

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

The turnover for the period ended 30 June 2002 increased by 37% to approximately HK\$183 million compared to last period turnover of approximately HK\$133 million. The increase was mainly due to an increase in turnover of the software solutions and e-Commerce services business (the "Software business") by 98% to current period's approximately HK\$40 million. On the other hand, the turnover of manufacture and sale of electronic products business (the "Electronic products business") which mainly related to manufacture and distribution of weighing scales also increased by 38% to current period's approximately HK\$94 million.

The Group's gross profit increased by 41% to approximately HK\$32 million compared to last period. The gross profit of Software business increased by 47% to approximately HK\$13 million and the gross profit of Electronic products business increased by 52% to approximately HK\$19 million.

During the period, the Group decided to dispose the loss making business - manufacture and distribution of semi-conductors (details of which have been disclosed in the circular to shareholders of the Company dated 29 April 2002). As disclosed in note 5 above, the total loss for the period of the disposed business amounted to approximately HK\$20 million and this was the major reason that the net loss attributable to shareholders for current period increased to approximately HK\$33 million.

Hence, if effect of the disposed business was excluded, the net loss attributable to shareholders for current period relating to the continuing business was approximately HK\$13 million, which decreased by 41% from last year's loss of approximately HK\$23 million. The improvement of approximately HK\$10 million was mainly related to the Software business - increase of gross profit by approximately HK\$4 million and cost reduction by approximately HK\$6 million.

Following to the disposal of loss making business, the Group's liquidity and working capital position were both improved. The Group managed to improve its net cash position by approximately HK\$4 million to HK\$56 million as at 30 June 2002 as compared to 31 December 2001 of approximately HK\$52 million. Also, the working capital ratio as at 30 June 2002 improved to 1.91 as compared to 1.49 as at 31 December 2001.

REVIEW OF OPERATIONS

Software business

The financial results of the Software business were very encouraging as the turnover in the current period was almost doubled as compared to last period. It was mainly due to the recognition by the market after last year's initial launch of products and promotion of the Group's brand name. The overall gross profit margin of Software business was approximately 31% which was higher than the more traditional Electronic products business. It is also the Group's focus to develop this higher margin business sector so as to achieve better returns.

The major business sectors of Software business are:

- Information Security (信息安全)
- Geographic Information System (地理信息系統)
- E-Finance (電子金融)
- Enterprise/Government Information (企業 / 政府信息化)

Information Security

Since March 2001 the Group launched its own developed product - *Founder FireGate* (方正方御防火牆) and through the sales agent network, our clients have reached nationally in the PRC and in particular, it was well accepted by the Chinese Government and The People's Bank of China (中國人民銀行). During the first half of year 2002, the Group has completed exhibition shows in more than 50 cities including : Beijing, Shanghai, Guangzhou and Chongqing to promote the *Founder FireGate* products and the Group's brand name.

Geographic Information System

The Group remains as the major distributor for *Mapinfo* products in the PRC. The product is mainly focused to provide information to the management in the area of location based intelligence which combines management and financial data with spatial information.

Supported by a strong technical team of engineers, the Group has completed various projects for a large clientele. Such major industries includes:

- oil & petroleum & resources
- telecommunication service provider
- radio broadcast station
- logistic intelligence and management chain enterprise
- government forest management bureau (林業管理局)
- historical relic bureau (文物局)

E-Finance

The Group completed the project of “Key Client Service System” (重要客戶服務系統) for the China Construction Bank (中國建設銀行) as scheduled and it was well accepted by the client. Such system was commented as the leading electronic banking system in one of the most important exhibition show among the financial institution industry - “China International Finance Product Exhibition” (中國國際金融商品展覽會) which was held in May 2002.

Enterprise/Government Information

The Group completed various projects for enterprises and government and in particular, the construction of 2008 Olympia Bidding Website (2008 申奧網站). Following to the successful bidding to host the 2008 Olympia Games in Beijing, the new website renamed as “29th Olympia Organisation Committee Website” (29 屆奧林匹克運動會組織委員會網站) was established and in operation as scheduled.

Electronic products business

The growth in the turnover and gross profit were mainly related to the increase in sales volume of OEM products, especially in the America market. The gross profit margin was 20% which remained approximately the same as last period.

FUTURE PROSPECTS

Software business

Following to the business restructure of disposing the electronic components business, the Group will concentrate and utilise its resources to further develop its Software business.

The Group’s research and development team has developed two new major products in the Information Security sector:

- Intrusion Detect System (入侵監測系統)
- Security Evaluation System (安全評估)

The Intrusion Detect System is a tool which enables the network manager to detect the attack by hackers into an enterprise’s system. By gathering a large pool of information from the operating system, this tool can analyse and detect the trace of intrusion attack and acknowledge the security system.

