

NOTES TO FINANCIAL STATEMENTS

31 December 2002

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 services
- design, manufacture and distribution of electronic products
- design, manufacture and distribution of electronic components (discontinued during the year – note 6)

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

The following new and revised SSAPs are effective for the first time for the current year’s financial statements:

- SSAP 1 (Revised): “Presentation of financial statements”
- SSAP 11 (Revised): “Foreign currency translation”
- SSAP 15 (Revised): “Cash flow statements”
- SSAP 33: “Discontinuing operations”
- SSAP 34: “Employee benefits”

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 are summarised as follows:

SSAP 1 prescribes the basis for the presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. The principal impact of the revision of this SSAP is that a consolidated summary statement of changes in equity is now presented on page 25 of the financial statements in place of the consolidated statement of recognised gains and losses that was previously required.

SSAP 11 prescribes the basis for the translation of foreign currency transactions and financial statements. The principal impact of this revised SSAP on the consolidated financial statements is that the profit and loss account of overseas subsidiaries and associates are now translated to Hong Kong dollars at the weighted average exchange rates for the year, whereas previously they were translated at the exchange rates ruling at the balance sheet date. The adoption of the revised SSAP 11 has had no material effect on the financial statements.

SSAP 15 prescribes the revised format for the cash flow statement. The principal impact of the revision of this SSAP is that the consolidated cash flow statement now presents cash flows under three headings, cash flows from operating, investing and financing activities, rather than the five headings previously required. In addition, cash flows from overseas subsidiaries arising during the year are now translated to Hong Kong dollars at the exchange rates at the dates of the transactions, or at an approximation thereto, whereas previously they were translated at the exchange rates at the balance sheet date. Further details of these changes are included in the accounting policy for “Foreign currencies” in note 3 and in note 34(a) to the financial statements.

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

SSAP 33 prescribes the basis for reporting information about discontinuing/discontinued operations. The impact of this SSAP is the inclusion of additional disclosures to those that were previously required, which are set out in note 6 to the financial statements.

SSAP 34 prescribes the recognition and measurement criteria to apply to employee benefits, together with the required disclosures in respect thereof. The adoption of this SSAP has resulted in no change to the previously adopted accounting treatments for employee benefits. Disclosures are now required in respect of the share option schemes of the Group, as detailed in note 32 to the financial statements. These share option scheme disclosures are similar to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") disclosures previously included in the Report of the Directors, which are now required to be included in the notes to the financial statements as a consequence of the SSAP.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2002. The results of subsidiaries established, acquired or disposed of during the year are consolidated from or to their effective dates of establishment, acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company's subsidiaries.

Subsidiaries

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

The results of subsidiaries are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

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

Associates

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

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

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

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.

SSAP 30 "Business combinations" was adopted as at 1 January 2001. Prior to that date, goodwill arising on acquisitions was eliminated against consolidated reserves in the year of acquisition. On the adoption of SSAP 30, the Group applied the transitional provision of SSAP 30 that permitted such goodwill to remain eliminated against consolidated reserves. Goodwill on acquisitions subsequent to 1 January 2001 is treated according to the goodwill accounting policy above.

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

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

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

Related parties

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

Impairment of assets

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

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

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Fixed assets and depreciation

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

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

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

Fixed assets and depreciation *(Continued)*

Depreciation is calculated on the straight-line basis to write off the cost or valuation of each asset over its estimated useful life after taking into account its estimated residual value. The principal annual rates used for this purpose are as follows:

Land and buildings	2%
Leasehold improvements	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.

Intangible assets

Research and development costs

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

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

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

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

Leased assets

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

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

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 any 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 which approximates average actual cost and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Systems integration contracts

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

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

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

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

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

Systems integration contracts *(Continued)*

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

Cash and cash equivalents

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

For the purpose of the balance sheet, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, 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.

Revenue recognition

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

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) from systems integration contracts, on the percentage of completion basis as further explained in the accounting policy for "Systems integration contracts" above;
- (c) from the rendering of services, when the transactions have been completed in accordance with the terms of the contracts;
- (d) from the disposal of fixed assets, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group has no further substantial acts and/or continuing involvement to complete under the contracts;
- (e) rental income, on a time proportion basis over the lease terms; and

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

Revenue recognition *(Continued)*

- (f) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

Employee benefits

Retirement benefits schemes

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

The employees of the Group's subsidiaries which operate in the Mainland of the People's Republic of China (the "Mainland China" or the "PRC") are required to participate in a central pension scheme operated by the local municipal government. The assets of the scheme 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 central pension scheme.

Share option schemes

The Company operates the share option schemes for the purpose of providing incentive and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under the share option schemes is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

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

Foreign currencies

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

On consolidation, the financial statements of overseas subsidiaries and associates are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries and associates are translated into Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated into Hong Kong dollars at the exchange rates at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated to Hong Kong dollars at the exchange rates at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

Prior to the adoption of the revised SSAPs 11 and 15 during the year, as explained in note 2 to the financial statements, the profit and loss accounts of overseas subsidiaries and associates and the cash flows of overseas subsidiaries were translated to Hong Kong dollars at the exchange rates ruling at the balance sheet date. The adoption of the revised SSAP 11 has had no material effect on the financial statements. The adoption of the revised SSAP 15 has resulted in changes to the layout of the consolidated cash flow statement, further details of which are included in note 34(a) to the financial statements, but has had no material effect on the amounts for prior years previously reported.

4. SEGMENT INFORMATION

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

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

- (a) the provision of software solutions and services segment engages in the development and distribution of security and geographical information software solutions and the provision of systems integrated solutions and services to financial institutions, enterprises and government departments in the PRC which are in the process of computerisation;

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4. SEGMENT INFORMATION *(Continued)*

- (b) the electronic products segment engages in design, manufacture and distribution of weighing scales and lighting products; and
- (c) the electronic components segment engages in design, manufacture and distribution of semi-conductor products. As further explained in notes 6 and 38 to these financial statements, the Group disposed of this entire business to Ricwinco Investment Limited ("Ricwinco"), a substantial shareholder of the Company, during the year.

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

No intersegment sales and transfers were transacted during the year (2001: Nil).

