

NOTES TO FINANCIAL STATEMENTS

31 December 2003

1. CORPORATE INFORMATION

The head office and principal place of business 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:

- distribution of information products (acquired during the year – note 33 (b))
- provision of software solutions and services
- design, manufacture and distribution of electronic products (discontinued during the year – note 6)

In the opinion of the directors, the Company's ultimate holding company is Founder Holdings Limited ("FHL"), which is incorporated in Bermuda and listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

2. IMPACT OF NEW AND REVISED SSAPs

The following new and revised SSAPs are effective for the first time for the current year's financial statements and have had a significant impact thereon:

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

These SSAPs prescribe new accounting measurement and disclosure practices. The major effects on the Group's accounting policies and on the amounts disclosed in these financial statements of adopting these SSAPs, are summarised as follows:

SSAP 12 prescribes the accounting for income taxes payable or recoverable, arising from the taxable profit or loss for the current period (current tax); and income taxes payable or recoverable in future periods, principally arising from taxable and deductible temporary differences and the carryforward of unused tax losses (deferred tax).

The principal impact of the revision of this SSAP on these financial statements is described below:

Measurement and recognition:

- deferred tax assets and liabilities relating to the differences between capital allowances for tax purposes and depreciation for financial reporting purposes and other taxable and deductible temporary differences are generally fully provided for, whereas previously the deferred tax was recognised for timing differences only to the extent that it was probable that the deferred tax asset or liability would crystallise in the foreseeable future; and

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

Measurement and recognition: *(Continued)*

- a deferred tax asset has been recognised for tax losses arising in the current/prior periods to the extent that it is probable that there will be sufficient future taxable profits against which such losses can be utilised.

Disclosures:

The related note disclosures are now more extensive than previously required. These disclosures are presented in notes 11 and 29 to the financial statements and include a reconciliation between the accounting loss and the tax charge for the year.

Further details of these changes and the prior year adjustment arising from them are included in the accounting policy for deferred tax in notes 3 and 29 to the financial statements.

SSAP 35 prescribes the accounting for government grants and other forms of government assistance. The adoption of this SSAP has had no significant impact for these financial statements on the amounts recorded for government grants. However, additional disclosures are now required and are detailed in notes 3 and 5 to the financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic measurement of land and buildings, as further explained below.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2003. The results of subsidiaries established, acquired or disposed of during the year are consolidated from or to their effective dates of establishment, acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

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

Subsidiaries

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

NOTES TO FINANCIAL STATEMENTS

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

Subsidiaries (Continued)

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.

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.

Goodwill

Goodwill arising on the acquisition of subsidiaries and associates represents the excess of the fair 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 subject to a maximum of 20 years. In the case of associates, any unamortised goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

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

On disposal of subsidiaries 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	10% – 20%
Machinery, equipment and moulds	12.5% – 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 the direct costs of construction and testing during the period of construction. Construction in progress is reclassified to the appropriate category of fixed assets when completed and ready for use.

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.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis 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.

NOTES TO FINANCIAL STATEMENTS

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

Systems integration contracts

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

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

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

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

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

Cash and cash equivalents

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

For the purpose of the balance sheet, cash and cash equivalents comprise cash on hand and at banks, including short term deposits, and assets similar in nature to cash, which are not restricted as to use.

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the profit and loss account or in equity if it relates to items that are recognised, in the same or a different period, directly in equity.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

NOTES TO FINANCIAL STATEMENTS

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

Income tax *(Continued)*

Deferred tax liabilities are recognised for all taxable temporary differences:

- except where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries and associates, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax assets and unused tax losses can be utilised:

- except where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Government grants

Government grants are recognised at their fair value when there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

NOTES TO FINANCIAL STATEMENTS

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

Revenue recognition

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

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) from 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
- (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 MPF 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 ("Mainland China" or the "PRC") are required to participate in a central pension scheme operated by the local municipal government. Contributions are made based on a percentage of the participating employees' salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the central pension scheme.

NOTES TO FINANCIAL STATEMENTS

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

Employee benefits *(Continued)*

Share option schemes

The Company operates share option schemes for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under the share option schemes is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company 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.

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 ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

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4. SEGMENT INFORMATION

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

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

Continuing operations:

- (a) the distribution of information products segment engages in the distribution of computer hardware;
- (b) the provision of software solutions and services segment engages in the provision of systems integrated solutions and services to financial institutions, enterprises and government departments in the PRC and the development and distribution of security and geographical information software solutions; and
- (c) the corporate segment comprises corporate income and expense items.

Discontinued operations:

- (a) the electronic products segment engaged in the design, manufacture and distribution of weighing scales products; and as further explained in notes 6(a) and 33(c) to these financial statements, the Group disposed of this entire business to Honour Glory Limited ("Honour Glory"), a company which is 90% owned by Mr Yung Richard, Jr., a director of the Company, during the year; and
- (b) the electronic components segment engaged in the design, manufacture and distribution of semi-conductor products; and as further explained in notes 6(b) and 33(c) to these financial statements, the Group disposed of this entire business to Ricwinco Investment Limited ("Ricwinco"), a company which is beneficially owned by Mr Yung Chih Shin, Richard, a non-executive director of the Company, on 28 June 2002.

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

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

NOTES TO FINANCIAL STATEMENTS

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4. SEGMENT INFORMATION (Continued)

(a) Business segments

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

Group	Distribution of information products		Provision of software solutions and services		Electronic products (Discontinued)		Electronic components (Discontinued)		Corporate		Consolidated	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
												(Restated)
Segment revenue:												
Sales to external customers	<u>444,633</u>	<u>-</u>	<u>62,202</u>	<u>70,825</u>	<u>118,137</u>	<u>192,825</u>	<u>-</u>	<u>48,283</u>	<u>-</u>	<u>-</u>	<u>624,972</u>	<u>311,933</u>
Segment results	<u>5,447</u>	<u>-</u>	<u>(6,837)</u>	<u>(30,196)</u>	<u>(18,257)</u>	<u>4,631</u>	<u>-</u>	<u>(17,020)</u>	<u>(7,267)</u>	<u>(10,467)</u>	<u>(26,914)</u>	<u>(53,052)</u>
Interest income											697	980
Impairment of goodwill											-	(36,500)
Loss from operating activities											(26,217)	(88,572)
Finance costs											(832)	(4,147)
Share of profits of associates											6,224	8,448
Loss before tax											(20,825)	(84,271)
Tax											(2,002)	(2,028)
Loss before minority interests											(22,827)	(86,299)
Minority interests											-	335
Net loss from ordinary activities attributable to shareholders											<u>(22,827)</u>	<u>(85,964)</u>

