



EC-FOUNDER (HOLDINGS) COMPANY LIMITED

**方正數碼(控股)有限公司**

*(Incorporated in Bermuda with limited liability)*

**Interim Report 2001**



**Network Security**

**GIS / LBI / LBS**

**E-Finance**

**EAP / GAP**

**E-Commerce Enabler**

<http://www.ecfounder.com>

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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 directors*

Professor Wang Xuan (*Honorary Co-Chairman*)

Mr Yung Chih Shin, Richard (*Honorary Co-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*

### 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>

## INTERIM RESULTS

The Board of Directors (the "Directors") of EC-Founder (Holdings) Company Limited (the "Company") announces the unaudited condensed consolidated interim financial statements of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 June 2001 together with the comparative figures. The condensed consolidated interim financial statements are unaudited, but have been reviewed by the Company's audit committee.

### CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

		<b>For the six months ended 30 June</b>	
		<b>2001</b>	2000
		<b>(Unaudited)</b>	(Unaudited)
	<i>Notes</i>	<b>HK\$'000</b>	HK\$'000
<b>TURNOVER</b>	3	<b>133,580</b>	118,930
Cost of sales		<b>(110,732)</b>	(109,247)
Gross profit		<b>22,848</b>	9,683
Other revenue		<b>15,314</b>	1,487
Selling expenses		<b>(22,242)</b>	(2,339)
Administrative expenses		<b>(35,683)</b>	(16,391)
Other operating expenses		<b>(1,299)</b>	—
<b>LOSS FROM OPERATING ACTIVITIES</b>	3,4	<b>(21,062)</b>	(7,560)
Finance costs	5	<b>(4,289)</b>	(3,401)
Share of profits less losses of:			
Jointly-controlled entities		—	8,047
Associates		<b>2,974</b>	—
<b>LOSS BEFORE TAX</b>		<b>(22,377)</b>	(2,914)
Tax	6	<b>(871)</b>	(1,900)
<b>LOSS BEFORE MINORITY INTERESTS</b>		<b>(23,248)</b>	(4,814)
Minority interests		<b>1,208</b>	1
<b>NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS</b>		<b>(22,040)</b>	(4,813)
<b>LOSS PER SHARE</b>	7		
— Basic		<b>(2.69 cents)</b>	(2.69 cents)
— Diluted		<b>N/A</b>	N/A

**CONDENSED CONSOLIDATED STATEMENT OF RECOGNISED GAINS AND LOSSES**

	Notes	For the six months ended 30 June	
		2001 (Unaudited) HK\$'000	2000 (Unaudited) HK\$'000
Exchange differences on translation of the financial statements of foreign entities	11	<u>693</u>	<u>—</u>
Net gain not recognised in the profit and loss account		<b>693</b>	—
Net loss for the period attributable to shareholders		<u>(22,040)</u>	<u>(4,813)</u>
Total recognised gains and losses related to current period		<u><b>(21,347)</b></u>	<u>(4,813)</u>
Note on prior period adjustment	2		
Total recognised gains and losses related to the current period as above		<b>(21,347)</b>	
Prior period adjustment given effect as to restatement of the profit and loss account for the six months ended 31 December 2000		<u>(451,660)</u>	
Total recognised gains and losses since the last annual report		<u><b>(473,007)</b></u>	

**CONDENSED CONSOLIDATED BALANCE SHEET**

		<b>As at 30 June 2001 (Unaudited) HK\$'000</b>	As at 31 December 2000 (Audited) HK\$'000
<b>NON-CURRENT ASSETS</b>			
Fixed assets		<b>109,843</b>	110,387
Deferred development costs		<b>4,016</b>	4,980
Interests in associates		<b>27,809</b>	32,318
Long term investments		<b>1,075</b>	1,075
		<b>142,743</b>	148,760
<b>CURRENT ASSETS</b>			
Inventories		<b>80,165</b>	71,723
Trade receivables	9	<b>40,488</b>	44,220
Other receivables		<b>45,837</b>	62,797
Cash and bank balances		<b>94,692</b>	98,384
		<b>261,182</b>	277,124
<b>CURRENT LIABILITIES</b>			
Trade and bills payables	10	<b>78,656</b>	76,895
Other payables and accruals		<b>28,063</b>	34,902
Other loans		<b>13,000</b>	15,000
Interest-bearing bank and other borrowings		<b>46,633</b>	37,715
		<b>166,352</b>	164,512
<b>NET CURRENT ASSETS</b>		<b>94,830</b>	112,612
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>237,573</b>	261,372
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing bank borrowings		<b>488</b>	663
Finance lease payables		<b>2,887</b>	3,956
		<b>3,375</b>	4,619
Minority interests		<b>2,123</b>	3,331
		<b>232,075</b>	253,422
<b>CAPITAL AND RESERVES</b>			
Issued capital		<b>82,056</b>	82,056
Reserves	11	<b>150,019</b>	171,366
		<b>232,075</b>	253,422