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4. SEGMENT INFORMATION (Continued)

(a) Business segments

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

Group	Provision of software solutions and services		Electronic products		Electronic components (Discontinued)		Consolidated	
	2002	2001	2002	2001	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:								
Sales to external customers	<u>70,825</u>	<u>73,681</u>	<u>192,825</u>	<u>169,762</u>	<u>48,283</u>	<u>88,012</u>	<u>311,933</u>	<u>331,455</u>
Segment results	<u>(35,702)</u>	<u>(35,046)</u>	<u>3,900</u>	<u>4,735</u>	<u>(19,449)</u>	<u>(23,392)</u>	<u>(51,251)</u>	<u>(53,703)</u>
Interest and other income							9,646	4,761
Unallocated expenses							(10,467)	(15,614)
Impairment of goodwill							(36,500)	-
Loss from operating activities							(88,572)	(64,556)
Finance costs							(4,147)	(9,069)
Share of profits and losses of associates							8,448	4,346
Loss before tax							(84,271)	(69,279)
Tax							(1,494)	(1,432)
Loss before minority interests							(85,765)	(70,711)
Minority interests							335	1,670
Net loss from ordinary activities attributable to shareholders							<u>(85,430)</u>	<u>(69,041)</u>
Segment assets	51,725	101,103	120,518	113,346	-	113,859	172,243	328,308
Interests in associates	-	-	-	-	-	3,348	22,864	22,527
Unallocated assets	-	-	-	-	-	-	26,851	25,263
Total assets							<u>221,958</u>	<u>376,098</u>
Segment liabilities	19,995	7,915	48,679	38,226	-	54,385	68,674	100,526
Unallocated liabilities	-	-	-	-	-	-	16,664	88,863
Total liabilities							<u>85,338</u>	<u>189,389</u>
Other segment information:								
Depreciation, amortisation and write-off	4,281	462	6,282	6,655	1,952	7,422	13,744	17,288
Impairment of fixed assets recognised in the profit and loss account	-	2,376	-	-	1,226	35,804	1,226	38,180
Capital expenditure	<u>958</u>	<u>1,244</u>	<u>6,184</u>	<u>4,261</u>	<u>241</u>	<u>3,754</u>	<u>7,383</u>	<u>12,836</u>

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4. SEGMENT INFORMATION (Continued)

(b) Geographical segments

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

Group	Hong Kong		Mainland China		Singapore		United States of America		United Kingdom		Corporate		Others		Consolidated	
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
	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	HK\$'000	HK\$'000
Segment revenue:																
Sales to																
external																
customers	23,829	6,757	77,496	121,297	19,731	35,792	149,510	128,965	38,397	35,808	-	-	2,970	2,836	311,933	331,455
Other segment																
information:																
Segment assets	60,569	97,527	98,889	174,698	-	7,219	26,288	23,323	10,439	8,024	22,647	62,585	3,126	2,722	221,958	376,098
Capital																
expenditure	1,312	1,378	6,071	8,504	-	18	-	-	-	-	-	2,936	-	-	7,383	12,836

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5. TURNOVER, OTHER REVENUE AND GAINS

Turnover represents the net invoiced value of goods sold, after allowances 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:

	2002 HK\$'000	2001 HK\$'000
Turnover		
Provision of software solutions and services	70,825	73,681
Sales of electronic products	192,825	169,762
Sales of electronic components	48,283	88,012
	<u>311,933</u>	<u>331,455</u>
Other revenue		
Rental income	421	421
Interest income	980	3,576
Others	8,197	764
	<u>9,598</u>	<u>4,761</u>
Gains		
Profit guarantees (Note)	–	40,746
Gain on deemed partial disposal of an associate	48	–
	<u>9,646</u>	<u>45,507</u>

Note: Pursuant to the Management Agreement as further disclosed in note 38 to the financial statements, the Group recognised the profit guarantees of approximately HK\$40,746,000 payable by Ricwinco for the year ended 31 December 2001.

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6. DISCONTINUED OPERATION

On 4 April 2002, the Company entered into a Disposal Agreement ("DA") with Ricwinco to dispose of its entire interests in Yung Wen Investment & Finance Limited ("YW") and to assign the indebtedness due to the Group by YW and its subsidiaries (the "YW Group") to Ricwinco at a total cash consideration of HK\$15,000,000. In addition, Ricwinco procured the release of the Company from all existing guarantees and undertakings it had given in respect of the liabilities of the YW Group except for the liabilities owed by the YW Group to a trade creditor of up to HK\$28 million (the "Remaining Guarantee"). The Remaining Guarantee was released on 31 March 2003.

The principal activities of the YW Group are the design, manufacture and distribution of electronic components. Upon the completion of the disposal, on 28 June 2002, the Group discontinued its electronic components operation.

The components of the loss on disposal of the discontinued operation of approximately HK\$15,079,000 are disclosed in note 34(c) to the financial statements.

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

	As at 28 June 2002 HK\$'000	As at 31 December 2001 HK\$'000
Total assets	74,861	117,207
Total liabilities (Note)	<u>(73,557)</u>	<u>(110,503)</u>
Net assets	<u><u>1,304</u></u>	<u><u>6,704</u></u>

Note: The total liabilities included an amount due to the Group by the YW Group of approximately HK\$28,775,000.

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6. DISCONTINUED OPERATION *(Continued)*

The results of the discontinued operation which had been included in the consolidated profit and loss account are as follows:

	Period ended 28 June 2002 HK\$'000	Year ended 31 December 2001 HK\$'000
TURNOVER	48,283	88,012
Cost of sales	<u>(48,570)</u>	<u>(85,198)</u>
Gross profit/(loss)	(287)	2,814
Other revenue and gains	2,683	42,372
Selling and distribution costs	(1,572)	(1,474)
Administrative expenses	(2,511)	(17,477)
Other operating expenses	–	(48,313)
Loss on disposal of discontinued operation	<u>(15,079)</u>	<u>–</u>
LOSS FROM OPERATING ACTIVITIES	(16,766)	(22,078)
Finance costs	(3,017)	(7,836)
Share of profits of an associate	<u>24</u>	<u>7</u>
LOSS BEFORE TAX	(19,759)	(29,907)
Tax	<u>–</u>	<u>–</u>
NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	<u><u>(19,759)</u></u>	<u><u>(29,907)</u></u>