NOTES TO FINANCIAL STATEMENTS

31 December 2003

4. SEGMENT INFORMATION (Continued)

(b) Geographical segments

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

Group	Mainland China		Hong Kong		United States of America		United Kingdom		Others		Eliminations		Consolidated	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:														
Sales to external customers	448,612	77,496	63,143	23,829	83,933	149,510	26,514	38,397	2,770	22,701	-	-	624,972	311,933
Intersegment sales	-	-	74,258	-	-	-	-	-	-	-	(74,258)	-	-	-
Total	448,612	77,496	137,401	23,829	83,933	149,510	26,514	38,397	2,770	22,701	(74,258)	-	624,972	311,933

Group	Mainland China		Hong Kong		United States of America		United Kingdom		Others		Consolidated			
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000		
Other segment information:														
Segment assets	374,506	100,891	83,438	83,216	-	26,288	-	10,439	-	3,126	457,944	223,960		
Capital expenditure	6,582	6,071	2,775	1,312	-	-	-	-	-	-	9,357	7,383		

(Restated)

(Restated)

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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; an appropriate proportion of contract revenue of systems integration contracts; and the value of services rendered during the year.

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

	2003 HK\$'000	Group 2002 HK\$'000
Turnover		
Distribution of information products	444,633	–
Provision of software solutions and services	62,202	70,825
Sales of electronic products	118,137	192,825
Sales of electronic components	–	48,283
	<u> </u>	<u> </u>
Total Turnover	<u>624,972</u>	<u>311,933</u>
Other revenue		
Rental income	316	421
Interest income	697	980
Government grants (Note)	3,391	4,716
Others	1,219	3,481
	<u> </u>	<u> </u>
	<u>5,623</u>	<u>9,598</u>
Gains		
Gain on disposal of fixed assets	123	–
Gain on deemed partial disposal of an associate	–	48
Others	757	–
	<u> </u>	<u> </u>
	<u>880</u>	<u>48</u>
Total Other revenue and Gains	<u>6,503</u>	<u>9,646</u>

Note: Various government grants have been received for sales of self-developed software approved by the PRC tax authority and development of software in Mainland China. The government grants have been recognised upon sales of self-developed software and completion of development of software, respectively. There are no unfulfilled conditions or contingencies relating to these grants.

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6. DISCONTINUED OPERATIONS

(a) Disposal of MIT Holdings Limited ("MIT") - Electronic products business

On 1 August 2003, the Company entered into a conditional disposal agreement with Honour Glory to dispose of its entire issued share capital of MIT at a total cash consideration of HK\$45,500,000.

The principal activities of MIT and its subsidiaries (collectively the "MIT Group") were the design, manufacture and distribution of electronic products. Upon the completion of the disposal, on 26 September 2003, the Group discontinued its electronic products operation.

(b) Disposal of Yung Wen Investment & Finance Limited ("YW") - Electronic components business

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 the YW Group was completed on 28 June 2002.

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

The components of the loss on disposal of the discontinued operations of approximately HK\$13,260,000 (2002: HK\$15,079,000) are disclosed in note 33(c) to the financial statements.

The turnover, other revenue and gains, expenses and results of the discontinued operations which have been included in the consolidated profit and loss account are as follows:

	Electronic products		Electronic components
	Period ended 26 September 2003 HK\$'000	Year ended 31 December 2002 HK\$'000	Period ended 28 June 2002 HK\$'000
TURNOVER	118,137	192,825	48,283
Cost of sales	(108,197)	(152,558)	(48,570)
Gross profit/(loss)	9,940	40,267	(287)
Other revenue and gains	876	822	2,683
Selling and distribution costs	(2,485)	(2,803)	(1,572)
Administrative expenses	(14,988)	(32,800)	(2,511)
Other operating income/(expenses), net	1,690	(1,019)	-
Loss on disposal of discontinued operations	(13,260)	-	(15,079)

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6. DISCONTINUED OPERATIONS (Continued)

	Electronic products		Electronic components
	Period ended 26 September 2003 HK\$'000	Year ended 31 December 2002 HK\$'000	Period ended 28 June 2002 HK\$'000
PROFIT/(LOSS) FROM OPERATING ACTIVITIES	(18,227)	4,467	(16,766)
Finance costs	(227)	(391)	(3,017)
Share of profits of an associate	—	—	24
PROFIT/(LOSS) BEFORE TAX	(18,454)	4,076	(19,759)
Tax	—	—	—
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	<u>(18,454)</u>	<u>4,076</u>	<u>(19,759)</u>

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

	Electronic products		Electronic components
	As at 26 September 2003 HK\$'000	As at 31 December 2002 HK\$'000	As at 28 June 2002 HK\$'000
Total assets	115,245	126,608	74,861
Total liabilities (Note)	<u>(56,485)</u>	<u>(58,578)</u>	<u>(73,557)</u>
Net assets	<u>58,760</u>	<u>68,030</u>	<u>1,304</u>

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

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6. DISCONTINUED OPERATIONS *(Continued)*

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

	Electronic products		Electronic components
	Period ended 26 September 2003 HK\$'000	Year ended 31 December 2002 HK\$'000	Period ended 28 June 2002 HK\$'000
Operating	2,998	10,266	(13,648)
Investing	(4,822)	(5,652)	11,014
Financing	(737)	(3,932)	1,873
Net cash inflows/(outflows)	<u>(2,561)</u>	<u>682</u>	<u>(761)</u>

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7. LOSS FROM OPERATING ACTIVITIES

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

	Notes	2003 HK\$'000	Group 2002 HK\$'000
Amortisation of deferred development costs*		–	379
Auditors' remuneration		900	813
Cost of inventories sold		536,056	212,885
Cost of services provided		4,716	17,821
Depreciation	14	7,624	11,422
Fixed assets write-off		–	1,943
Goodwill:			
Amortisation for the year**	15	321	–
Impairment during the year		–	36,500
		<u>321</u>	<u>36,500</u>
Impairment of fixed assets		–	1,226
Loss on disposal of discontinued operations	33(c)	13,260	15,079
Provision and write-off for doubtful debts		1,012	5,954
Provision and write-off for obsolete inventories		2,551	6,433
Operating lease rentals in respect of:			
Land and buildings		6,084	6,583
Plant and machinery		–	158
		<u>6,084</u>	<u>6,741</u>
Staff costs (including directors' remuneration – note 9):			
Wages and salaries		48,537	72,617
Pension scheme contributions***		2,138	533
		<u>50,675</u>	<u>73,150</u>
Exchange losses/(gains), net		(740)	84
Loss/(gain) on disposal of fixed assets		<u>(123)</u>	<u>36</u>

* The amortisation of deferred development costs for prior year were included in "Cost of sales" on the face of the consolidated profit and loss account.

