

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The unaudited condensed consolidated interim financial statements of the Group are prepared in accordance with Hong Kong Statements of Standard Accounting Practice (“SSAP”) No. 25 “Interim financial reporting” issued by the Hong Kong Society of Accountants (the “HKSA”). The accounting policies and basis of presentation used in the preparation of these unaudited condensed consolidated interim financial statements are consistent with those used in the preparation of the audited consolidated financial statements of the Group for the year ended 31 December 2002, except that the Group has adopted the following new or revised SSAPs issued by the HKSA which are effective for the first time in the preparation of the current period’s unaudited condensed consolidated interim financial statements:

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

A summary of their major effects is as follows:

SSAP 12 (Revised) principally prescribes the accounting treatment and disclosures for deferred tax. In prior years, deferred tax is provided using the income statement 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 is not recognised until its realisation is assured beyond reasonable doubt. SSAP 12 (Revised) requires the adoption of the balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. The adoption of SSAP 12 (Revised) has had no material effect on the results for the current or prior accounting periods.

SSAP 35 prescribes the accounting treatment and disclosures for government grants and disclosures for other forms of government assistance. This SSAP has had no material effect on the results for the current or prior accounting periods.

2. TURNOVER AND SEGMENT INFORMATION

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

The Group is principally engaged in (i) the provision of software solutions and services; and (ii) design, manufacture and distribution of electronic products (discontinuing operations – note 4)

The following table presents revenue and profit/(loss) for the Group's business segments for the six months ended 30 June.

	Provision of software solutions and services (Continuing operations)		Electronic products (Discontinuing operations)		Electronic components (Discontinued operations)		Consolidated	
	2003 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000
Segment revenue:								
Sales to external customers	<u>26,923</u>	<u>40,249</u>	<u>84,579</u>	<u>94,414</u>	<u>-</u>	<u>48,283</u>	<u>111,502</u>	<u>182,946</u>
Segment results	<u>(5,115)</u>	<u>(12,547)</u>	<u>1,504</u>	<u>2,260</u>	<u>-</u>	<u>(19,449)</u>	<u>(3,611)</u>	<u>(29,736)</u>
Interest and other income							<u>3,999</u>	<u>3,272</u>
Unallocated expenses							<u>(2,160)</u>	<u>(5,548)</u>
Loss from operating activities							<u>(1,772)</u>	<u>(32,012)</u>
Finance costs							<u>(347)</u>	<u>(3,716)</u>
Share of profits of associates							<u>2,555</u>	<u>2,424</u>
Profit/(loss) before tax							<u>436</u>	<u>(33,304)</u>
Tax							<u>(642)</u>	<u>(274)</u>
Loss before minority interests							<u>(206)</u>	<u>(33,578)</u>
Minority interests							<u>-</u>	<u>170</u>
Net loss from ordinary activities attributable to shareholders							<u>(206)</u>	<u>(33,408)</u>

3. LOSS FROM OPERATING ACTIVITIES

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

	For the six months ended 30 June	
	2003 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000
Depreciation of fixed assets	4,483	6,405
Amortisation and write-off of deferred development costs	–	379
Provision and write-off/(reversal and write-back) of doubtful trade debts	(127)	2,051
Provision for obsolete inventories	–	4,410
Profit guarantees (Note)	(1,600)	–
Gain on disposal of fixed assets	(99)	(18)
Interest income	(207)	(365)
	<u>(207)</u>	<u>(365)</u>

Note: Pursuant to the management agreement entered into between the Company and Ricwinco Investment Limited ("Ricwinco"), a substantial shareholder of the Company, dated 17 May 2000 relating to, among other matters, the appointment of Ricwinco to manage the electronic products business, the Group recognised the profit guarantees of approximately HK\$1,600,000 payable by Ricwinco for the six months ended 30 June 2003.

4. DISCONTINUING/DISCONTINUED OPERATIONS

(a) *Disposal of MIT Holdings Limited ("MIT") – Electronic products business (discontinuing operations)*

On 1 August 2003, the Company entered into a conditional disposal agreement (the "DA") with Honour Glory Limited ("Honour Glory"), a company which is 90% owned by Mr. Yung Richard, Jr., a director of the Company. Pursuant to the DA, the Company conditionally agreed to dispose of its entire issued share capital of MIT at a total cash consideration of HK\$45,500,000. Further details of the transaction were set out in the joint announcement of the Company and Founder Holdings Limited ("FHL"), the controlling shareholder of the Company, on 1 August 2003.