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

	Period ended 28 June 2002 HK\$'000	Year ended 31 December 2001 HK\$'000
Operating	(13,648)	21,165
Investing	11,014	(5,640)
Financing	<u>1,873</u>	<u>(15,952)</u>
Net cash outflows	<u><u>(761)</u></u>	<u><u>(427)</u></u>

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7. LOSS FROM OPERATING ACTIVITIES

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

		Group	
	Notes	2002 HK\$'000	2001 HK\$'000
Amortisation and write-off			
of deferred development costs*	15	379	3,864
Auditors' remuneration		813	1,080
Cost of inventories sold		212,885	255,365
Cost of services provided		17,821	4,188
Depreciation	14	11,422	13,424
Fixed assets written off	14	1,943	–
Impairment of fixed assets	14	1,226	38,180
Impairment of goodwill	16	36,500	–
Loss on disposal of fixed assets		36	22
Loss on disposal of discontinued operation	34(c)	15,079	–
Loss on disposal of an associate		–	1,115
Provision for doubtful debts		5,954	1,158
Provision for obsolete stock		6,433	2,193
Operating lease rentals in respect of:			
Land and buildings		6,583	7,172
Plant and machinery		158	155
		<u>6,741</u>	<u>7,327</u>
Staff costs (including directors' remuneration – note 9)			
Wages and salaries		72,617	81,563
Pension contributions		533	890
Less: Forfeited contributions **		–	(189)
Net pension contributions		<u>533</u>	<u>701</u>
		<u>73,150</u>	<u>82,264</u>
Exchange losses/(gains), net		<u>84</u>	<u>(114)</u>

* 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 2002, the Group had no forfeited contributions available to reduce its contributions to the pension scheme in future years.

NOTES TO FINANCIAL STATEMENTS

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8. FINANCE COSTS

	Group	
	2002	2001
	HK\$'000	HK\$'000
Interest on bank loans and overdrafts	1,634	7,091
Interest on other loans wholly repayable within five years	2,353	1,581
Interest on finance leases	160	397
	<u>4,147</u>	<u>9,069</u>

9. DIRECTORS' REMUNERATION

Directors' remuneration, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Group	
	2002	2001
	HK\$'000	HK\$'000
Fees	1,494	660
Other emoluments:		
Salaries, bonuses and benefits in kind	7,514	8,943
Performance related bonuses	13,500	5,944
Pension scheme contributions	12	17
	<u>22,520</u>	<u>15,564</u>

Fees include HK\$240,000 (2001: HK\$240,000) payable to the independent non-executive directors. There were no other emoluments payable to the independent non-executive directors during the year (2001: Nil).

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

	Number of directors	
	2002	2001
Nil – HK\$1,000,000	7	7
HK\$1,000,001 – HK\$1,500,000	1	–
HK\$4,500,001 – HK\$5,000,000	–	1
HK\$9,000,001 – HK\$9,500,000	1	1
HK\$11,500,001 – HK\$12,000,000	<u>1</u>	<u>–</u>

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

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10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three (2001: two) directors, details of whose remuneration are set out in note 9 above. Details of the remuneration of the remaining two (2001: three) non-director, highest-paid employees are as follows:

	Group	
	2002 HK\$'000	2001 HK\$'000
Salaries, bonuses and benefits in kind	2,573	3,520
Pension scheme contributions	24	24
	<u>2,597</u>	<u>3,544</u>

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

	Number of employees	
	2002	2001
HK\$1,000,001 – HK\$1,500,000	<u>2</u>	<u>3</u>

11. TAX

	Group	
	2002 HK\$'000	2001 HK\$'000
Share of tax attributable to associates	<u>1,494</u>	<u>1,432</u>

Hong Kong profits tax has been provided at the rate of 16% (2001: 16%) on the estimated assessable profits of the associates arising in Hong Kong during the year.

EC-Founder Co., Ltd., a wholly-owned PRC subsidiary of the Group, is exempted from PRC profits tax for the three fiscal years which commenced in 2001 and ending on 31 December 2003 and, thereafter, will be taxed at 50% of its standard tax rate in the fourth to sixth years, inclusive. At present, the standard tax rate applicable to EC-Founder Co., Ltd. is 15%. No provision for PRC profits tax has been made for the year as the PRC subsidiaries were either under the tax exemption period or had sufficient tax losses brought forward to offset against the assessable profits arising during the year.

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

NOTES TO FINANCIAL STATEMENTS

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12. NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders for the year ended 31 December 2002 dealt with in the financial statements of the Company is approximately HK\$30,665,000 (2001: HK\$536,331,000).

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\$85,430,000 (2001: HK\$69,041,000), and the weighted average of 820,562,040 (2001: 820,562,040) ordinary shares in issue during the year.

Diluted loss per share for the years ended 31 December 2002 and 2001 have not been disclosed as the impact of the outstanding share options was anti-dilutive.

NOTES TO FINANCIAL STATEMENTS

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14. FIXED ASSETS

Group

	Land and buildings HK\$'000	Leasehold improvements HK\$'000	Machinery, equipment and moulds HK\$'000	Furniture, fixtures and office equipment HK\$'000	Motor vehicles HK\$'000	Construction in progress HK\$'000	Total HK\$'000
Cost or valuation:							
At 1 January 2002	38,527	25,414	87,316	22,464	6,394	416	180,531
Additions	27	-	892	972	494	4,998	7,383
Transfer from construction in progress	-	753	3,364	590	219	(4,926)	-
Written off	-	(844)	-	(1,959)	-	-	(2,803)
Disposals	-	-	(120)	(164)	(213)	-	(497)
Disposal of subsidiaries	(17,771)	(11,067)	(57,337)	(4,870)	(1,354)	-	(92,399)
Exchange realignment	-	-	-	(2)	-	-	(2)
At 31 December 2002	20,783	14,256	34,115	17,031	5,540	488	92,213
Accumulated depreciation and impairment:							
At 1 January 2002	16,280	14,460	61,830	11,681	4,370	-	108,621
Provided during the year	861	2,622	4,764	2,412	763	-	11,422
Impairment during the year recognised in the profit and loss account	1,090	136	-	-	-	-	1,226
Written off	-	(169)	-	(691)	-	-	(860)
Disposals	-	-	(61)	(56)	(213)	-	(330)
Disposal of subsidiaries	(15,057)	(7,713)	(47,404)	(4,220)	(1,258)	-	(75,652)
At 31 December 2002	3,174	9,336	19,129	9,126	3,662	-	44,427
Net book value:							
At 31 December 2002	<u>17,609</u>	<u>4,920</u>	<u>14,986</u>	<u>7,905</u>	<u>1,878</u>	<u>488</u>	<u>47,786</u>
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>
Analysis of cost and valuation:							
At cost	2,783	14,256	34,115	17,031	5,540	488	74,213
At 1993 valuation	18,000	-	-	-	-	-	18,000
	<u>20,783</u>	<u>14,256</u>	<u>34,115</u>	<u>17,031</u>	<u>5,540</u>	<u>488</u>	<u>92,213</u>