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

*** As at 31 December 2003, the Group had no forfeited contributions available to reduce its contributions to the pension scheme in future years (2002: Nil).

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8. FINANCE COSTS

	Group	
	2003	2002
	HK\$'000	HK\$'000
Interest on bank loans and overdrafts	775	1,634
Interest on other loans wholly repayable within five years	–	2,353
Interest on finance leases	57	160
	<u>832</u>	<u>4,147</u>

9. DIRECTORS' REMUNERATION

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

	Group	
	2003	2002
	HK\$'000	HK\$'000
Fees	<u>300</u>	<u>1,494</u>
Other emoluments:		
Salaries, bonuses and benefits in kind	4,958	7,514
Performance related bonuses	300	13,500
Pension scheme contributions	9	12
	<u>5,267</u>	<u>21,026</u>
	<u>5,567</u>	<u>22,520</u>

Fees include HK\$240,000 (2002: 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 (2002: Nil).

NOTES TO FINANCIAL STATEMENTS

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9. DIRECTORS' REMUNERATION (Continued)

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

	Number of directors	
	2003	2002
Nil – HK\$1,000,000	6	7
HK\$1,000,001 – HK\$1,500,000	–	1
HK\$1,500,001 – HK\$2,000,000	1	–
HK\$3,000,001 – HK\$3,500,000	1	–
HK\$9,000,001 – HK\$9,500,000	–	1
HK\$11,500,001 – HK\$12,000,000	–	1
	8	10
	8	10

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

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two (2002: three) directors, details of whose remuneration are set out in note 9 above. Details of the remuneration of the remaining three (2002: two) non-director, highest-paid employees for the year are as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
Salaries, bonuses and benefits in kind	2,426	2,573
Pension scheme contributions	30	24
	2,456	2,597
	2,456	2,597

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

	Number of employees	
	2003	2002
Nil – HK\$1,000,000	3	–
HK\$1,000,001 – HK\$1,500,000	–	2
	3	2
	3	2

NOTES TO FINANCIAL STATEMENTS

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11. TAX

	2003 HK\$'000	Group 2002 HK\$'000 (Restated)
Group:		
Deferred tax (note 29)	772	534
Share of tax attributable to associates	1,230	1,494
Total tax charge for the year	2,002	2,028

Hong Kong profits tax has been provided at the rate of 17.5% (2002: 16%) on the estimated assessable profits arising in Hong Kong during the year. The increased Hong Kong profits tax rate became effective from the year of assessment 2003/2004, and so is applicable to the assessable profits arising in Hong Kong for the whole of the year ended 31 December 2003.

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 ended on 31 December 2003 and, thereafter, is taxed at 50% of its standard tax rate in the fourth to sixth years, inclusive. Beijing Founder Century Information System Co., Ltd. ("PRC Century"), a wholly-owned PRC subsidiary of the Group, is exempted from PRC profits tax for the three fiscal years which commenced in 2002 and ending on 31 December 2004 and, thereafter, will be taxed at 50% of its standard tax rate in the fourth to sixth years, inclusive. At present, the standard tax rate applicable to EC-Founder Co., Ltd. and PRC Century is 15%. No provision for PRC profits tax has been made for the year 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 year.

NOTES TO FINANCIAL STATEMENTS

31 December 2003

11. TAX (Continued)

A reconciliation of the tax charge applicable to loss before tax using the statutory rates for the countries in which the Company, its subsidiaries and associates are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

Group - 2003

	Hong Kong		Mainland China		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Loss before tax	<u>(18,064)</u>		<u>(2,761)</u>		<u>(20,825)</u>	
Tax at the statutory tax rate	(3,161)	17.5	(911)	33.0	(4,072)	19.6
Lower tax rate for specific provinces or local authority	-	-	1,364	(49.4)	1,364	(6.5)
Tax effect of unused tax losses not recognised	1,429	(7.9)	-	-	1,429	(6.9)
Income not subject to tax	(491)	2.7	-	-	(491)	2.4
Expenses not deductible for tax	3,090	(17.1)	319	(11.6)	3,409	(16.4)
Loss not subject to tax	431	(2.4)	-	-	431	(2.1)
Tax losses utilised from previous periods	<u>(68)</u>	<u>0.4</u>	<u>-</u>	<u>-</u>	<u>(68)</u>	<u>0.3</u>
Tax charge at the Group's effective rate	<u>1,230</u>	<u>(6.8)</u>	<u>772</u>	<u>(28.0)</u>	<u>2,002</u>	<u>(9.6)</u>

Group - 2002

	Hong Kong		Mainland China		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Loss before tax	<u>(59,896)</u>		<u>(24,375)</u>		<u>(84,271)</u>	
Tax at the statutory tax rate	(9,583)	16.0	(8,044)	33.0	(17,627)	20.9
Lower tax rate for specific provinces or local authority	-	-	8,261	(33.9)	8,261	(9.8)
Tax effect of unused tax losses not recognised	2,250	(3.8)	-	-	2,250	(2.7)
Income not subject to tax	(595)	1.0	-	-	(595)	0.7
Expenses not deductible for tax	10,475	(17.5)	317	(1.3)	10,792	(12.8)
Profit not subject to tax	(316)	0.5	-	-	(316)	0.4
Tax losses utilised from previous periods	<u>(737)</u>	<u>1.3</u>	<u>-</u>	<u>-</u>	<u>(737)</u>	<u>0.9</u>
Tax charge at the Group's effective rate	<u>1,494</u>	<u>(2.5)</u>	<u>534</u>	<u>(2.2)</u>	<u>2,028</u>	<u>(2.4)</u>

NOTES TO FINANCIAL STATEMENTS

31 December 2003

12. NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders for the year ended 31 December 2003 dealt with in the financial statements of the Company, was approximately HK\$89,980,000 (2002: HK\$30,665,000) (*note 32(b)*).