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT**

**For the six months  
ended 30 June 2001  
(Unaudited)  
HK\$'000**

NET CASH OUTFLOW FROM OPERATING ACTIVITIES	(36,254)
Net cash outflow from returns on investment and servicing of finance	(2,279)
Tax paid	—
Net cash inflow from investing activities	<u>29,166</u>
NET CASH OUTFLOW BEFORE FINANCING ACTIVITIES	(9,367)
Net cash inflow from financing activities	<u>8,738</u>
DECREASE IN CASH AND CASH EQUIVALENTS	(629)
Cash and cash equivalents at beginning of period	<u>94,700</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u><u>94,071</u></u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS	
Cash and bank balances	55,067
Time deposits	39,625
Bank overdrafts	<u>(621)</u>
	<u><u>94,071</u></u>

## NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

### 1. BASIS OF PRESENTATION AND ACCOUNTING POLICIES

The unaudited condensed consolidated interim financial statements of the Group are prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") No.25 "Interim Financial Reporting", except that the comparative figures of the condensed consolidated cash flow statement have not been prepared as the Company has taken advantage of the transitional provisions set out in Appendix 16 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

In the current period, the Group has adopted a number of new SSAPs issued by the Hong Kong Society of Accountants ("HKSA") for the first time. The SSAPs that have an impact on the unaudited condensed financial statements are:

- SSAP 30                      Business combinations
- SSAP 31                      Impairment of assets
- Interpretation 13              Goodwill – continuing requirements for goodwill and negative goodwill previously eliminated against/credited to reserves

The new SSAPs became effective for accounting periods beginning on or after 1 January 2001. As a result of the required first time adoption of these new SSAPs and in accordance with the requirements of SSAP 2 "Net profit or loss for the period, fundamental errors and changes in accounting policies", the Group has retrospectively adjusted its financial results for the year ended 31 December 2000 (not presented).

SSAP 30 prescribes the treatment of business combinations, including how to determine the date of acquisition, the fair value of the assets and liabilities acquired, and the treatment of goodwill on acquisition. According to the transitional provisions set out in SSAP 30, the Group has elected not to restate goodwill previously eliminated against reserves. Therefore, goodwill arising on acquisitions prior to 1 January 2001 is held in reserves and will be charged to the profit and loss account at the time of disposal of the relevant subsidiaries or at such time as the goodwill is determined to be impaired.

Any goodwill arising on acquisitions after 1 January 2001 will be capitalised and amortised over its estimated useful life. Any negative goodwill arising on acquisitions after 1 January 2001 will be presented as a deduction from assets and will be released to the profit and loss account based on an analysis of the circumstances from which the balance resulted.

SSAP 31 prescribes procedures to be applied to ensure that assets are carried at not more than their recoverable amounts. The recoverable amount of an asset is defined to be the higher of its net selling price and its value in use. The Group determines the value in the use of its assets as the present value of estimated future cash flows together with estimated disposal proceeds at the end of its useful life. The Group is required to assess at each balance sheet date whether there are any indications that assets may be impaired, and if there are such indications, the recoverable amounts of the assets are to be determined. Any resulting impairment losses identified are charged to the income statement.

Except as stated above, the unaudited condensed financial statements have been prepared in accordance with the accounting policies consistent with those adopted by the Group in its financial statements for the year ended 31 December 2000.