NOTES TO FINANCIAL STATEMENTS

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14. FIXED ASSETS (Continued)

Company

	Leasehold improvements HK\$'000	Furniture, fixtures and office equipment HK\$'000	Total HK\$'000
Cost:			
At 1 January 2002	845	3,851	4,696
Additions	–	76	76
Written off	(845)	(510)	(1,355)
Disposals	–	(3,184)	(3,184)
	<u>–</u>	<u>(3,184)</u>	<u>(3,184)</u>
At 31 December 2002	<u>–</u>	<u>233</u>	<u>233</u>
Accumulated depreciation:			
At 1 January 2002	85	2,456	2,541
Provided during the year	84	83	167
Written off	(169)	(124)	(293)
Disposals	–	(2,372)	(2,372)
	<u>–</u>	<u>(2,372)</u>	<u>(2,372)</u>
At 31 December 2002	<u>–</u>	<u>43</u>	<u>43</u>
Net book value:			
At 31 December 2002	<u>–</u>	<u>190</u>	<u>190</u>
At 31 December 2001	<u>760</u>	<u>1,395</u>	<u>2,155</u>

The net book value of the Group's fixed assets held under finance leases included in the total amount of machinery, equipment and moulds and motor vehicles at 31 December 2002, amounted to approximately HK\$1,276,000 (2001: HK\$10,934,000) and approximately HK\$879,000 (2001: HK\$627,000), respectively.

Certain of the Group's land and buildings with a net book value of approximately HK\$15,077,000 (2001: HK\$15,441,000) were revalued at 31 December 1993 by Messrs. C. Y. Leung & Company Limited, registered professionally qualified surveyors, on an open market value, existing use basis. Since 1993, no further revaluations of the Group's land and buildings have been carried out, as the Group followed the exemption granted under paragraph 80 of SSAP 17 "Property, plant and equipment", from the requirement to carry out future revaluations of the entire class of land and buildings on a regular basis.

Had the Group's land and buildings been carried at historical cost less accumulated depreciation and impairment losses, their carrying amounts would have been approximately HK\$11,760,000 (2001: HK\$12,050,000).

NOTES TO FINANCIAL STATEMENTS

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14. FIXED ASSETS (Continued)

The net book value of land and buildings pledged to banks to secure certain of the Group's banking facilities as at 31 December 2002 amounted to approximately HK\$2,532,000 (2001: HK\$4,156,000).

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

	Hong Kong HK\$'000	Overseas HK\$'000	Total HK\$'000
At cost:			
Freehold	–	2,783	2,783
At 1993 valuation:			
Medium term leases	18,000	–	18,000
	<u>18,000</u>	<u>2,783</u>	<u>20,783</u>

15. INTANGIBLE ASSETS

	Group Deferred development costs HK\$'000
Cost:	
At beginning of year	2,586
Written off	(1,310)
Realisation on disposal of discontinued operation	(1,299)
Exchange realignment	23
At 31 December 2002	<u>–</u>
Accumulated amortisation:	
At beginning of year	1,316
Provided during the year	379
Written off	(1,310)
Realisation on disposal of discontinued operation	(389)
Exchange realignment	4
At 31 December 2002	<u>–</u>
Net book value:	
At 31 December 2002	<u>–</u>
At 31 December 2001	<u>1,270</u>

NOTES TO FINANCIAL STATEMENTS

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16. GOODWILL

As detailed in note 3 to the financial statements, the Group has adopted the transitional provision of SSAP 30 which permits goodwill in respect of acquisitions of subsidiaries which occurred prior to 1 January 2001, to remain eliminated against consolidated reserves.

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

	Goodwill eliminated against consolidated retained profits <i>HK\$'000</i>	Group Goodwill eliminated against consolidated contributed surplus <i>HK\$'000</i>
Cost at 1 January 2002 and 31 December 2002	17,103	520,156
Accumulated impairment:		
At beginning of year	–	452,259
Impairment provided during the year	–	36,500
	<hr/>	<hr/>
At 31 December 2002	–	488,759
	<hr/>	<hr/>
Net amount:		
At 31 December 2002	<u>17,103</u>	<u>31,397</u>
	<hr/>	<hr/>
At 31 December 2001	<u>17,103</u>	<u>67,897</u>
	<hr/>	<hr/>

An impairment loss of approximately HK\$36,500,000 was charged to the consolidated profit and loss account for the current year. The impairment loss was provided by the directors based on the estimated recoverable amounts of the subsidiaries acquired, which were determined based on their value in use. The discount rate used in determining the value in use is 19% per annum.