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\$22,827,000 (2002 (restated): HK\$85,964,000), and the weighted average of 960,945,601 (2002: 820,562,040) ordinary shares in issue during the year.

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

NOTES TO FINANCIAL STATEMENTS

31 December 2003

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 2003	20,783	14,256	34,115	17,031	5,540	488	92,213
Additions	-	1,550	1,755	1,776	1,219	3,057	9,357
Acquisition of subsidiaries	-	-	-	4,419	1,098	-	5,517
Transfer from construction in progress	-	829	1,501	224	442	(2,996)	-
Disposals	-	(2,878)	(29)	(956)	(326)	-	(4,189)
Disposal of subsidiaries	(20,783)	(12,577)	(37,342)	(3,493)	(4,867)	(549)	(79,611)
Exchange realignment	-	(18)	-	(80)	(7)	-	(105)
At 31 December 2003	-	1,162	-	18,921	3,099	-	23,182
Accumulated depreciation and impairment:							
At 1 January 2003	3,174	9,336	19,129	9,126	3,662	-	44,427
Acquisition of subsidiaries	-	-	-	3,222	429	-	3,651
Provided during the year	314	1,032	3,069	2,587	622	-	7,624
Impairment during the year recognised in the reserves	3,777	-	-	-	-	-	3,777
Disposals	-	(2,512)	(13)	(451)	(326)	-	(3,302)
Disposal of subsidiaries	(7,265)	(7,471)	(22,185)	(2,157)	(3,481)	-	(42,559)
Exchange realignment	-	(14)	-	(39)	(4)	-	(57)
At 31 December 2003	-	371	-	12,288	902	-	13,561
Net book value:							
At 31 December 2003	<u>-</u>	<u>791</u>	<u>-</u>	<u>6,633</u>	<u>2,197</u>	<u>-</u>	<u>9,621</u>
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>
Analysis of cost or valuation:							
At cost	<u>-</u>	<u>1,162</u>	<u>-</u>	<u>18,921</u>	<u>3,099</u>	<u>-</u>	<u>23,182</u>

NOTES TO FINANCIAL STATEMENTS

31 December 2003

14. FIXED ASSETS (Continued)

An impairment loss of approximately HK\$3,777,000 was made to write down certain land and buildings to their recoverable amount which was determined based on their net selling price. The impairment loss was charged directly against the revaluation reserve.

No fixed assets of the Group were held under finance leases as at 31 December 2003. 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 as at 31 December 2002, amounted to approximately HK\$1,276,000 and HK\$879,000, respectively.

Company

	Furniture, fixtures and office equipment <i>HK\$'000</i>
Cost:	
At 1 January 2003 and 31 December 2003	233
Accumulated depreciation:	
At 1 January 2003	43
Provided during the year	29
At 31 December 2003	72
Net book value:	
At 31 December 2003	<u>161</u>
At 31 December 2002	<u>190</u>

NOTES TO FINANCIAL STATEMENTS

31 December 2003

15. GOODWILL

The amounts of the goodwill capitalised as an asset, arising from the acquisition of subsidiaries, are as follows:

	Group HK\$'000
Cost:	
At beginning of year	–
Acquisition of subsidiaries (note 33(b))	3,213
	<u>3,213</u>
At 31 December 2003	<u>3,213</u>
Accumulated amortisation:	
At beginning of year	–
Amortisation provided during the year	321
	<u>321</u>
At 31 December 2003	<u>321</u>
Net book value:	
At 31 December 2003	<u><u>2,892</u></u>
At 31 December 2002	<u><u>–</u></u>

As detailed in note 3 to the financial statements, on the adoption of SSAP 30 in 2001, the Group applied the transitional provision of SSAP 30 that permitted goodwill in respect of acquisitions which occurred prior to the adoption of the SSAP, to remain eliminated against consolidated reserves.

The amounts of the goodwill remaining in consolidated reserves as at 31 December 2003, arising from the acquisition of subsidiaries prior to the adoption of SSAP 30 in 2001, are as follows:

	Goodwill eliminated against consolidated retained profits HK\$'000	Group Goodwill eliminated against consolidated contributed surplus HK\$'000
Cost:		
At beginning of year	17,103	520,156
Transfer to contributed surplus	(17,103)	17,103
	<u>–</u>	<u>537,259</u>
At 31 December 2003	–	537,259
Accumulated impairment:		
At beginning of year and 31 December 2003	–	488,759
	<u>–</u>	<u>488,759</u>
Net amount:		
At 31 December 2003	<u><u>–</u></u>	<u><u>48,500</u></u>
At 31 December 2002	<u><u>17,103</u></u>	<u><u>31,397</u></u>

NOTES TO FINANCIAL STATEMENTS

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16. INTERESTS IN SUBSIDIARIES

	Company	
	2003 HK\$'000	2002 HK\$'000
Unlisted shares, at cost	450,071	524,213
Due from subsidiaries	300,057	203,426
Due to subsidiaries	–	(6,091)
	<u>750,128</u>	<u>721,548</u>
Provision for impairment	<u>(552,532)</u>	<u>(497,053)</u>
	<u><u>197,596</u></u>	<u><u>224,495</u></u>

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

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
EC-Founder Co., Ltd.*	Mainland China	Registered US\$6,000,000	–	100	Provision of software solutions and services
EC-Founder (Hong Kong) Limited	Hong Kong	Ordinary HK\$2	–	100	Provision of software solutions and services
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

NOTES TO FINANCIAL STATEMENTS

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16. INTERESTS IN SUBSIDIARIES (Continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
PRC Century*#	Mainland China	Registered RMB117,303,000	–	100	Distribution of information products
Founder Century (Hong Kong) Limited ("HK Century")#	Hong Kong	Ordinary HK\$2	–	100	Distribution of information products

* Registered as wholly-foreign owned enterprises under the PRC law.

Acquired during the year.

During the year, the Group acquired HK Century and PRC Century from Founder (Hong Kong) Limited ("FHK"), a wholly-owned subsidiary of FHL. Further details of this acquisition are included in notes 33(b) and 36(a) to the financial statements.

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

17. INTERESTS IN ASSOCIATES

	Group	
	2003 HK\$'000	2002 HK\$'000
Share of net assets	21,473	19,414
Loans to an associate	–	3,450
	<u>21,473</u>	<u>22,864</u>

The loans to an associate were unsecured, interest-free and repaid in 2003.