The Security Evaluation System is a tool which can give an advance warning to the network manager about the security gap by studying and evaluating the current enterprise system environment.

Recently, these two products are both certified as approved security products by the relevant PRC Information Security Testing Centre and therefore it proved the Group's ability and professional status to deliver very high standard of information security products.

Also, various new major contracts has been signed such as:

- with National Broadcast Bureau (國家廣播總局) to develop a monitoring system for cable broadcast signals
- with China Construction Bank to develop fund approval system project
- with Oil & Petroleum companies to develop management information system
- with Beijing Tax Bureau to develop individual income tax management system

Leveraging with present business sectors structure and strong technological knowledge and experience, the Group will enhance cross products selling and provision of services and solution to our customers. In particular, the Group will continue to focus on industries such as telecommunication, oil & petroleum & resources, banking and the Government sector.

Electronic products business

The Group will continue to develop OEM products which related to health care and industrial use, as well as develop new features such as glass platform and body fat analyser weighing scales.

CONCLUSION

With our experienced technical staff, extensive sales network and united management team, we believe that our persistence to provide full customer satisfaction and deliver top quality products can have a fruitful result in the coming future.

LIQUIDITY AND FINANCIAL RESOURCES

Net assets

As at 30 June 2002, the Group recorded total assets of approximately HK\$241 million which were financed by liabilities of approximately HK\$89 million and equity of approximately HK\$152 million. The Group's net asset value as at 30 June 2002 decreased by approximately 17% to approximately HK\$152 million as compared to approximately HK\$184 million as at 31 December 2001.

Liquidity

The Group had total cash and bank balances of approximately HK\$79 million as at 30 June 2002 (31 December 2001: approximately HK\$118 million). After deducting bank loans and overdrafts of approximately of HK\$23 million (31 December 2001: approximately HK\$66 million), the Group recorded a net cash balance of approximately HK\$56 million as at 30 June 2002 as compared to HK\$52 million as at 31 December 2001. As at 30 June 2002, the Group's working capital ratio was 1.91 (31 December 2001: 1.49) and a long term debt to equity ratio of 0.49% (31 December 2001: 1.1%) with equity being defined as the total of capital and reserves.

Charges on assets

At 30 June 2002 certain land and buildings in the PRC and overseas of the Group and fixed deposits of approximately HK\$18 million were pledged to banks to secure banking facilities granted.

Treasury policies

The Group adopts conservative treasury policies and controls tightly over its cash and risk management. The Group's cash and cash equivalents are held mainly in Hong Kong dollars, Renminbi and United States dollars. Surplus cash is generally placed in short term deposits denominated in Hong Kong dollars.

Exposure to fluctuations in exchange rates and related hedges

Most of the Group's borrowings are denominated in Hong Kong dollars, Renminbi and United States dollars while the turnover of the Group are mainly denominated in Hong Kong dollars, Renminbi and United States dollars. As the exchange rates of United States dollars and Renminbi against Hong Kong dollars were relatively stable during the period under review, the Group's exposure to fluctuations in exchange rates is considered minimal and no financial instruments have been used for hedging purposes.

Contingent liabilities

At 30 June 2002 the Company had contingent liabilities in relation to guarantees given to banks and trade creditor in connection with facilities granted to certain subsidiaries amounting to approximately HK\$63 million.

EMPLOYEE AND REMUNERATION POLICIES

As of 30 June 2002, the Group had approximately 240 and 1,400 employees for the Software business and Electronic products business, respectively. These employees of which approximately 97% work in the mainland PRC and 3% work in Hong Kong and elsewhere, respectively. The Company has also established a share option scheme and the share options are granted at Directors' discretion to motivate and reward the employees with outstanding performance.

DIRECTORS' INTERESTS IN SHARES

At 30 June 2002, the interests of the directors in the share capital of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), were as follows:

Ordinary shares of the Company

Name of director	Number of ordinary shares held and nature of interest	
	Corporate	Personal
Mr Yung Chih Shin, Richard (<i>Note</i>)	87,680,000	–
Mr Cheung Shuen Lung	–	36,890,100
Mr Lei Hon Sang (<i>resigned on 6 September 2002</i>)	–	21,890,100
Professor Wei Xin	–	3,956,000
	<u>87,680,000</u>	<u>62,736,200</u>

Subsidiary

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

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

Subsequent to the balance sheet date, Mr Zhang Zhao Dong was appointed as the Chairman and executive director of the Company on 1 August 2002 and he held 3,956,000 ordinary shares of the Company as personal interest.