NOTES TO FINANCIAL STATEMENTS

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17. INTERESTS IN SUBSIDIARIES

	Company	
	2002 HK\$'000	2001 HK\$'000
Unlisted shares, at cost	524,213	621,581
Due from subsidiaries	203,426	221,549
Due to subsidiaries	(6,091)	(114)
	<u>721,548</u>	<u>843,016</u>
Provision for impairment	(497,053)	(587,902)
	<u><u>224,495</u></u>	<u><u>255,114</u></u>

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

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Management Investment & Technology Company Limited ("MITC")	Hong Kong	Ordinary HK\$2 Non-voting deferred HK\$27,000,002 Note (b)	-	100	Design, manufacture and distribution of weighing scales and lighting products
EC-Founder Co., Ltd.*	Mainland China	Registered US\$5,000,000	-	100	Provision of software solutions and services
EC-Founder (Hong Kong) Limited	Hong Kong	Ordinary HK\$2	-	100	Provision of software solutions and services

NOTES TO FINANCIAL STATEMENTS

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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	
Founder Data Corporation International Limited	British Virgin Islands/ Hong Kong	Ordinary US\$20,000	100	–	Investment holding
Beijing AdTargeting Inc.*	Mainland China	Registered US\$300,000	–	100	Provision of internet advertising agency services

* Wholly-owned foreign investment enterprises

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 non-voting deferred shares carry no rights to dividends or to receive notice of or to attend or vote at any general meeting of the company. On winding-up, the holders of the non-voting deferred shares are entitled to one half of the return of the assets after a total sum of HK\$100,000,000 million has been distributed to the holders of each of the ordinary shares of the company.

18. INTERESTS IN ASSOCIATES

	Group		Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Share of net assets	19,414	12,980	–	–
Goodwill on acquisition	–	600	–	–
Loans to an associate	3,450	6,700	–	3,250
Due from an associate	–	2,247	–	42
	<u>22,864</u>	<u>22,527</u>	<u>–</u>	<u>3,292</u>

NOTES TO FINANCIAL STATEMENTS

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18. INTERESTS IN ASSOCIATES *(Continued)*

The loans to an associate and the amount due from an associate are unsecured, interest-free and are repayable on demand, except for a loan to an associate of approximately HK\$3,250,000 as at 31 December 2001 which bore interest at Hong Kong dollar prime rate plus 1.5% per annum and was repaid 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
			2002	2001	
Discrete Association Semiconductors Pte. Limited ("DAS") *	Corporate	Singapore	-	49 #	Marketing and distribution of semi-conductors
MC.Founder Limited ("MCF")	Corporate	Hong Kong	36.69	40	Distribution of mobile phones
MC.Founder (Distribution) Limited	Corporate	Hong Kong	36.69	40	Distribution of mobile phones
MC.Founder (Technology) Limited	Corporate	Hong Kong	36.69	40	Distribution of electronic appliances

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

Disposed of during the year

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

NOTES TO FINANCIAL STATEMENTS

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19. LONG TERM INVESTMENT

	Group	
	2002	2001
	HK\$'000	HK\$'000
Club debenture, at cost	—	1,075
	<u> </u>	<u> </u>

20. INVENTORIES

	Group	
	2002	2001
	HK\$'000	HK\$'000
Raw materials	18,019	22,147
Work in progress	9,961	24,993
Finished goods	7,051	7,017
	<u> </u>	<u> </u>
	<u>35,031</u>	<u>54,157</u>

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

21. SYSTEMS INTEGRATION CONTRACTS

	Group	
	2002	2001
	HK\$'000	HK\$'000
Gross amount due from contract customers	318	173
Gross amount due to contract customers	(2,729)	—
	<u> </u>	<u> </u>
	<u>(2,411)</u>	<u> </u>
Contract costs incurred plus recognised profits less recognised losses and foreseeable losses to date	8,532	4,038
Less: Progress billings	(10,943)	(3,865)
	<u> </u>	<u> </u>
	<u>(2,411)</u>	<u> </u>

NOTES TO FINANCIAL STATEMENTS

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22. TRADE AND BILLS RECEIVABLES

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally for a period of one month, extending up to eighteen months for major customers of software solutions and services. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and overdue balances are reviewed regularly by senior management.

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

	Group	
	2002 HK\$'000	2001 HK\$'000
Within 6 months	44,457	50,436
7 – 12 months	1,460	332
13 – 24 months	2,827	729
Over 24 months	–	2,460
	<u>48,744</u>	<u>53,957</u>

23. PREPAYMENTS AND OTHER RECEIVABLES

	Group		Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Prepayments	963	2,528	258	208
Deposits and other receivables	3,701	6,887	8	1,962
Due from related companies	–	43,610	–	5,020
	<u>4,664</u>	<u>53,025</u>	<u>266</u>	<u>7,190</u>

The amounts due from related companies in 2001 included approximately HK\$40,746,000 due from Ricwinco, approximately HK\$936,000 due from Management Investment and Technology Inc. ("MITI") and its subsidiaries (the "MITI Group") and approximately HK\$1,928,000 due from Founder Holdings Limited and its subsidiaries (the "Founder Group"). Mr Yung Chih Shin, Richard beneficially owns Ricwinco which in turn beneficially owns the MITI Group. The maximum amounts outstanding for Ricwinco and the Founder Group during the year equalled the balances as at 31 December 2001. The maximum amounts outstanding for MITI Group during the year was approximately HK\$1,198,000. The amounts due from related companies in 2001 were unsecured, interest-free and repayable on demand, except for an amount of approximately HK\$915,000 due from the MITI Group which bore interest at Hong Kong dollar prime rate plus 0.25% per annum.

NOTES TO FINANCIAL STATEMENTS

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24. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Note	Group		Company	
		2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Cash and bank balances		30,548	51,160	2,315	874
Time deposits		<u>32,321</u>	<u>66,844</u>	<u>24,471</u>	<u>18,531</u>
		62,869	118,004	26,786	19,405
Less: Time deposits pledged for short term bank loans	28	<u>(7,801)</u>	<u>(48,313)</u>	<u>-</u>	<u>-</u>
Cash and cash equivalents		<u><u>55,068</u></u>	<u><u>69,691</u></u>	<u><u>26,786</u></u>	<u><u>19,405</u></u>

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to approximately HK\$19,853,000 (2001: HK\$32,593,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

25. TRADE AND BILLS PAYABLES

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

	Group	
	2002 HK\$'000	2001 HK\$'000
Within 6 months	31,696	59,641
7 – 12 months	1,836	20,966
Over 12 months	<u>3,341</u>	<u>1,955</u>
	<u><u>36,873</u></u>	<u><u>82,562</u></u>