NOTES TO FINANCIAL STATEMENTS

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17. INTERESTS IN ASSOCIATES (Continued)

Particulars of the principal associates are as follows:

Name	Business structure	Place of incorporation/ registration and operations	Percentage of ownership interest indirectly attributable to the Group		Principal activities
			2003	2002	
MC.Founder Limited	Corporate	Hong Kong	36.69	36.69	Distribution of mobile phones
MC.Founder (Distribution) Limited	Corporate	Hong Kong	36.69	36.69	Distribution of mobile phones and provision of repair services
MC.Founder (Technology) Limited	Corporate	Hong Kong	36.69	36.69	Sales of data products

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.

18. INVENTORIES

	Group	
	2003 HK\$'000	2002 HK\$'000
Raw materials	–	18,019
Work in progress	–	9,961
Finished goods	79,721	7,051
	<u>79,721</u>	<u>35,031</u>

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

NOTES TO FINANCIAL STATEMENTS

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19. SYSTEMS INTEGRATION CONTRACTS

	Group	
	2003	2002
	HK\$'000	HK\$'000
Gross amount due from contract customers	2,733	318
Gross amount due to contract customers	(753)	(2,729)
	<u>1,980</u>	<u>(2,411)</u>
Contract costs incurred plus recognised profits less recognised losses and foreseeable losses to date	21,434	8,532
Less: Progress billings	(19,454)	(10,943)
	<u>1,980</u>	<u>(2,411)</u>

20. 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	
	2003	2002
	HK\$'000	HK\$'000
Within 6 months	146,392	44,457
7 – 12 months	3,412	1,460
13 – 24 months	1,619	2,827
Over 24 months	590	–
	<u>152,013</u>	<u>48,744</u>

Included in the Group's trade and bills receivables is an amount due from a fellow subsidiary, of approximately HK\$2,557,000 (2002: Nil), which is repayable on similar credit terms to those offered to the major customers of the Group.

NOTES TO FINANCIAL STATEMENTS

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21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Prepayments	21,333	963	257	258
Deposits and other receivables	8,212	3,701	8	8
	<u>29,545</u>	<u>4,664</u>	<u>265</u>	<u>266</u>

22. PLEDGED DEPOSITS

	Group	
	2003 HK\$'000	2002 HK\$'000
Pledged for bank loans	–	7,801
Pledged for general banking facilities	17,399	–
	<u>17,399</u>	<u>7,801</u>

23. CASH AND CASH EQUIVALENTS

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Cash and bank balances	119,516	30,548	5,284	2,315
Time deposits	22,554	24,520	22,554	24,471
	<u>142,070</u>	<u>55,068</u>	<u>27,838</u>	<u>26,786</u>

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to approximately HK\$111,157,000 (2002: HK\$19,853,000). 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2003

24. TRADE AND BILLS PAYABLES

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

	Group	
	2003 HK\$'000	2002 HK\$'000
Within 6 months	219,959	31,696
7 – 12 months	326	1,836
Over 12 months	3,661	3,341
	<u>223,946</u>	<u>36,873</u>

25. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Accruals	32,688	22,037	3,181	3,495
Other payables	9,449	7,192	10	–
Trading receipts in advance	9,939	3,656	–	–
Due to fellow subsidiaries	5,771	–	41	–
Due to related companies	–	36	–	34
	<u>57,847</u>	<u>32,921</u>	<u>3,232</u>	<u>3,529</u>

The amounts due to fellow subsidiaries are unsecured, interest-free and have no fixed terms of repayment, except for an amount of HK\$5,160,000 due to a fellow subsidiary as at 31 December 2003 which was repaid on 2 January 2004.

The amounts due to related companies were unsecured, interest-free and repaid in 2003.

NOTES TO FINANCIAL STATEMENTS

31 December 2003

26. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Notes	2003 HK\$'000	Group 2002 HK\$'000
Trust receipt loans		-	4,498
Current portion of bank loans		-	7,499
	27	-	11,997
Current portion of finance lease payables	28	-	536
		-	12,533

27. INTEREST-BEARING BANK BORROWINGS

	2003 HK\$'000	Group 2002 HK\$'000
Bank loans:		
Secured	-	7,309
Unsecured	-	396
	-	7,705
Trust receipt loans:		
Unsecured	-	4,498
	-	12,203
Bank loans and trust receipt loans repayable:		
Within one year or on demand	-	11,997
In the second year	-	190
In the third to fifth years, inclusive	-	16
	-	12,203
Portion classified as current liabilities (note 26)	-	(11,997)
Long term portion	-	206

NOTES TO FINANCIAL STATEMENTS

31 December 2003

28. FINANCE LEASE PAYABLES

The Group leased certain of its machinery, equipment and moulds and motor vehicles for its electronic products business.

At 31 December 2003, the total future minimum lease payments under finance leases and their present values were as follows:

Group	Minimum lease payments 2003 HK\$'000	Minimum lease payments 2002 HK\$'000	Present value of minimum lease payments 2003 HK\$'000	Present value of minimum lease payments 2002 HK\$'000
Amounts payable:				
Within one year	-	557	-	532
In the second year	-	339	-	329
In the third to fifth years, inclusive	-	71	-	69
Total minimum finance lease payments	-	967	-	930
Future finance charges	-	(37)		
Total net finance lease payables	-	930		
Portion classified as current liabilities (note 26)	-	(536)		
Long term portion	-	394		

29. DEFERRED TAX

The movement in deferred tax assets during the year is as follows:

Group	Losses available for offset against future taxable profit 2003 HK\$'000	2002 HK\$'000
At 1 January		
As previously reported	-	-
Prior year adjustment:		
SSAP 12 – restatement of deferred tax	2,002	2,536
As restated	2,002	2,536
Deferred tax charged to the profit and loss account during the year	(772)	(534)
Gross and net deferred tax assets at 31 December	1,230	2,002

NOTES TO FINANCIAL STATEMENTS

31 December 2003

29. DEFERRED TAX (Continued)

The principal components of the Group's gross and net deferred tax assets not recognised in the financial statements are as follows:

	Group	
	2003	2002
	HK\$'000	HK\$'000 (Restated)
Tax losses	14,820	13,622
General provision for obsolete inventories	30	222
	<u>14,850</u>	<u>13,844</u>

The unused tax losses include an amount of approximately HK\$4,965,000 (2002: HK\$4,576,000) arising in Mainland China which is due to expire within two to five years for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of the unused tax losses and other deductible temporary differences as they have arisen in subsidiaries that have been loss-making for some time.