## 2. PRIOR PERIOD ADJUSTMENT

The effect of changes in accounting policies on the results for the prior period is as follows:

	<b>For the 12 months ended 31 December 2000 (Unaudited) HK\$'000</b>	For the six months ended 30 June 2000 (Unaudited) HK\$'000
Net loss for the year/period attributable to shareholders		
As previously stated	<b>(39,841)</b>	(4,813)
Prior period adjustment:		
Impairment of goodwill recognised upon adoption of SSAP 31	(a) <b>(451,660)</b>	—
As restated	<b><u>(491,501)</u></b>	<b><u>(4,813)</u></b>
Basic loss per share:		
As previously stated	<b>(11.57 cents)</b>	(2.69 cents)
As restated	<b>(142.79 cents)</b>	(2.69 cents)
Diluted loss per share:		
As previously stated	<b>N/A</b>	N/A
As restated	<b><u>N/A</u></b>	<b><u>N/A</u></b>

- (a) In accordance with the provisions of Interpretation 13, assessments of impairment of goodwill also apply to goodwill previously eliminated against reserves which will not be restated at the time of adoption of SSAP 30. Any impairment loss identified in respect of goodwill previously eliminated against reserves is to be recognised as an expense in the income statement. The amendments to SSAP 30 and the provisions of Interpretation 13 are required to be reflected in accordance with the requirements of SSAP 2 and the transitional provisions in SSAP 30.

The Group has performed an assessment of the fair value of goodwill that had previously been charged to reserves. The Group has retrospectively restated its previously reported net loss for the year ended 31 December 2000 by approximately HK\$452 million for the impairment of goodwill arising from the acquisition of subsidiaries.

### 3. SEGMENTAL INFORMATION

The Group is principally engaged in the design, manufacture and marketing of consumer and industrial electronic products and components and provision of software solution and services.

An analysis of the Group's turnover and contribution to profit/(loss) from operating activities by principal activity and by geographical area of operations is summarised as follows:

	Turnover		Contribution to profit/(loss) from operating activities	
	For the six months ended 30 June		For the six months ended 30 June	
	2001	2000	2001	2000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
By activity:				
Provision of software solution and services	20,294	—	(20,920)	—
Manufacture and sale of electronic products	67,988	51,246	2,684	(1,913)
Manufacture and sale of electronic components	45,298	67,684	4,615	34
	<u>133,580</u>	<u>118,930</u>	<u>(13,621)</u>	<u>(1,879)</u>
Unallocated corporate administrative expenses			<u>(7,441)</u>	<u>(5,681)</u>
			<u>(21,062)</u>	<u>(7,560)</u>
By geographical area:				
The People's Republic of China (the "PRC"):				
Hong Kong	18,653	26,842	1,301	(93)
Elsewhere	29,886	23,818	(21,102)	(1,356)
Asia	19,869	19,987	3,227	1,164
United Kingdom	17,353	13,448	440	(402)
United States of America	47,630	34,706	2,500	(1,180)
Others	189	129	13	(12)
	<u>133,580</u>	<u>118,930</u>	<u>(13,621)</u>	<u>(1,879)</u>
Unallocated corporate administrative expenses			<u>(7,441)</u>	<u>(5,681)</u>
			<u>(21,062)</u>	<u>(7,560)</u>

#### 4. LOSS FROM OPERATING ACTIVITIES

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

	<b>For the six months ended 30 June</b>	
	<b>2001</b>	2000
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
Depreciation	<b>7,330</b>	4,624
Operating lease rental	<b>2,212</b>	1,238
Amortisation and write-off of deferred development costs	<b>1,005</b>	—
Staff costs (including directors' remuneration)	<b>33,000</b>	19,950
Provision for doubtful debts	<b>1,299</b>	—
Rental income	<b>(210)</b>	(210)
Dividend income	—	(9)
Interest income	<b>(2,012)</b>	(626)
Gain on disposal of short term investments	—	(385)
Guaranteed profit ( <i>Note</i> )	<b>(10,734)</b>	—

*Note:* On 17 May 2000, the Company entered into a Management Agreement with Ricwinco Investment Limited ("Ricwinco") under which Ricwinco was appointed as a manager for a period of 3 years with responsibility for the management of the semi-conductor business, which is operated by Yung Wen Investment & Finance Limited and its subsidiaries (the "YWIF Group") and weighing scale business, which is operated by Management Investment & Technology Company Limited and its subsidiaries (the "MITC Group"). Ricwinco has unconditionally guaranteed to the Company that 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 in which the profit guarantee is effective commencing from 1 October 2000 to 30 September 2003.

For the period ended 30 June 2001, the Group has recognised the profit guarantee amount of HK\$10,734,000 in the accounts.