NOTES TO FINANCIAL STATEMENTS

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26. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Accruals	22,037	19,998	3,495	4,738
Other liabilities	10,848	5,964	–	3,545
Due to related companies	36	285	34	–
	<u>32,921</u>	<u>26,247</u>	<u>3,529</u>	<u>8,283</u>

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

27. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Notes	Group	
		2002 HK\$'000	2001 HK\$'000
Bank overdrafts		–	3,906
Trust receipt loans		4,498	13,724
Current portion of bank loans		<u>7,499</u>	<u>48,030</u>
	28	11,997	65,660
Current portion of finance lease payables	29	<u>536</u>	<u>3,025</u>
		<u>12,533</u>	<u>68,685</u>

NOTES TO FINANCIAL STATEMENTS

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28. INTEREST-BEARING BANK BORROWINGS

	2002 HK\$'000	Group 2001 HK\$'000
Bank overdrafts, unsecured	—	3,906
Bank loans:		
Secured	7,309	48,309
Unsecured	396	—
	<u>7,705</u>	<u>48,309</u>
Trust receipt loans:		
Secured	—	5,000
Unsecured	4,498	8,724
	<u>4,498</u>	<u>13,724</u>
	<u>12,203</u>	<u>65,939</u>
Bank overdrafts repayable within one year or on demand	—	3,906
Bank loans and trust receipt loans repayable:		
Within one year or on demand	11,997	61,754
In the second year	190	279
In the third to fifth years, inclusive	16	—
	<u>12,203</u>	<u>62,033</u>
	12,203	65,939
Portion classified as current liabilities – note 27	<u>(11,997)</u>	<u>(65,660)</u>
Long term portion	<u>206</u>	<u>279</u>

The Group's secured bank loans at the balance sheet date 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\$2,532,000 (2001: HK\$2,588,000); and
- (ii) the pledge of certain of the Group's time deposits amounting to approximately HK\$7,801,000 (2001: HK\$48,313,000).

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29. FINANCE LEASE PAYABLES

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

At 31 December 2002, the total future minimum lease payments under finance leases and their present values, were as follows:

Group	Minimum lease payments 2002 HK\$'000	Minimum lease payments 2001 HK\$'000	Present value of minimum lease payments 2002 HK\$'000	Present value of minimum lease payments 2001 HK\$'000
Amounts payable:				
Within one year	557	3,199	532	3,025
In the second year	339	1,103	329	1,032
In the third to fifth years, inclusive	71	750	69	732
Total minimum finance lease payments	967	5,052	<u>930</u>	<u>4,789</u>
Future finance charges	<u>(37)</u>	<u>(263)</u>		
Total net finance lease payables	930	4,789		
Portion classified as current liabilities – note 27	<u>(536)</u>	<u>(3,025)</u>		
Long term portion	<u>394</u>	<u>1,764</u>		

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	
	2002 HK\$'000	2001 HK\$'000
Accelerated depreciation allowances	(1,322)	(1,144)
Tax losses	<u>8,872</u>	<u>6,072</u>
	<u>7,550</u>	<u>4,928</u>

NOTES TO FINANCIAL STATEMENTS

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31. SHARE CAPITAL

	Group and Company	
	2002	2001
	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>

32. SHARE OPTION SCHEMES

SSAP 34 was adopted during the year, as explained in note 2 and under the heading "Employee benefits" in note 3 to the financial statements. As a result, the following detailed disclosures relating to the Company's share option schemes are now included in the notes to the financial statements. In the prior year, these disclosures were included in the Report of the Directors, as their disclosure is also a requirement of the Listing Rules.

On 24 May 2002, the Company adopted a new share option scheme (the "New Scheme") in compliance with Chapter 17 of the Listing Rules. The purpose of the New Scheme is to recognise and acknowledge the contributions or potential contributions made or to be made by the participants to the Group, to motivate the participants to optimise their performance and efficiency for the benefit of the Group, and to maintain or attract business relationship with participants whose contributions are or may be beneficial to the growth of the Group. Eligible participants of the New Scheme include (i) any part-time or full-time employee or officer of the Group or of any substantial shareholder of the Company or of any associate; (ii) any substantial shareholder of the Company who, in the opinion of the board of directors of the Company, has made or will make contributions which are or may be beneficial to the Group as a whole; (iii) the chief executive or director (executive or non-executive or independent non-executive) of any member of the Group or of any substantial shareholder of the Company or of any associate; or (iv) any supplier, agent, customer, partner or business associate of, or adviser or consultant to, any member of the Group. The New Scheme became effective on 24 May 2002 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the New Scheme is an amount equivalent, upon their exercise, to 10% of the total number of shares of the Company in issue as at the date when the New Scheme is approved by the shareholders of the Company in general meeting. The maximum number of shares issuable under share options to each eligible participant in the New Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting. No share option had been granted during the year under the New Scheme.

NOTES TO FINANCIAL STATEMENTS

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32. SHARE OPTION SCHEMES *(Continued)*

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

The exercise price of the share options is determinable by the directors, but should be the highest of (i) the closing price of the shares of the Company as stated in the daily quotation sheets of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on the date of the offer of the share options; (ii) the average closing price of the shares of the Company as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of the offer; or (iii) the nominal value of the shares of the Company.

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

The share option schemes adopted by the Company on 11 September 1991 (the "1991 Scheme") and 7 May 2001 (the "2001 Scheme") were terminated on 24 May 2002, however, the options granted under the 1991 Scheme and the 2001 Scheme will remain in full force and effect.