The principal activities of the MIT and its subsidiaries are the design, manufacture and distribution of electronic products.

(b) *Disposal of Yung Wen Investment & Finance Limited ("YW") – Electronic components business (discontinued operations)*

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

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

4. DISCONTINUING/DISCONTINUED OPERATIONS (Continued)

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

	Electronic products (Discontinuing operations)	Electronic components (Discontinued operations)
	As at 30 June 2003 (Unaudited) HK\$'000	As at 31 December 2002 (Audited) HK\$'000
Total assets	128,297	126,608
Total liabilities (Note)	(58,558)	(73,557)
Net assets	69,739	71,807
	1,304	1,304

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

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

	Electronic products (Discontinuing operations)	Electronic components (Discontinued operations)
	For the six months ended 30 June 2003 (Unaudited) HK\$'000	Period ended 28 June 2002 (Audited) HK\$'000
TURNOVER	84,579	94,414
Cost of sales	(75,212)	(74,653)
Gross profit/(loss)	9,367	19,761
Other revenue and gains	2,267	493
Selling and distribution costs	(1,893)	(1,370)
Administrative expenses	(9,260)	(15,928)
Other operating income/(expenses), net	1,690	(457)
Loss on disposal of discontinued operations	-	-
PROFIT/(LOSS) FROM OPERATING ACTIVITIES	2,171	2,499
Finance costs	(163)	(221)
Share of profits of an associate	-	-
PROFIT/(LOSS) BEFORE TAX	2,008	2,278
Tax	-	-
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	2,008	2,278
	(19,759)	(19,759)

4. DISCONTINUING/DISCONTINUED OPERATIONS (Continued)

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

	Electronic products (Discontinuing operations) For the six months ended 30 June 2003 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000	Electronic components (Discontinued operations) Period ended 28 June 2002 (Audited) HK\$'000
Operating	9,243	10,328	(13,648)
Investing	(3,588)	(2,577)	11,014
Financing	(488)	(812)	1,873
Net cash inflows/(outflows)	<u>5,167</u>	<u>6,939</u>	<u>(761)</u>

5. FINANCE COSTS

	For the six months ended 30 June 2003 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000
Interest on bank loans	188	1,342
Interest on other loans wholly repayable within five years	123	2,320
Interest on finance leases	36	54
	<u>347</u>	<u>3,716</u>

6. TAX

	For the six months ended 30 June 2003 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000
Share of tax attributable to an associate	<u>642</u>	<u>274</u>

Hong Kong profits tax has been provided at the rate of 17.5% (2002: 16%) on the estimated assessable profits of an associate arising in Hong Kong during the period.

6. TAX *(Continued)*

EC-Founder Co., Ltd., a wholly-owned subsidiary of the Group in the People's Republic of China (the "PRC"), is exempted from PRC profits tax for the three fiscal years which commenced in 2001 and 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 period as the PRC subsidiaries were either under their tax exemption period or had sufficient tax losses brought forward to offset against the assessable profits arising during the period.

No recognition of the potential deferred tax assets relating to tax losses and other deductible temporary differences have been made as the recoverability of the potential deferred tax assets is uncertain.

7. LOSS PER SHARE

The calculation of basic loss per share for the six months ended 30 June 2003 is based on the unaudited net loss from ordinary activities attributable to shareholders for the period of approximately HK\$206,000 (2002: HK\$33,408,000), and the weighted average of 820,562,040 (2002: 820,562,040) ordinary shares in issue during the period.

Diluted loss per share for the six months ended 30 June 2003 and 2002 have not been disclosed as the impact of the outstanding share options was anti-dilutive.

8. INTERIM DIVIDEND

The Directors do not recommend the payment of any interim dividend for the six months ended 30 June 2003 (2002: Nil).

9. TRADE AND BILLS RECEIVABLES

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

9. TRADE AND BILLS RECEIVABLES (Continued)

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

	As at 30 June 2003 (Unaudited) HK\$'000	As at 31 December 2002 (Audited) HK\$'000
Within 6 months	36,776	44,457
7 – 12 months	2,616	1,460
13 – 24 months	1,721	2,827
Over 24 months	22	–
	<u>41,135</u>	<u>48,744</u>

10. TRADE AND BILLS PAYABLES

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

	As at 30 June 2003 (Unaudited) HK\$'000	As at 31 December 2002 (Audited) HK\$'000
Within 6 months	28,573	31,696
7 – 12 months	2,100	1,836
13 – 24 months	3,712	3,166
Over 24 months	93	175
	<u>34,478</u>	<u>36,873</u>

11. CONTINGENT LIABILITIES

As at the balance sheet date, the contingent liabilities not provided for in the unaudited condensed consolidated interim financial statements are as follows:

	As at 30 June 2003 (Unaudited) HK\$'000	As at 31 December 2002 (Audited) HK\$'000
Guarantee given to a trade creditor in connection with credit facilities granted to related companies	–	28,000
	<u>–</u>	<u>28,000</u>

As 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. The guaranteed liabilities were released on 31 March 2003.

