

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The unaudited condensed consolidated interim financial statements of the Group are prepared in accordance with Hong Kong Statements of Standard Accounting Practice ("SSAP") No. 25 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants.

The accounting policies and basis of presentation used in the preparation of these unaudited condensed consolidated interim financial statements are consistent with those used in the preparation of the audited consolidated financial statements of the Group for the year ended 31 December 2003.

2. TURNOVER AND SEGMENT INFORMATION

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 period.

The Group is principally engaged in (i) the distribution of information products (acquired in July 2003); and (ii) the provision of software solutions and services.

2. TURNOVER AND SEGMENT INFORMATION (Continued)

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

	Distribution of information products		Provision of software solutions and services		Electronic products (Discontinued)		Corporate		Consolidated	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	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	<u>503,656</u>	<u>-</u>	<u>28,055</u>	<u>26,923</u>	<u>-</u>	<u>84,579</u>	<u>-</u>	<u>-</u>	<u>531,711</u>	<u>111,502</u>
Segment results	<u>2,945</u>	<u>-</u>	<u>(3,560)</u>	<u>(2,045)</u>	<u>-</u>	<u>2,170</u>	<u>(2,290)</u>	<u>(2,104)</u>	<u>(2,905)</u>	<u>(1,979)</u>
Interest income									386	207
Impairment of goodwill									(43,500)	-
Loss from operating activities									(46,019)	(1,772)
Finance costs									(45)	(347)
Share of profits of associates									4,256	2,555
Profit/(loss) before tax									(41,808)	436
Tax									(1,480)	(642)
Net loss from ordinary activities attributable to shareholders									<u>(43,288)</u>	<u>(206)</u>

3. LOSS FROM OPERATING ACTIVITIES

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

	For the six months ended 30 June	
	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
Depreciation of fixed assets	1,746	4,483
Goodwill:		
Amortisation for the period	321	–
Impairment during the period	43,500	–
Provision and write-off/(reversal and write-back) of doubtful trade debts	193	(127)
Provision and write-off for obsolete inventories	263	–
Profit guarantees (Note)	–	(1,600)
Loss/(gain) on disposal of fixed assets	255	(99)
Interest income	(386)	(207)
	<u> </u>	<u> </u>

Note: The profit guarantees was related to the Electronic products business which was discontinued following to the completion of disposal of business on 26 September 2003.

4. DISCONTINUED OPERATION

Disposal of MIT Holdings Limited ("MIT") – Electronic products business

On 1 August 2003, the Company entered into a conditional disposal agreement with Honour Glory Limited ("Honour Glory"), a company which is 90% owned by Mr. Yung Richard, Jr., a director of the Company, to dispose of its entire issued share capital of MIT at a total cash consideration of HK\$45,500,000 (the "Disposal").

The principal activities of MIT and its subsidiaries were the design, manufacture and distribution of electronic products. The Group discontinued the electronic products operation upon the completion of the Disposal on 26 September 2003.

The turnover, other revenue and gains, expenses and results of the discontinued operation which had been included in the consolidated profit and loss account were as follows:

	For the six months ended 30 June 2003 (Unaudited) HK\$'000
TURNOVER	84,579
Cost of sales	<u>(75,212)</u>
Gross profit	9,367
Other revenue and gains	2,267
Selling and distribution costs	(1,894)
Administrative expenses	(9,260)
Other operating income, net	<u>1,690</u>
PROFIT FROM OPERATING ACTIVITIES	2,170
Finance costs	<u>(162)</u>
PROFIT BEFORE TAX	2,008
Tax	<u>–</u>
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	<u><u>2,008</u></u>

4. DISCONTINUED OPERATION *(Continued)*

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

	As at 30 June 2003 (Unaudited) <i>HK\$'000</i>
Total assets	128,297
Total liabilities	<u>(58,558)</u>
Net assets	<u><u>69,739</u></u>

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

	For the six months ended 30 June 2003 (Unaudited) <i>HK\$'000</i>
Operating	9,243
Investing	(3,588)
Financing	<u>(488)</u>
Net cash inflows	<u><u>5,167</u></u>

5. FINANCE COSTS

	For the six months ended 30 June	
	2004 (Unaudited) <i>HK\$'000</i>	2003 (Unaudited) <i>HK\$'000</i>
Interest on bank loans	45	188
Interest on other loans wholly repayable within five years	–	123
Interest on finance leases	–	<u>36</u>
	<u>45</u>	<u><u>347</u></u>

6. TAX

	For the six months ended 30 June	
	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
Group:		
Current – Hong Kong	3	–
Share of tax attributable to associates	<u>1,477</u>	<u>642</u>
Total tax charge for the period	<u><u>1,480</u></u>	<u><u>642</u></u>

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 17.5%) on the estimated assessable profits arising in Hong Kong during the period.