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32. SHARE OPTION SCHEMES (Continued)

The following share options were outstanding under the 1991 Scheme and the 2001 Scheme at 1 January 2002 and at the end of the year:

Name or category of participant	Number of share options			Date of grant of share options	Exercise period of share options	Exercise price of share options** HK\$
	At 1 January 2002	Lapsed during the year	At 31 December 2002			
1991 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
Mr Yung Richard, Jr.	2,400,000	(2,400,000)	–	30.1.1997	1.8.1997* to 31.7.2002	0.507
Mr Yung Richard, Jr.	2,700,000	–	2,700,000	18.5.2001	15.12.2001* to 14.12.2006	0.450
Subtotal	<u>8,100,000</u>	<u>(5,400,000)</u>	<u>2,700,000</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
In aggregate	3,300,000	(100,000)	3,200,000	18.5.2001	15.12.2001* to 14.12.2006	0.450
Subtotal	<u>5,700,000</u>	<u>(2,500,000)</u>	<u>3,200,000</u>			
Total under the 1991 Scheme	<u>13,800,000</u>	<u>(7,900,000)</u>	<u>5,900,000</u>			
2001 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
Mr Lei Hon Sang (Note)	2,000,000	(2,000,000)	–	18.5.2001	18.5.2001 to 17.5.2011	0.450
Professor Wei Xin	2,000,000	–	2,000,000	18.5.2001	18.5.2001 to 17.5.2011	0.450
Professor Zou Wei	2,000,000	–	2,000,000	18.5.2001	18.5.2001 to 17.5.2011	0.450
Subtotal	<u>8,000,000</u>	<u>(2,000,000)</u>	<u>6,000,000</u>			
<i>Other employees</i>						
In aggregate	40,000,000	(21,100,000)	18,900,000	18.5.2001	18.5.2001 to 17.5.2011	0.450
Subtotal	<u>40,000,000</u>	<u>(21,100,000)</u>	<u>18,900,000</u>			
Total under the 2001 Scheme	<u>48,000,000</u>	<u>(23,100,000)</u>	<u>24,900,000</u>			

NOTES TO FINANCIAL STATEMENTS

31 December 2002

32. SHARE OPTION SCHEMES *(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.*

Note: Mr Lei Hon Sang resigned as director of the Company on 6 September 2002.

The exercise in full of the remaining share options under the 1991 Scheme would, under the present capital structure of the Company, result in the issue of 5,900,000 additional ordinary shares of the Company and additional share capital of HK\$590,000 and share premium of HK\$2,065,000 (before issue expenses).

The exercise in full of the remaining share options under the 2001 Scheme would, under the present capital structure of the Company, result in the issue of 24,900,000 additional ordinary shares of the Company and additional share capital of HK\$2,490,000 and share premium of HK\$8,715,000 (before issue expenses).

NOTES TO FINANCIAL STATEMENTS

31 December 2002

33. RESERVES

Group

	Share premium account HK\$'000	Contributed surplus HK\$'000	Exchange fluctuation reserve HK\$'000	Revaluation reserve HK\$'000	Retained profits/ (accumulated losses) HK\$'000	Total HK\$'000
At 1 January 2001						
As previously reported	118,299	-	(988)	3,777	50,278	171,366
Prior year adjustment:						
SSAP 31 – impairment of goodwill previously eliminated against contributed surplus	-	452,259	-	-	(452,259)	-
As restated	118,299	452,259	(988)	3,777	(401,981)	171,366
Exchange realignment	-	-	(8)	-	-	(8)
Net loss for the year	-	-	-	-	(69,041)	(69,041)
At 31 December 2001 and beginning of year	118,299	452,259	(996)	3,777	(471,022)	102,317
Realisation on disposal of discontinued operation	-	-	1,892	-	-	1,892
Exchange realignment	-	-	(715)	-	-	(715)
Impairment of goodwill previously eliminated against contributed surplus	-	36,500	-	-	-	36,500
Net loss for the year	-	-	-	-	(85,430)	(85,430)
At 31 December 2002	<u>118,299</u>	<u>488,759</u>	<u>181</u>	<u>3,777</u>	<u>(556,452)</u>	<u>54,564</u>
Reserves retained by:						
Company and subsidiaries	118,299	488,759	181	3,777	(575,066)	35,950
Associates	-	-	-	-	18,614	18,614
31 December 2002	<u>118,299</u>	<u>488,759</u>	<u>181</u>	<u>3,777</u>	<u>(556,452)</u>	<u>54,564</u>
Company and subsidiaries	118,299	452,259	(996)	3,777	(479,723)	93,616
Associates	-	-	-	-	8,701	8,701
31 December 2001	<u>118,299</u>	<u>452,259</u>	<u>(996)</u>	<u>3,777</u>	<u>(471,022)</u>	<u>102,317</u>

NOTES TO FINANCIAL STATEMENTS

31 December 2002

33. RESERVES (Continued)

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

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.

Company

	Share premium account HK\$'000	Contributed surplus HK\$'000	Retained profits/ (accumulated losses) HK\$'000	Total HK\$'000
At 1 January 2001	118,299	528,980	85,869	733,148
Net loss for the year	—	—	(536,331)	(536,331)
At 31 December 2001 and beginning of year	118,299	528,980	(450,462)	196,817
Net loss for the year	—	—	(30,665)	(30,665)
At 31 December 2002	<u>118,299</u>	<u>528,980</u>	<u>(481,127)</u>	<u>166,152</u>

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

34. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Adoption of SSAP 15

Revised SSAP 15 was adopted during the current year, as detailed in note 2 to the financial statements, which has resulted in a change to the layout of the cash flow statement. The cash flow statement is now presented under three headings: cash flows from operating activities, investing activities and financing activities. Previously, five headings were used, comprising the three headings listed above, together with cash flows from returns on investments and servicing of finance and from taxes paid. The significant reclassification resulting from the change in presentation is that interest received is now included in cash flows from operating activities. The presentation of the 2001 comparative cash flow statement has been changed to accord with the new layout.

NOTES TO FINANCIAL STATEMENTS

31 December 2002

34. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

(a) Adoption of SSAP 15 *(Continued)*

The method of calculation of certain items in the consolidated cash flow statement has changed under the revised SSAP 15, as explained under the heading "Foreign currencies" in note 3 to the financial statements. Cash flows of overseas subsidiaries are now translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated to Hong Kong dollars at the weighted average exchange rates for the year. Previously, the cash flows of overseas subsidiaries were translated into Hong Kong dollars at the exchanges rates ruling at the balance sheet date. This change has had no material effect on the financial statements.

(b) Major non-cash transaction

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\$480,000 (2001: HK\$1,000,000).

