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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive directors

Mr Zhang Zhao Dong (*Chairman*)
 Mr Cheung Shuen Lung
 Professor Wei Xin
 Professor Zou Wei
 Mr Yung Richard, Jr.

Non-executive director

Mr Yung Chih Shin, Richard (*Honorary Chairman*)

Independent non-executive directors

Mr Yang Lin, Richard
 Mr Lee Ying Bui, Andrew

COMPANY SECRETARY

Ms Tang Yuk Bo, Yvonne

REGISTERED OFFICE

Cedar House
 41 Cedar Avenue
 Hamilton HM12
 Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Unit 1408, 14th Floor
 Cable TV Tower
 9 Hoi Shing Road
 Tsuen Wan
 New Territories
 Hong Kong

PRINCIPAL BANKERS

BNP Paribas Hong Kong Branch
 Bank of China
 The Hongkong and Shanghai Banking Corporation Limited

LEGAL ADVISER

Norton Rose

AUDITORS

Ernst & Young
Certified Public Accountants
 15th Floor, Hutchison House
 10 Harcourt Road
 Central, Hong Kong

SHARE REGISTRARS AND TRANSFER OFFICE

Principal registrars:
 Butterfield Corporate Services Limited
 Rosebank Centre
 14 Bermudiana Road
 Hamilton
 Bermuda

Hong Kong branch share registrars and transfer office:
 Tengis Limited
 G/F Bank of East Asia Harbour View Centre
 56 Gloucester Road
 Wanchai
 Hong Kong