At 31 December 2003, there is no significant unrecognised deferred tax liability (2002: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries and associates as the Group has no liability to additional tax should such amounts be remitted due to the availability of double tax relief.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

SSAP 12 (revised) was adopted during the year, as further explained in note 2 to the financial statements. This change in accounting policy has resulted in an increase in the Group's deferred tax assets as at 31 December 2003 and 2002 by approximately HK\$1,230,000 and HK\$2,002,000, respectively. As a consequence, the consolidated net loss attributable to shareholders for the years ended 31 December 2003 and 2002 have been increased by approximately HK\$772,000 and HK\$534,000, respectively and the consolidated accumulated losses at 1 January 2003 and 2002 have been reduced by approximately HK\$2,002,000 and HK\$2,536,000, respectively, as detailed in the note 32(a) to the financial statements.

NOTES TO FINANCIAL STATEMENTS

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30. SHARE CAPITAL

	Group and Company	
	2003 HK\$'000	2002 HK\$'000
<i>Authorised:</i>		
3,000,000,000 ordinary shares of HK\$0.10 each	<u>300,000</u>	<u>300,000</u>
<i>Issued and fully paid:</i>		
1,100,562,040 (2002: 820,562,040) ordinary shares of HK\$0.10 each	<u>110,056</u>	<u>82,056</u>

Pursuant to an ordinary resolution passed on 28 May 2003, 280,000,000 ordinary shares of HK\$0.10 each were allotted for the acquisition of HK Century and PRC Century at a total fair consideration of HK\$64,400,000.

A summary of the transaction during the year with reference to the above movement in the Company's issued ordinary share capital is as follows:

	Number of shares in issue	Issued share capital HK\$'000	Share premium account HK\$'000	Total HK\$'000
At 1 January 2002 and 1 January 2003	820,562,040	82,056	118,299	200,355
Shares issued	<u>280,000,000</u>	<u>28,000</u>	<u>36,400</u>	<u>64,400</u>
At 31 December 2003	<u>1,100,562,040</u>	<u>110,056</u>	<u>154,699</u>	<u>264,755</u>

NOTES TO FINANCIAL STATEMENTS

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31. SHARE OPTION SCHEMES

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 relationships with participants whose contributions are or may be beneficial to the growth of the Group. Eligible participants of the New Scheme include (i) any part-time or full-time employee or officer of any member of the Group or of any substantial shareholder of the Company or of any associated company of the Company; (ii) any substantial shareholder of the Company; (iii) the chief executive or director (executive or non-executive or independent non-executive) of any member of the Group or of any substantial shareholder of the Company or of any associated company of the Company 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 a general meeting. The maximum number of shares issuable under share options to each eligible participant in the New Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting. No share option was granted during the year under the New Scheme.

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

The offer of a grant of share options is deemed to have been accepted when the duplicate offer letter comprising the acceptance of the 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 Stock Exchange's daily quotation sheet on the date of the offer of the share options; (ii) the average closing price of the shares of the Company as stated in the Stock Exchange's daily quotation sheet for the five trading days immediately preceding the date of the offer; 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 remain in full force and effect.

NOTES TO FINANCIAL STATEMENTS

31 December 2003

31. SHARE OPTION SCHEMES (Continued)

The following share options were outstanding under the 1991 Scheme and the 2001 Scheme at 1 January 2003 and at the end of the year:

Name or category of participant	Number of share options			Date of grant of share options *	Exercise period of share options	Exercise price of share options** HK\$
	At 1 January 2003	Lapsed during the year	At 31 December 2003			
1991 Scheme						
<i>Directors</i>						
Mr Yung Richard, Jr.	2,700,000	–	2,700,000	18.5.2001	15.12.2001 to 14.12.2006	0.45
<i>Other employees</i>						
<i>In aggregate</i>	3,200,000	(3,200,000)	–	18.5.2001	15.12.2001 to 14.12.2006	0.45
Total under the 1991 Scheme	<u>5,900,000</u>	<u>(3,200,000)</u>	<u>2,700,000</u>			
2001 Scheme						
<i>Directors</i>						
Mr Cheung Shuen Lung	2,000,000	–	2,000,000	18.5.2001	18.5.2001 to 17.5.2011	0.45
Professor Wei Xin	2,000,000	–	2,000,000	18.5.2001	18.5.2001 to 17.5.2011	0.45
Professor Zou Wei	2,000,000	–	2,000,000	18.5.2001	18.5.2001 to 17.5.2011	0.45
Subtotal	<u>6,000,000</u>	<u>–</u>	<u>6,000,000</u>			
<i>Other employees</i>						
<i>In aggregate</i>	18,900,000	(17,000,000)	1,900,000	18.5.2001	18.5.2001 to 17.5.2011	0.45
Subtotal	<u>18,900,000</u>	<u>(17,000,000)</u>	<u>1,900,000</u>			
Total under the 2001 Scheme	<u>24,900,000</u>	<u>(17,000,000)</u>	<u>7,900,000</u>			

* 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.

NOTES TO FINANCIAL STATEMENTS

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31. SHARE OPTION SCHEMES *(Continued)*

1991 Scheme

At the balance sheet date, the Company had 2,700,000 share options outstanding under the 1991 Scheme, which represented approximately 0.2% of the Company's shares in issue as at that date. 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 2,700,000 additional ordinary shares of the Company and additional share capital of HK\$270,000 and share premium of HK\$945,000 (before issue expenses).

2001 Scheme

At the balance sheet date, the Company had 7,900,000 share options outstanding under the 2001 Scheme, which represented approximately 0.7% of the Company's shares in issue as at that date. 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 7,900,000 additional ordinary shares of the Company and additional share capital of HK\$790,000 and share premium of HK\$2,765,000 (before issue expenses).

New Scheme

At the balance sheet date, the Company had no share option outstanding under the New Scheme. Subsequent to the balance sheet date:

- (a) On 2 January 2004, a total of 38,000,000 share options were granted under the New Scheme to certain employees of FHL and the Group. The exercise price of the share options is HK\$0.34 per share and the exercise period commenced on 3 January 2004 and will expire on 31 December 2013. The price of the Company's shares at the date of grant was HK\$0.34.
- (b) On 6 February 2004, a total of 32,000,000 share options were granted under the New Scheme to certain executive directors of the Company. The exercise price of the share options is HK\$0.381 per share and the exercise period commenced on 7 February 2004 and will expire on 5 February 2014. The price of the Company's shares at the date of grant was HK\$0.38.