(c) Disposal of subsidiaries

	2002 HK\$'000	2001 HK\$'000
Net assets disposed of:		
Fixed assets	16,747	-
Intangible assets	910	-
Interests in an associate	(7,882)	-
Long term investment	1,075	-
Cash and cash equivalents	8,435	-
Inventories	25,145	-
Trade receivables	14,166	-
Other receivables	43,150	-
Trade payables	(38,699)	-
Other payables and accruals	(3,749)	-
Other loans	(943)	-
Interest-bearing bank borrowings	(28,872)	-
Minority interests	(1,296)	-
Exchange fluctuation reserve	1,892	-
	<u>30,079</u>	-
Loss on disposal of subsidiaries (note 6)	<u>(15,079)</u>	-
	<u>15,000</u>	-
Satisfied by:		
Cash	<u>15,000</u>	-

NOTES TO FINANCIAL STATEMENTS

31 December 2002

34. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

(c) Disposal of subsidiaries *(Continued)*

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

	2002 HK\$'000	2001 HK\$'000
Cash consideration	15,000	–
Cash and cash equivalents disposed of	<u>(8,435)</u>	<u>–</u>
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	<u><u>6,565</u></u>	<u><u>–</u></u>

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

35. CONTINGENT LIABILITIES

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

	Group		Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Bills discounted with recourse	–	10,288	–	–
Guarantees given to banks in connection with facilities granted to subsidiaries	–	–	35,000	50,500
Guarantee given to a trade creditor in connection with credit facilities granted to related companies	<u>28,000</u>	<u>–</u>	<u>28,000</u>	<u>–</u>
	<u><u>28,000</u></u>	<u><u>10,288</u></u>	<u><u>63,000</u></u>	<u><u>50,500</u></u>

At 31 December 2002, the guarantees given to the banks in connection with facilities granted to subsidiaries by the Company were utilised to the extent of approximately HK\$8,532,000 (2001: HK\$24,795,000).

At 31 December 2002, the guarantees given to a trade creditor in connection with facilities granted to related companies by the Company were utilised to the extent of approximately HK\$4,720,000 (2001: Nil). The guaranteed liabilities were released on 31 March 2003.

NOTES TO FINANCIAL STATEMENTS

31 December 2002

36. OPERATING LEASE ARRANGEMENTS

(a) As lessor

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

At 31 December 2002, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenant falling due as follows:

	Group	
	2002 HK\$'000	2001 HK\$'000
Within one year	<u> -</u>	<u> 380</u>

(b) As lessee

The Group leases certain of its office and factory properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to five years.

At 31 December 2002, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Land and buildings:				
Within one year	4,495	6,563	-	151
In the second to fifth years, inclusive	<u>6,419</u>	<u>11,940</u>	<u>-</u>	<u>113</u>
	<u>10,914</u>	<u>18,503</u>	<u>-</u>	<u>264</u>

NOTES TO FINANCIAL STATEMENTS

31 December 2002

37. POST BALANCE SHEET EVENT

On 19 March 2003, the Company and Founder (Hong Kong) Limited ("Founder HK"), a wholly-owned subsidiary of Founder Holdings Limited, entered into a conditional sale and purchase agreement, pursuant to which, the Company will acquire the entire interests in Founder Century (Hong Kong) Limited and Beijing Founder Century Information System Co., Ltd. from Founder HK at a total consideration of HK\$71,500,000, to be satisfied as to (i) HK\$5,160,000, upon completion in cash payable by the Company to Founder HK or as it may direct; (ii) HK\$61,180,000, upon completion by the issue and allotment by the Company of the shares to Founder HK or its nominee at HK\$0.2185 each; and (iii) the final payment of HK\$5,160,000 (subject to adjustment) to be satisfied in cash or additional shares or by a mixture of both at the option of Founder HK upon the date falling six months after the date of completion. Such transaction will be subject, among other things, to the approval by independent shareholders of the Company. Further details of the transaction were set out in the joint announcement of the Company and Founder Holdings Limited dated 19 March 2003.

38. RELATED PARTY TRANSACTIONS

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

- (a) Pursuant to the Management Agreement ("MA") dated 17 May 2000, Ricwinco was appointed as manager for a period of three years with responsibility for the management and conduct of the semi-conductor business, which is operated by the YW Group and the weighing scale business, which is operated by MITC and its subsidiaries (the "MITC Group"). Ricwinco has unconditionally guaranteed to the Company that the aggregate of the audited consolidated profit after tax and minority interests of the YW Group and the MITC Group would not be less than an amount equal to 6% of the net asset value of the YW Group and the MITC Group as at 28 September 2000. The period for which the profit guarantee is effective commenced from 1 October 2000 and expires on 30 September 2003. The disposal of the YW Group during the current year released Ricwinco from its profit guarantee obligation in respect of the YW Group under the MA. The profit guarantee obligation in respect of the MITC Group under the MA for the year ended 31 December 2002 has been fulfilled.
- (b) On 4 April 2002, the Company entered into a Disposal Agreement with Ricwinco. Further details of the transaction are disclosed in note 6 to the financial statements.
- (c) During the year, the Group paid approximately HK\$1,560,000 (2001: HK\$9,360,000) in advertising expenses to a subsidiary of Yahoo! Inc., a substantial shareholder of the Company.
- (d) Subsequent to the disposal of the YW Group, rental expenses of approximately HK\$255,000 were paid by the Group to the YW Group. The transactions were conducted at prices determined between the two parties.

NOTES TO FINANCIAL STATEMENTS

31 December 2002

38. RELATED PARTY TRANSACTIONS *(Continued)*

- (e) During the year, the Group received loan interest from an associate, MCF, of approximately HK\$164,000 (2001: HK\$963,000). The loans were unsecured, bore interest at Hong Kong dollar prime rate per annum and were repaid before the year end.
- (f) During the year, raw materials of approximately HK\$23,701,000 (2001: Nil) were purchased from DAS. The directors consider that the purchases of raw materials were made according to published prices and conditions similar to those offered to other customers of the supplier.

During the year, finished goods of approximately HK\$31,427,000 (2001: HK\$8,510,000) were sold to DAS. The directors consider that the sales of finished goods were made according to published prices and conditions similar to those offered to other customers of the Group.

During the year, commissions of approximately HK\$902,000 (2001: HK\$319,000) were paid to DAS. The commissions paid were made based on 2.98% (2001: 3%) of the sales of semi-conductors to DAS.

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 in the financial statements have been revised to comply with the new requirements. Accordingly, 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 24 April 2003.