- (iv) The transactions were conducted at current market prices as determined between the two parties.

During the year, the Group received loan interest from an associate, MCF, of approximately HK\$963,000. The interest rate is disclosed in note 18 to these financial statements.

During the year, finished goods of approximately HK\$8,510,000 were sold to and a commission of approximately HK\$319,000 was paid to DAS, an associate of the Group, according to the published prices offered to customers of the Group and 3% of invoiced amount respectively.

During the year, Ricwinco guaranteed approximately HK\$11,031,000 (2000: HK\$9,302,000) of the Group's unsecured bank overdrafts and trust receipts loans.

In the opinion of the directors, the above transactions arose in the ordinary course of business.

NOTES TO FINANCIAL STATEMENTS

31 December 2001

39. COMPARATIVE AMOUNTS

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

40. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 23 April 2002.

PARTICULARS OF PROPERTIES

Description	Existing use	Lease
1. Unit A, 5th Floor and Units A & B, 7th Floor Tin Fung Industrial Mansion 63 Wong Chuk Hang Road Aberdeen Hong Kong	Office/warehouse	Long term
2. Yungwen Villa Zhuang Li Garden Changan, Dongguan People's Republic of China	Office/residential	Long term
3. 1213 Nanjing Road West Shanghai People's Republic of China	Office/residential	Long term
4. 1231 Zhongshan Road West Shanghai People's Republic of China	Residential	Long term
5. #PH6-1200 West Georgia Street Vancouver, British Columbia Canada	Residential	Freehold
6. No. 3 Industrial Zone Rongwen Road Changan, Dongguan People's Republic of China	Factory	Short term

FIVE YEAR FINANCIAL SUMMARY

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

	Year ended 31 December				
	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i> (Restated)	1999 <i>HK\$'000</i>	1998 <i>HK\$'000</i>	1997 <i>HK\$'000</i>
RESULTS					
TURNOVER	331,455	258,664	314,296	367,397	332,997
PROFIT/(LOSS) FROM OPERATING ACTIVITIES	(73,625)	(505,193)	3,742	(43,981)	108,667
Share of profits and losses of:					
Jointly-controlled entities	—	14,014	14,830	(2,812)	(1,193)
Associates	4,346	2,159	(1)	1	(165)
PROFIT/(LOSS) BEFORE TAX	(69,279)	(489,020)	18,571	(46,792)	107,309
Tax	(1,432)	(3,075)	(531)	515	(1,405)
PROFIT/(LOSS) BEFORE MINORITY INTERESTS	(70,711)	(492,095)	18,040	(46,277)	105,904
Minority interests	1,670	(5)	—	(3)	(104)
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	(69,041)	(492,100)	18,040	(46,280)	105,800
ASSETS AND LIABILITIES					
TOTAL ASSETS	376,098	425,884	327,292	314,473	306,343
TOTAL LIABILITIES	(189,389)	(169,131)	(138,329)	(143,550)	(88,472)
MINORITY INTERESTS	(2,336)	(3,331)	(2,349)	(2,349)	(1,671)
NET ASSETS	184,373	253,422	186,614	168,574	216,200