## 5. FINANCE COSTS

	<b>For the six months ended 30 June</b>	
	<b>2001</b>	2000
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
Interest on bank loans and overdrafts	<b>2,145</b>	1,195
Interest on other loans wholly repayable within five years	<b>1,010</b>	610
Interest on finance leases	<b>1,134</b>	1,596
	<hr/>	<hr/>
Total finance costs	<b>4,289</b>	3,401
	<hr/> <hr/>	<hr/> <hr/>

## 6. TAX

No provision for Hong Kong profits tax has been made for the Company and its subsidiaries as they either have no assessable profits or have available tax loss brought forward from prior years to offset against current period estimated assessable profits.

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

	<b>For the six months ended 30 June</b>	
	<b>2001</b>	2000
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
Share of tax attributable to:		
Jointly-controlled entities	—	1,900
Associates	<b>871</b>	—
	<hr/>	<hr/>
Tax charge for the period	<b>871</b>	1,900
	<hr/> <hr/>	<hr/> <hr/>

## 7. LOSS PER SHARE

The calculation of basic loss per share for the six months ended 30 June 2001 is based on the unaudited net loss from ordinary activities attributable to shareholders of approximately HK\$22,040,000 (2000: HK\$4,813,000), and the weighted average of 820,562,040 (2000: 178,802,040) ordinary shares in issue during the period.

The diluted loss per share for the six months ended 30 June 2001 and 30 June 2000 has not been shown as the impact of the outstanding share options was anti-dilutive.

## 8. INTERIM DIVIDEND

The Directors do not recommend the payment of any interim dividend for the six months ended 30 June 2001 (six months ended 30 June 2000: Nil).

## 9. TRADE RECEIVABLES

The Group's average credit terms granted to customers range between 30 to 150 days. The aged analysis of trade receivables is as follows:

	<b>As at 30 June 2001 (Unaudited) HK\$'000</b>	As at 31 December 2000 (Audited) HK\$'000
1 – 6 months	<b>33,408</b>	39,909
7 – 12 months	<b>7,030</b>	2,640
13 – 24 months	<b>3,449</b>	6,893
Over 24 months	<b>4,889</b>	1,767
	<b>48,776</b>	51,209
Provision	<b>(8,288)</b>	(6,989)
Total net of provision	<b>40,488</b>	44,220

## 10. TRADE AND BILLS PAYABLES

The aged analysis of trade and bills payables is as follows:

	<b>As at 30 June 2001 (Unaudited) HK\$'000</b>	As at 31 December 2000 (Audited) HK\$'000
1 – 6 months	<b>69,967</b>	64,593
7 – 12 months	<b>7,404</b>	11,838
Over 12 months	<b>1,285</b>	464
	<b>78,656</b>	76,895

## 11. RESERVES

	Share premium account HK\$'000	Contributed surplus HK\$'000	Exchange fluctuation reserve HK\$'000	Revaluation reserve HK\$'000	Non- distributable reserves HK\$'000	Retained profits/ (Accumulated losses) HK\$'000	Total HK\$'000
Balance at 1 January 2001							
As previously stated	118,299	—	(988)	3,777	—	50,278	171,366
Reserves restated upon adoption of transitional provision of SSAP 30	—	434,557	—	—	—	17,103	451,660
Impairment of goodwill recognised upon adoption of SSAP 31	—	—	—	—	—	(451,660)	(451,660)
Balance at 1 January 2001 as restated	118,299	434,557	(988)	3,777	—	(384,279)	171,366
Exchange realignments	—	—	693	—	—	—	693
Loss for the period	—	—	—	—	—	(22,040)	(22,040)
At 30 June 2001	<u>118,299</u>	<u>434,557</u>	<u>(295)</u>	<u>3,777</u>	<u>—</u>	<u>(406,319)</u>	<u>150,019</u>

## 12. CONTINGENT LIABILITIES

	As at 30 June 2001 (Unaudited) HK\$'000	As at 31 December 2000 (Audited) HK\$'000
Guarantees given to banks in connection with facilities granted to subsidiaries	<u>47,500</u>	<u>47,500</u>
Extent of the guaranteed facilities utilised by subsidiaries	<u>32,339</u>	<u>30,876</u>

**13. COMMITMENTS**

## (i) Capital commitments

	<b>As at 30 June 2001 (Unaudited) HK\$'000</b>	As at 31 December 2000 (Audited) HK\$'000
Capital commitments:		
Contracted, but not provided for	<u>—</u>	<u>780</u>

## (ii) Commitment under operating leases

At 30 June 2001, the Group had commitments under non-cancellable operating leases were as follows:

	<b>As at 30 June 2001 (Unaudited) HK\$'000</b>	As at 31 December 2000 (Audited) HK\$'000
Land and buildings expiring:		
Within one year	<b>3,807</b>	229
In the second to fifth years, inclusive	<b>15,121</b>	3,899
After five years	<u>—</u>	<u>2,201</u>
	<b>18,928</b>	6,329
Others expiring within one year	<u>7,152</u>	<u>10,530</u>
	<b>26,080</b>	16,859

#### 14. RELATED PARTY TRANSACTIONS

During the period, the Group entered into the following transactions with its related parties, Digital Lighting Holdings Limited and its subsidiaries (the "DL Group").