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32. RESERVES

(a) Group

	Share premium account HK\$'000	Contributed surplus HK\$'000	Exchange fluctuation reserve HK\$'000	Revaluation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2002:						
As previously reported	118,299	452,259	(996)	3,777	(471,022)	102,317
Prior year adjustment: SSAP 12 – restatement of deferred tax (note 29)	-	-	-	-	2,536	2,536
As restated	118,299	452,259	(996)	3,777	(468,486)	104,853
Realisation upon disposal of discontinued operations	-	-	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 (restated)	-	-	-	-	(85,964)	(85,964)
At 31 December 2002	<u>118,299</u>	<u>488,759</u>	<u>181</u>	<u>3,777</u>	<u>(554,450)</u>	<u>56,566</u>
At 1 January 2003:						
As previously reported	118,299	488,759	181	3,777	(556,452)	54,564
Prior year adjustment: SSAP 12 – restatement of deferred tax (note 29)	-	-	-	-	2,002	2,002
As restated	118,299	488,759	181	3,777	(554,450)	56,566
Issue of shares	36,400	-	-	-	-	36,400
Impairment of fixed assets	-	-	-	(3,777)	-	(3,777)
Exchange realignment	-	-	(292)	-	-	(292)
Transfer of goodwill previously eliminated against retained profits	-	(17,103)	-	-	17,103	-
Net loss for the year	-	-	-	-	(22,827)	(22,827)
At 31 December 2003	<u>154,699</u>	<u>471,656</u>	<u>(111)</u>	<u>-</u>	<u>(560,174)</u>	<u>66,070</u>

NOTES TO FINANCIAL STATEMENTS

31 December 2003

32. RESERVES (Continued)

(a) Group (Continued)

	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
Reserves retained by:						
Company and subsidiaries	154,699	471,656	(111)	–	(580,847)	45,397
Associates	–	–	–	–	20,673	20,673
31 December 2003	<u>154,699</u>	<u>471,656</u>	<u>(111)</u>	<u>–</u>	<u>(560,174)</u>	<u>66,070</u>
Company and subsidiaries	118,299	488,759	181	3,777	(573,064)	37,952
Associates	–	–	–	–	18,614	18,614
31 December 2002	<u>118,299</u>	<u>488,759</u>	<u>181</u>	<u>3,777</u>	<u>(554,450)</u>	<u>56,566</u>

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

Certain amounts of goodwill arising on the acquisition of subsidiaries in prior years remain eliminated against contributed surplus, further details of which are included in note 15 to the financial statements.

(b) Company

	Share premium account HK\$'000	Contributed surplus HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2002	118,299	528,980	(450,462)	196,817
Net loss for the year	–	–	(30,665)	(30,665)
At 31 December 2002 and beginning of year	118,299	528,980	(481,127)	166,152
Issue of shares	36,400	–	–	36,400
Net loss for the year	–	–	(89,980)	(89,980)
At 31 December 2003	<u>154,699</u>	<u>528,980</u>	<u>(571,107)</u>	<u>112,572</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 Company may make distributions to its shareholders out of the contributed surplus in certain circumstances.

NOTES TO FINANCIAL STATEMENTS

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33. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Major non-cash transactions

During the year, the Group had the following major non-cash transactions:

- (i) 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\$400,000 (2002: HK\$480,000).
- (ii) The Company allotted and issued 280,000,000 ordinary shares of HK\$0.10 each for the acquisition of subsidiaries.

(b) Acquisition of subsidiaries

	2003 HK\$'000
Net assets acquired:	
Fixed assets	1,866
Inventories	51,579
Trade and bills receivables	125,936
Prepayments, deposits and other receivables	38,981
Pledged deposits	9,639
Cash and cash equivalents	45,446
Trade and bills payables	(151,973)
Tax payable	(25)
Other payables and accruals	(49,942)
	71,507
Goodwill on acquisition (note 15)	3,213
	74,720
Satisfied by:	
Cash	10,320
Issue of shares	64,400
	74,720

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

	2003 HK\$'000
Cash consideration	(10,320)
Cash and cash equivalents acquired	45,446
	35,126
Net inflow of cash and cash equivalents in respect of the acquisition of subsidiaries	35,126

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

(b) Acquisition of subsidiaries *(Continued)*

On 1 July 2003, the Group acquired the entire equity interests in HK Century and PRC Century from FHK. HK Century and PRC Century are engaged in the distribution of information products. Further details of the transaction are set out in note 36(a) to the financial statements. The purchase consideration for the acquisition was satisfied as to (i) HK\$10,320,000 in the form of cash, with HK\$5,160,000 being paid at the date of acquisition and the remaining HK\$5,160,000 being paid on 2 January 2004; and (ii) HK\$64,400,000 in the form of 280,000,000 ordinary shares of the Company being allotted at the completion date of the acquisition.

Since its acquisition, HK Century and PRC Century contributed approximately HK\$444,633,000 to the Group's consolidated turnover and a profit of approximately HK\$5,127,000 to the consolidated loss after tax.

(c) Disposal of subsidiaries

	2003 HK\$'000	2002 HK\$'000
Net assets disposed of:		
Fixed assets	37,052	16,747
Intangible assets	–	910
Interests in an associate	–	(7,882)
Long term investment	63	1,075
Inventories	39,098	25,145
Trade and bills receivables	25,592	14,166
Prepayment, deposits and other receivables	2,559	43,150
Cash and bank balances	10,881	8,435
Trade payables	(35,170)	(38,699)
Other payables and accruals	(10,020)	(3,749)
Other loans	–	(943)
Interest-bearing bank and other borrowings	(11,295)	(28,872)
Minority interests	–	(1,296)
Exchange fluctuation reserve	–	1,892
	<u>58,760</u>	<u>30,079</u>
Loss on disposal of subsidiaries (note 6)	<u>(13,260)</u>	<u>(15,079)</u>
	<u>45,500</u>	<u>15,000</u>
Satisfied by cash	<u>45,500</u>	<u>15,000</u>

NOTES TO FINANCIAL STATEMENTS

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33. 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:

	2003 HK\$'000	2002 HK\$'000
Cash consideration	45,500	15,000
Cash and bank balances disposed of	(10,881)	(8,435)
Bank overdrafts disposed of	5,510	–
	<u> </u>	<u> </u>
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	<u>40,129</u>	<u>6,565</u>

The subsidiaries disposed of in the year ended 31 December 2003 contributed approximately HK\$118,137,000 to the Group's consolidated turnover and loss of approximately HK\$5,194,000 to the consolidated loss after tax.