EC-Founder Co., Ltd., a wholly-owned subsidiary of the Group in the People's Republic of China (the "PRC"), is exempted from PRC profits tax for the three fiscal years which commenced in 2001 and 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. ("BJ Founder 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 BJ Founder Century is 15%.

No provision for PRC profits tax has been made for the period as the PRC subsidiaries were either under their tax exemption period or had sufficient tax losses brought forward to offset against the assessable profits arising during the period.

7. LOSS PER SHARE

The calculation of basic loss per share for the six months ended 30 June 2004 is based on the unaudited net loss from ordinary activities attributable to shareholders for the period of approximately HK\$43,288,000 (2003: HK\$206,000), and the weighted average of 1,100,562,040 (2003: 820,562,040) ordinary shares in issue during the period.

Diluted loss per share for the six months ended 30 June 2004 and 2003 have not been disclosed as the impact of the outstanding share options was anti-dilutive.

8. INTERIM DIVIDEND

The Directors do not recommend the payment of any interim dividend for the six months ended 30 June 2004 (2003: Nil).

9. TRADE AND BILLS RECEIVABLES

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

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

	As at 30 June 2004 (Unaudited) HK\$'000	As at 31 December 2003 (Audited) HK\$'000
Within 6 months	185,648	146,392
7 – 12 months	10,581	3,412
13 – 24 months	487	1,619
Over 24 months	1,558	590
	<u>198,274</u>	<u>152,013</u>

Included in the Group's trade and bills receivables are amounts due from fellow subsidiaries, of approximately HK\$2,095,000 (2003: HK\$2,557,000), which are repayable on similar credit terms to those offered to the major customers of the Group.

10. TRADE AND BILLS PAYABLES

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

	As at 30 June 2004 (Unaudited) HK\$'000	As at 31 December 2003 (Audited) HK\$'000
Within 6 months	289,045	219,959
7 – 12 months	946	326
Over 12 months	3,229	3,661
	<u>293,220</u>	<u>223,946</u>

11. CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities as at 30 June 2004.

12. RELATED PARTY TRANSACTIONS

- (a) On 29 April 2003, the Group entered into a lease agreement with Peking University Founder Group Corporation ("Peking Founder"), the controlling shareholder of Founder Holdings Limited ("FHL") – the controlling shareholder of the Company, to lease from Peking Founder certain premises in Beijing, the PRC, as its offices effective from 1 May 2003 to 31 December 2005. During the period, rental and management fee expenses of approximately HK\$2,146,000 (2003: Nil) were paid to Peking Founder according to the terms of the lease agreements.
- (b) During the period, the Group received commission income of approximately HK\$1,877,000 (2003: HK\$1,533,000) 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.
- (c) During the period, products of approximately HK\$7,337,000 (2003: 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.
- (d) As at 30 June 2004, Peking Founder guaranteed banking facilities given by the PRC banks to the Group of approximately HK\$306,475,000 (2003: Nil) which were utilised to the extent of approximately HK\$255,495,000 (2003: Nil).
- (e) During the period, products of approximately HK\$22,518,000 (2003: 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.
- (f) On 19 March 2003, the Company entered into a conditional sale and purchase agreement (the "S&P Agreement") with Founder (Hong Kong) Limited ("FHK"), a wholly-owned subsidiary of FHL. Pursuant to the S&P Agreement, the Company acquired the entire interests in BJ Founder Century and Founder Century (Hong Kong) Limited from FHK. The acquisition was completed on 1 July 2003.
- (g) 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 4 to the unaudited condensed consolidated interim financial statements. The Disposal was completed on 26 September 2003.