	Notes	For the six months ended 30 June	
		2001 (Unaudited) HK\$'000	2000 (Unaudited) HK\$'000
Sales of finished goods to the DL Group	(i)	419	—
Interest income received from the DL Group	(ii)	—	423
Reimbursement of services charges received from the DL Group	(iii)	278	278
Rental income received from the DL Group	(iv)	<u>210</u>	<u>210</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 at Hong Kong dollar 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.

During the period, finished goods of approximately HK\$103,000 (six months ended 30 June 2000: HK\$262,000) were sold to Torex Semiconductors (Hong Kong) Limited which is beneficially owned by Mr David Yung. Mr David Yung is a close family member of Mr Yung Chih Shin, Richard, a director of the Company.

During the period, the Group received loan interest from an associate MC.Founder Limited of approximately HK\$577,000, which bear interest at Hong Kong dollar prime rate plus 1.5% per annum.

During the period, Ricwinco guaranteed approximately HK\$7,610,000 of the Group's unsecured bank overdrafts and trust receipt loans.

During the period, the Group paid approximately HK\$5,354,000 advertising expenses to a subsidiary of Yahoo! Inc., a substantial shareholder of the Company.

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



## MANAGEMENT DISCUSSION AND ANALYSIS

### REVIEW OF OPERATIONS

#### Financial Review

The turnover for the period ended 30 June 2001 increased by 12% to approximately HK\$134 million compared to last period turnover of approximately HK\$119 million. The major reason of increase in turnover was due to the new provision of software solution and services business which contributes a total of approximately HK\$20 million for this period.

The gross profit increased by 1.4 times to approximately HK\$22.8 million compared to last period gross profit of approximately HK\$9.7 million. Also, the average gross profit margin has increased from last period's by 8.1% to current period's 17.1%. The major reason of increases was because the Company has introduced a high profit margin business sector, provision of software solution and services business, which contributes a profit margin of approximately 42%.

The increase in other revenue was mainly due to the guarantee profit generated from the manufacture and sales of electronic products and components. The increase in expenses was due to the inclusion of provision of software solution and services business in current period.

#### Provision of Software Solution and Services

The Group recorded a turnover of approximately HK\$20 million and gross profit of approximately HK\$8.6 million in this business sector in the first half of year. Since the Company ventured into the world of Internet software business for the first year, there is no comparative figure for the same period.

The Company has established a clear and distinct business direction to position itself to be the software solutions and service provider. Based on the Company's dedicated professional team and technology innovation and quality services, our core businesses have the following achievements.

##### *Network Security Products & Solutions*

The Company has successfully developed and patented its own network security product-*FireGate* Firewall (「方御」防火牆) in March 2001 which was the first packet filter firewall product (包過濾防火牆產品) in China to pass the stringent tests of the PRC Ministry of Public Security (國家公安部) and then the PLA (軍隊), the Ministry of State Security (國家安全部) and State Secrecy Bureau (國家保密局) to obtain the most comprehensive and highest level of firewall technology certification and recognition by the PRC government. Furthermore, the Company developed the first complex network simulation testing environment of network security (抗攻擊性網絡安全仿真測試環境) in the PRC-*iTornado* (網際颶風) which was again well recognised by the government department. Although the Company launched its product at the end of first quarter of 2001, a nation-wide sales network has been established which includes over 100 agents, 20 service centres and 10 wholesale distributors. The Company has gained a broad range of customers which covers various industries including: Banking industries (e.g. China Construction Bank Shenyang Branch (瀋陽市建設銀行), Insurance companies (e.g. Ping An Insurance (平安保險公司), media companies (e.g. An Hui Daily (安徽日報), telecom industries (e.g. Shi Ja Jong Telecom) (石家莊電信局), military department, government bureaus and websites. In particular, the performance of the network security in the official website for the Beijing 2008 Olympic Games Bid Committee has maintained the stable visits of over 6.7 million viewers and blocking the hackers' attacks during the crucial period.