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

34. CONTINGENT LIABILITIES

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

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Guarantees given to suppliers in connection with credit facilities granted to subsidiaries	–	–	19,441	–
Guarantee given to a supplier in connection with credit facilities granted to related companies	–	28,000	–	28,000
Guarantees given to banks in connection with facilities granted to a subsidiary	–	–	–	35,000
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	<u>–</u>	<u>28,000</u>	<u>19,441</u>	<u>63,000</u>

NOTES TO FINANCIAL STATEMENTS

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34. CONTINGENT LIABILITIES (Continued)

As at 31 December 2003, the guarantees given to suppliers in connection with credit facilities granted to subsidiaries by the Company were utilised to the extent of approximately HK\$19,441,000 (2002: Nil).

As at 31 December 2002, the guarantees given to a supplier in connection with facilities granted to related companies by the Company were utilised to the extent of approximately HK\$4,720,000.

As at 31 December 2002, the guarantees given to the banks in connection with facilities granted to a subsidiary by the Company were utilised to the extent of approximately HK\$8,532,000.

35. OPERATING LEASE ARRANGEMENTS AS LESSEE

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

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

	Group	
	2003	2002
	HK\$'000	HK\$'000
Within one year	6,256	4,495
In the second to fifth years, inclusive	4,804	6,419
	<u>11,060</u>	<u>10,914</u>

36. RELATED PARTY TRANSACTIONS

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

- (a) On 19 March 2003, the Company entered into a conditional sale and purchase agreement (the "S&P Agreement") with FHK. Pursuant to the S&P Agreement, the Company acquired the entire equity interests in HK Century and PRC Century from FHK (the "Acquisition"). Further details of the transaction are set out in note 33(b) to the financial statements. The Acquisition was completed on 1 July 2003.
- (b) On 1 August 2003, the Company entered into a conditional disposal agreement with Honour Glory to dispose of the electronic products business. Further details of the transaction are set out in note 6(a) to the financial statements. The disposal was completed on 26 September 2003.

NOTES TO FINANCIAL STATEMENTS

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36. RELATED PARTY TRANSACTIONS *(Continued)*

- (c) Pursuant to the management agreement (the "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 was operated by the YW Group, and the weighing scale business, which was operated by the MIT 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 MIT Group would not be less than an amount equal to 6% of the net asset value of the YW Group and the MIT Group as at 28 September 2000. The period for which the profit guarantee was effective commenced from 1 October 2000 and expired on 30 September 2003. The disposal of the YW Group during 2002 and the MIT Group during the year released Ricwinco from its profit guarantee obligations in respect of the YW Group and the MIT Group under the MA respectively.
- (d) On 29 April 2003, the Group entered into lease agreements with Peking University Founder Group Corporation ("Peking Founder"), the controlling shareholder of FHL, to lease from Peking Founder certain premises in Beijing, the PRC, as its offices for an aggregate annual rental and management fees of approximately HK\$4,308,000 effective from 1 May 2003 to 31 December 2005. During the year, rental and management fee expenses of approximately HK\$2,138,000 (2002: Nil) were paid to Peking Founder according to the terms of the lease agreements. The balance due from/to Peking Founder included in deposits and other receivables and other payables and accruals as at 31 December 2003 were approximately HK\$713,000 (2002: Nil) and approximately HK\$1,338,000 (2002: Nil), respectively.
- (e) During the year, products of approximately HK\$11,016,000 (2002: Nil) were sold to fellow subsidiaries. The sales of products were made according to published prices and conditions similar to those offered to other customers of the Group.
- (f) During the year, the Group received commission income of approximately HK\$3,052,000 (2002: HK\$840,000) for the provision of advertising agency services from a subsidiary of Yahoo! Inc., a shareholder which held 8.47% of the shares of the Company.
- (g) During the year, products of approximately HK\$854,000 (2002: Nil) were purchased from a fellow subsidiary. The purchase of goods were made according to published prices and conditions similar to those offered by the fellow subsidiary to its own customers.
- (h) As at 31 December 2003, Peking Founder guaranteed banking facilities given by the PRC banks to the Group of approximately HK\$238,935,000 (2002: Nil) which were utilised to the extent of approximately HK\$177,128,000 (2002: Nil).
- (i) As at 31 December 2003, Peking Founder guaranteed credit facilities given by a supplier and utilised by the Group of approximately HK\$5,265,000 (2002: Nil).
- (j) During the year, products of approximately HK\$23,062,000 (2002: Nil) were purchased from a company in which one director of a subsidiary was a shareholder. The purchase prices were determined based on actual costs incurred. The balance due from the related company included in prepayments, deposits and other receivables as at 31 December 2003 was approximately HK\$6,295,000 (2002: Nil).

NOTES TO FINANCIAL STATEMENTS

31 December 2003

36. RELATED PARTY TRANSACTIONS *(Continued)*

- (k) On 4 April 2002, the Company entered into a conditional disposal agreement with Ricwinco to dispose of the electronic components business. Further details of the transaction are set out in note 6(b) to the financial statements. The disposal was completed on 28 June 2002.
- (l) For the year ended 31 December 2002, the Group paid approximately HK\$1,560,000 advertising expenses to a subsidiary of Yahoo! Inc..
- (m) For the year ended 31 December 2002, raw materials of approximately HK\$23,701,000 were purchased from Discrete Association Semiconductors Pte. Limited ("DAS"), the then associate of the Company. The purchases of raw materials were made according to published prices and conditions similar to those offered to other customers of DAS.

For the year ended 31 December 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 year ended 31 December 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.

37. POST BALANCE SHEET EVENT

On 2 January 2004 and 6 February 2004, 38,000,000 and 32,000,000 share options were granted by the Company to certain employees of FHL and the Group and certain executive directors of the Company, respectively, as further detailed in note 31 to the financial statements.

38. COMPARATIVE AMOUNTS

As further explained in note 2 to these financial statements, due to the adoption of the new/ revised SSAPs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, a prior year adjustment has been made and certain comparative amounts have been restated to conform with the current year's presentation.

39. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 2 April 2004.