12. CAPITAL COMMITMENTS

The Group had the following capital commitment as at the balance sheet date:

	As at 30 June 2003 (Unaudited) HK\$'000	As at 31 December 2002 (Audited) HK\$'000
Contracted, but not provided for:		
Leasehold improvements	<u>666</u>	<u>—</u>

13. RELATED PARTY TRANSACTIONS

- (a) On 19 March 2003, the Company entered into a conditional sale and purchase agreement (the "S&P Agreement") with Founder (Hong Kong) Limited ("FHK"), a wholly-owned subsidiary of FHL. Pursuant to the S&P Agreement, the Company acquired the entire equity interests in Founder Century (Hong Kong) Limited ("HK Century") and Beijing Founder Century Information System Co., Ltd. ("PRC Century") from FHK. Further details of the transaction were set out in the joint announcement of the Company and FHL on 19 March 2003.
- (b) On 29 April 2003, the Group entered into a lease agreement with Peking University Founder Group Corporation ("Peking Founder") to lease from Peking Founder certain premises in Beijing, the PRC, as its office for an annual rental and management fee of approximately HK\$2,386,000 effective from 1 May 2003 to 31 December 2005. No rental and management fee had been charged during the period as a rent free period from 1 May 2003 to 30 June 2003 was granted to the Group.
- (c) During the period, the Group received commission income of approximately HK\$2,503,000 (2002: HK\$934,000) for the provision of advertising agency services from a subsidiary of Yahoo! Inc., a substantial shareholder of the Company.
- (d) During the period, the Group recognised the profit guarantees of approximately HK\$1,600,000 payable by Ricwinco. Further details are set out in note 3 to the unaudited condensed consolidated interim financial statements.
- (e) During the period, rental expenses of approximately HK\$255,000 (2002: Nil) were paid by the Group to the YW Group. The transactions were conducted at current market prices as determined between the two parties.
- (f) On 4 April 2002, the Company entered into a conditional disposal agreement with Ricwinco to dispose the electronic components business. Further details are set out in note 4(b) to the unaudited condensed consolidated interim financial statements.
- (g) For the six months ended 30 June 2002, the Group received loan interest from MC.Founder Limited, an associate of the Company, of approximately HK\$152,000. The loan was unsecured, bore interest at Hong Kong dollar prime rate per annum and was repaid during 2002.

13. RELATED PARTY TRANSACTIONS *(Continued)*

- (h) For the six months ended 30 June 2002, raw materials of approximately HK\$23,701,000 were purchased from Discrete Association Semiconductors Pte. Limited ("DAS"), an associate of the Company. The purchases of raw materials were made according to the published prices and conditions similar to those offered to other customers of the supplier.

For the six months ended 30 June 2002, finished goods of approximately HK\$31,427,000 were sold to DAS. The sales of finished goods were made according to published prices and conditions similar to those offered to other customers of the Group.

For the six months ended 30 June 2002, commissions of approximately HK\$902,000 were paid to DAS. The commissions paid were made based on 2.98% of the sales of semi-conductors to DAS.

- (i) For the six months ended 30 June 2002, Ricwinco guaranteed approximately HK\$9,125,000 of the unsecured bank overdrafts and trust receipt loans of the Group.
- (j) For the six months ended 30 June 2002, the Group paid approximately HK\$1,560,000 advertising expenses to a subsidiary of Yahoo! Inc.

14. POST BALANCE SHEET EVENTS

- (a) Pursuant to the S&P Agreement entered by the Company and FHK on 19 March 2003, the acquisition of HK Century and PRC Century was completed on 1 July 2003. Further details were set out in note 13(a) to the unaudited condensed consolidated interim financial statements. The principal activities of HK Century and PRC Century are the distribution of information products in Hong Kong and the PRC.
- (b) On 1 August 2003, the Company entered into the DA with Honour Glory to dispose the electronic products business. Further details were set out in note 4(a) to the unaudited condensed consolidated interim financial statements.