### *Location-based Business Intelligence*

The Company has identified that there is large potential needs for location-based business intelligence for industries such as oil, transportation, consumer products distribution, telecommunication, military and government, which required accurate mapping, graphical data collection together with financial and management information to facilitate the logistic management, assets management and business intelligence.

From the Company's own research and development team, it has successfully launched its own product *Founder Mirage (方正智繪) v5.0* in March 2001. It now served clients like Industrial and Commercial Bank of China (中國工商銀行) for its human resources management system and RAE-the largest monitoring equipment supplier in the USA for the development and application of OEM products.

On the other hand, the Company has exclusive distributorship in the Greater China for a Geographic Information System (GIS) product-*MapInfo*. With sales network through over 100 agents, the Company has successfully penetrate into industries like telecommunication, transportation, city planning (城市規劃), public security (公安), military (軍事), water industry (水利), petroleum (石油), petroleum & chemical (石油化工) and electricity and power (電力能源). In particular, the intelligent logistic system (智能物流管理系統) for "Little Red Hat" (小紅帽); the sales management system (銷售管理系統) for Coca-cola; the planning management, security monitoring and pipeline management system (規劃管理、安全監控及管道管理系統) for SINOPEC (中國石化) and the oil field management system (油田管理系統) for the Xinjiang New Harbour oil field (新疆新港油田) of PetroChina (中國石油) are all being highly recommended and appreciated by our customers.

### *e-Finance Solution*

To capture the increased popularity of online financial management, the Company provided sophisticated information technology and solutions to clients for enabling them to perform on-line treasury management such as real-time fund transfers, clearing and monitoring. In the first half of year, the Company gained contracts in the banking sector such as China Construction Bank (中國建設銀行) for the B2B clearing platform (清算平台). The customers which will operate on the platforms including SINOPEC (中國石化), Yinhe Securities (銀河証券), Tiantong Securities (天同証券) and Xinan Securities (西南証券) etc.

### *Enterprise Information Solutions*

Since more and more organization for both enterprise and government are using the information technology to enhance their productivity and efficiency, the Company has provided tailor-made programs to upgrade these corporations' systems. As the Company has extensive knowledge based expertise for the China operation environment, we have developed Enterprise Application Portal ("EAP") solution for enterprises such as: Wan Tong Trading Building (萬通房地產) and Caltex Petrol (加德士石油工業) whereas Government Application Portal ("GAP") solutions for government such as the construction of Beijing Administration for Industry and Commerce (BAIC) online working platform (北京市工商管理局電子政務公共服務系統“紅盾315”工程) and participated in the governmental project for community and social security (政府社區與社會保障服務項目).

### *Awards*

Being recognized for its technical creativity and excellence, *Founder Mirage* (方正智繪) and e-Finance won 2 gold awards, while Web Manager, EAP, intelligent logistics system (智能物流管理系統) and *FireGate* (方御) won 4 honorary awards (創新獎) in the 4th China International Software Exhibition and Symposium (第四屆中國國際軟件博覽會及技術研討會) in June 2001.

### *Contracts*

For the period ended 30 June 2001, the Company has approximately HK\$40 million outstanding contracts for the software solution and services business.

## **Manufacture and Sale of Electronic Products**

The turnover of manufacture and sales of electronic products are mainly derived from the sales of weighing scales products. The turnover in this sector increased by 33% to approximately HK\$68 million for the current period which mainly due to the increase in sales volume of OEM products. The gross profit increased by approximately HK\$8 million to approximately HK\$12 million which was due to the increase in contribution from the sales volume increase and the decrease in cost of components.

## **Manufacture and Sales of Electronic Components**

The turnover of manufacture and sales of electronic components are mainly derived from the sales of semi-conductor products. The turnover in this sector decreased by 33% to approximately HK\$45 million for the current period which mainly due to the general decrease in demand for semi-conductor products and the decrease in selling price in order to maintain its competitiveness in pricing. The gross profit decreased by approximately HK\$4 million to approximately HK\$2 million which was mainly affected by the decrease in sales volume.