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

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

DIRECTORS' INTERESTS IN SHARES *(Continued)*

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

DIRECTORS' RIGHTS TO ACQUIRE SHARES

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

SHARE OPTION SCHEME

On 24 May 2002, the Company adopted a new share option scheme (the "New Scheme") whereby, the directors may, at their discretion, invite any eligible employees (including executive directors), any non-executive directors, shareholders, suppliers and customers of the Group and any other parties having contributed or may contribute to the development of the Group to take up options to subscribe for shares. During the period for the six months ended 30 June 2002, the Company did not grant any options under the New Scheme.

Meanwhile, the share option schemes adopted by the Company on 11 September 1991 (the "1991 Scheme") and 7 May 2001 (the "2001 Scheme") ceased to operate on 24 May 2002. However, the options granted under the 1991 Scheme and the 2001 Scheme will remain in full force and effect. The following share options were outstanding under the 1991 Scheme and the 2001 Scheme during the period:

SHARE OPTION SCHEME (Continued)

Name or category of participant	Number of share options			At 30 June 2002	Date of grant of share options	Exercise period of share options	Exercise price of share options** HK\$
	At 1 January 2002	Granted during the period	Lapsed during the period				
1991 Scheme							
<i>Directors, chief executives and substantial shareholders</i>							
Mr Yung Chih Shin, Richard	3,000,000	-	-	3,000,000	30.1.1997	1.8.1997* to 31.7.2002	0.507
Mr Yung Richard, Jr.	2,400,000	-	-	2,400,000	30.1.1997	1.8.1997* to 31.7.2002	0.507
Mr Yung Richard, Jr.	2,700,000	-	-	2,700,000	18.5.2001	15.12.2001* to 14.12.2006	0.450
Sub-total	<u>8,100,000</u>	<u>-</u>	<u>-</u>	<u>8,100,000</u>			
Other employees							
In aggregate	2,400,000	-	-	2,400,000	30.1.1997	1.8.1997* to 31.7.2002	0.507
In aggregate	3,300,000	-	(100,000)	3,200,000	18.5.2001	15.12.2001* to 14.12.2006	0.450
Sub-total	<u>5,700,000</u>	<u>-</u>	<u>(100,000)</u>	<u>5,600,000</u>			
Total of 1991 Scheme	<u><u>13,800,000</u></u>	<u><u>-</u></u>	<u><u>(100,000)</u></u>	<u><u>13,700,000</u></u>			

SHARE OPTION SCHEME (Continued)

Name or category of participant	Number of share options			At 30 June 2002	Date of grant of share options	Exercise period of share options	Exercise price of share options** HK\$
	At 1 January 2002	Granted during the period	Lapsed during the period				
2001 Scheme							
Directors, chief executives and substantial shareholders							
Mr Cheung Shuen Lung	2,000,000	-	-	2,000,000	18.5.2001	18.5.2001 to 17.5.2011	0.450
Mr Lei Hon Sang (Note)	2,000,000	-	-	2,000,000	18.5.2001	18.5.2001 to 17.5.2011	0.450
Professor Wei Xin	2,000,000	-	-	2,000,000	18.5.2001	18.5.2001 to 17.5.2011	0.450
Professor Zou Wei	2,000,000	-	-	2,000,000	18.5.2001	18.5.2001 to 17.5.2011	0.450
Sub-total	8,000,000	-	-	8,000,000			
Other employees							
In aggregate	40,000,000	-	(12,700,000)	27,300,000	18.5.2001	18.5.2001 to 17.5.2011	0.450
Sub-total	40,000,000	-	(12,700,000)	27,300,000			
Total of 2001 Scheme	48,000,000	-	(12,700,000)	35,300,000			

* 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 issue, or other similar changes in the Company's share capital.

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

SHARE OPTION SCHEME *(Continued)*

The financial impact of share options granted is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date are deleted from the outstanding options.

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

SUBSTANTIAL SHAREHOLDERS

At 30 June 2002, the following interests of 10% or more of the share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance:

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

Notes:

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

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

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

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

AUDIT COMMITTEE

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

The audit committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial report matters including the review of the unaudited condensed consolidated interim financial statements for the six months ended 30 June 2002.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

In the opinion of the Directors, the Company has complied with the Code of Best Practice ("Code of Best Practice") as set out in Appendix 14 of the Listing Rules of the Stock Exchange throughout the period covered by the unaudited condensed consolidated interim financial statements, except that the independent non-executive directors of the Company are not appointed for specific terms but are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the provisions of the Company's Bye-laws.

The Company has established an audit committee in accordance with the Code of Best Practice throughout the accounting period covered by the unaudited condensed consolidated interim financial statements.

By Order of the Board
EC-FOUNDER (HOLDINGS) COMPANY LIMITED
Zhang Zhao Dong
Chairman

Hong Kong
24 September 2002