## **FUTURE PROSPECTS**

### **Provision of Software Solution and Services**

#### *Network Security Products & Solutions*

According to the IDC's report on "research and forecast on Global Internet Security Software market 2000 to 2005" (世界互聯網安全軟件市場預測和分析(2000至2005)), the market for security products was approximately US\$5.1 billion in 2000 and predicts the market to reach approximately US\$14 billion in 2005 with annual increment of approximately 23%. Also, the report expects the market size in the Asia Pacific area will increase from 12% in 2000 to 17% in 2005 which is approximately US\$2.4 billion. The Company is focusing to be one of the top software solution provider and experts in this field. Further to the launch of firewall products, the Company has plans to develop other products like Intrusion Detection System (入侵檢測), Virtual Private Network (虛擬私人網絡)VPN and anti-virus products (防病毒產品) in the coming year.

From the solid proof of products' quality, the Company will fully utilize and further expand its distribution channels through over 100 agents and 20 service centers in China with the aim to be the top security products producer in the PRC.

### *Location-based Business Intelligence*

Following to the successful launch of the Company's own product-Founder Mirage, we are positioning ourselves to enter into the PRC Technology Bureau's (國家科技部) plan for the National GIS program and to be the pioneer in the GIS field. On the other hand, new clients gained in the oil industries will boost our confidence to promote our sales in this sector. For example, there are over 150 oil fields in China which are similar to our client — Xinjiang New Harbour oil field (新疆新港油田) — which accumulates to market size of over hundreds of million in RMB. Also, the successful bidding to host the 2008 Olympic Games in Beijing will bring in substantial opportunities to develop a digital city especially in the city planning, transportation and asset management and environmental development. As *MapInfo* products are mainly focus in these fields, the Company expects it will become one of the largest PRC software solution and service provider in the field of GIS.

### *e-Finance Solution*

The establishment of e-Business platform for China Construction Bank (中國建設銀行) is mainly to facilitate its large clients which need to manage a significant amount of cashflows among nation-wide branches and companies. The clients portfolio including: over 100 investment security companies (証券商), SINOPEC (中石化) and First Automobile (第一汽車), etc. The Company's expertise in providing these services and solutions can be applied to other banks as well. Also, the Company expects that there will be many business opportunities from the banks' clients, such as investment securities companies, petroleum companies and various national enterprises.

### *Enterprise Information Solutions*

The Company was honored to have the opportunities to construct and maintain the official website for the Beijing 2008 Olympic Games Bid Committee and the committee has awarded an Honor Certificate to the Company for its contribution throughout the support of the official website. It is expected a new website will be constructed and numerous application will pass through the Internet gateway, the Company has well positioned itself for the golden opportunities. Following to the construction of BAIC online working platform, the Company will further participate in other Government projects for community and social security.

### *Conclusion*

In conclusion, the Company will move forward with its strategies and action plans to ensure EC-Founder's success by focusing to be the top software solution and service providers in the PRC.

## **Manufacture and Sales of Electronic Products**

In the second half of the year, we will continue to develop the OEM products which related to health care and industrial use. The scale with new fitness features such as body fat analyser and new designs such as glass platform scale will be launched later in the year.

## **Manufacture and Sales of Electronic Components**

In the view of the PRC is to join the World Trade Organisation in the coming future, it is expected that the production and demand for electronic products will increase and hence improve the demand for electronic components in the PRC market. On the other hand, the cooperation with our strategic partner-Nissho Iwai of Japan and Philips of Germany will improve our performance in the overseas market.

## LIQUIDITY AND FINANCIAL RESOURCES

### Net Assets

As at 30 June 2001, the Group recorded total assets of approximately HK\$404 million which were financed by liabilities of approximately HK\$172 million and equity of approximately HK\$232 million. The Group's net asset value as at 30 June 2001 decreased by approximately 8% to approximately HK\$232 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\$95 million as at 30 June 2001 (31 December 2000: approximately HK\$98 million). After deducting bank loans and overdrafts of approximately HK\$50 million (31 December 2000: approximately HK\$42 million), the Group recorded a net cash balance of approximately HK\$45 million as at 30 June 2001 as compared to HK\$56 million as at 31 December 2000. As at 30 June 2001, the Group had both improved the working capital to the ratio of 1.57 (31 December 2000: 1.68) and a long term debt to equity ratio of 0.014 (31 December 2000: 0.018) with equity being defined as the total of capital and reserves.

### Charges on Assets

At 30 June 2001 certain land and buildings in the PRC and overseas of the Group and fixed deposits of approximately HK\$26.8 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 30 June 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\$47 million.

## EMPLOYEE AND REMUNERATION POLICIES

The total number of employees of the Group as at 30 June 2001 was approximately 510 (31 December 2000: 520).

Salaries and annual bonuses are determined according to positions and performance of the employees. The Group provides on-the-job training to its employees in addition to retirement benefits schemes and medical insurance. To enable its employees to participate in the growth of the Group, the Group has adopted a share option scheme under which the directors of the Company may, at their discretion, grant options to directors and employees of the Company and its subsidiaries to subscribe for shares of the Company.

## DIRECTORS' INTERESTS IN SHARE

At 30 June 2001, the interests of the directors and their respective associates in the share capital of the Company and 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 shares held and nature of interest	
	Corporate	Personal
Mr Yung Chih Shin, Richard	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	Management Investment & Technology Company Limited	20,000,000 non-voting deferred shares	Corporate

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

In addition to the above, certain directors have non-beneficial personal equity interests in certain subsidiaries held for the benefit of 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' right to acquire shares", 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' right to acquire shares

Pursuant to the Company's share option scheme, the Company has granted options on the Company's ordinary shares in favour of certain directors, the summary details of which are as follows:

Name of director	Number of outstanding share options at the beginning of period	Number of share options granted during the period	Number of outstanding share options at the end of period	Exercise period of share options	Exercise price of share options HK\$
Mr Yung Chih Shin, Richard	3,000,000(i)	—	3,000,000	1.8.1997 to 31.7.2002	0.507
Mr Yung Richard, Jr.	2,400,000(i)	—	2,400,000	1.8.1997 to 31.7.2002	0.507
Mr Yung Richard, Jr	—	2,700,000(ii)	2,700,000	15.12.2001 to 14.12.2006	0.450
Mr Cheung Shuen Lung	—	2,000,000(ii)	2,000,000	18.5.2001 to 17.5.2011	0.450
Mr Lei Hon Sang	—	2,000,000(ii)	2,000,000	18.5.2001 to 17.5.2011	0.450
Professor Wei Xin	—	2,000,000(ii)	2,000,000	18.5.2001 to 17.5.2011	0.450
Professor Zou Wei	—	2,000,000(ii)	2,000,000	18.5.2001 to 17.5.2011	0.450
	<u>5,400,000</u>	<u>10,700,000</u>	<u>16,100,000</u>		

(i) The options were granted under the share option scheme approved by the shareholders of the Company at a Special General Meeting on 11th September 1991.

(ii) The options were granted under the share option scheme approved by the shareholders of the Company at a Special General Meeting on 7th May 2001.

Save as disclosed above, at no time during the period 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 or any of its subsidiaries a party to any arrangements to enable the directors to acquire such rights in any other body corporate.

## SUBSTANTIAL SHAREHOLDERS

At 30 June 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	Notes	Number of ordinary shares held	%
Peking University	1	323,690,000	39.45
Peking University Founder Group Corporation ("Peking Founder")	2	323,690,000	39.45
Founder Holdings Limited ("FHL")		323,690,000	39.45
Yahoo! Inc.		93,240,000	11.36
Ricwinco	3	87,680,000	10.68

Notes:

1. Peking Founder is wholly owned by Peking University. The interests disclosed under Peking University represent its deemed interests in the shares of the Company by virtue of its interest in Peking Founder.
2. Peking Founder, holds more than one-third of the equity capital of FHL and is deemed as interested in the 323,690,000 shares of the Company under the SDI Ordinance.
3. Ricwinco is beneficially owned by Mr Yung Chih Shin, Richard.

There is a duplication of the corporate interests of Mr Yung Chih Shin, Richard as noted in the section "Directors' interests in shares".

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.

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

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

## AUDIT COMMITTEE

The members of the audit committee of the Company comprise Mr Yang Lin, Richard and Mr Lee Ying Bui, Andrew both being independent non-executive directors of the Company.

These unaudited condensed consolidated interim financial statements for the six months ended 30 June 2001 of the Company now reported on have been reviewed by the audit committee.



## CODE OF BEST PRACTICE

In the opinion of the Directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules on the Stock Exchange throughout the period covered by the unaudited condensed consolidated interim financial statements, except that the independent non-executive directors of the Company are not appointed for specific terms 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 of Best Practice throughout the accounting period covered by the unaudited condensed consolidated interim financial statements.

By Order of the Board

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

**Cheung Shuen Lung**

*Chairman*

Hong Kong  
18 September 2001