WEBSITE ADDRESS

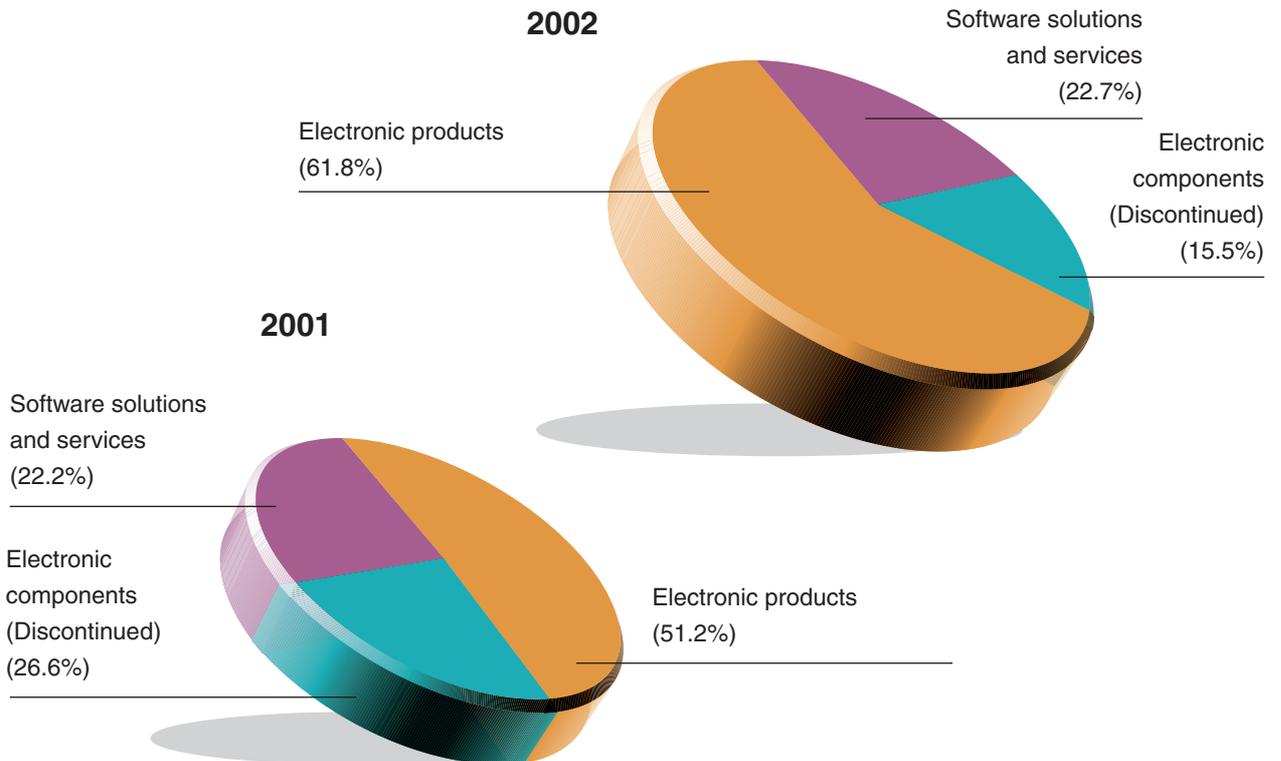
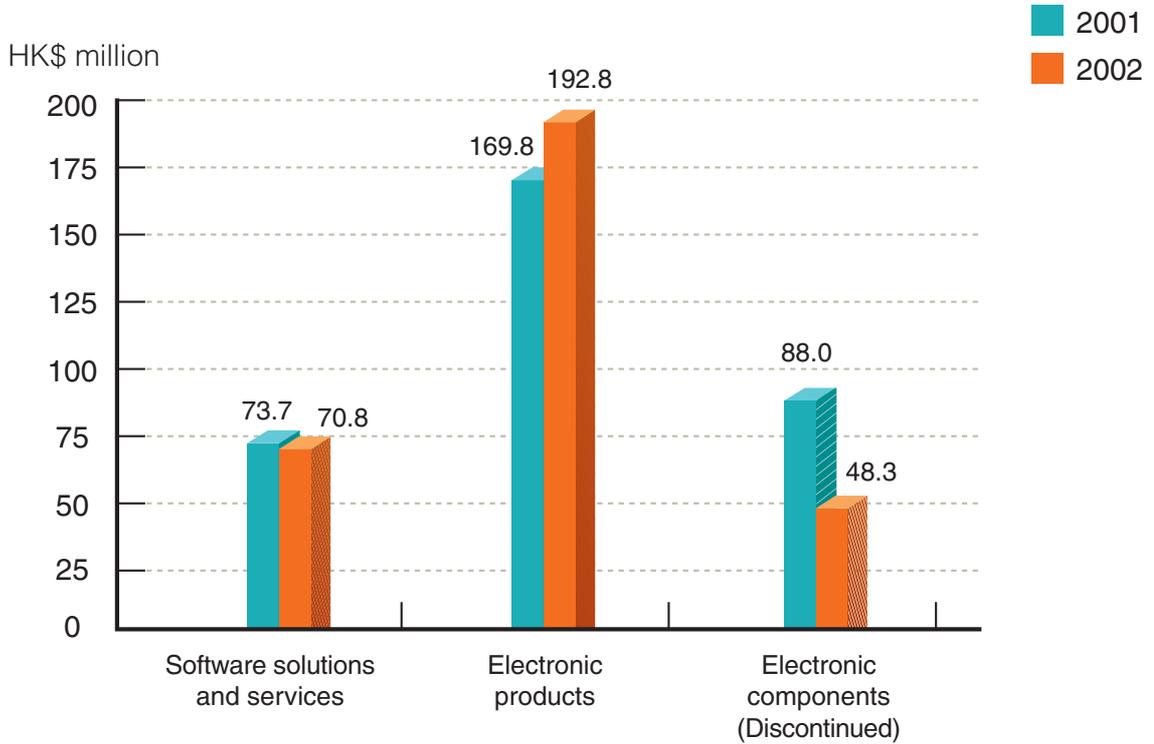
<http://www.ecfounder.com>

FINANCIAL HIGHLIGHTS

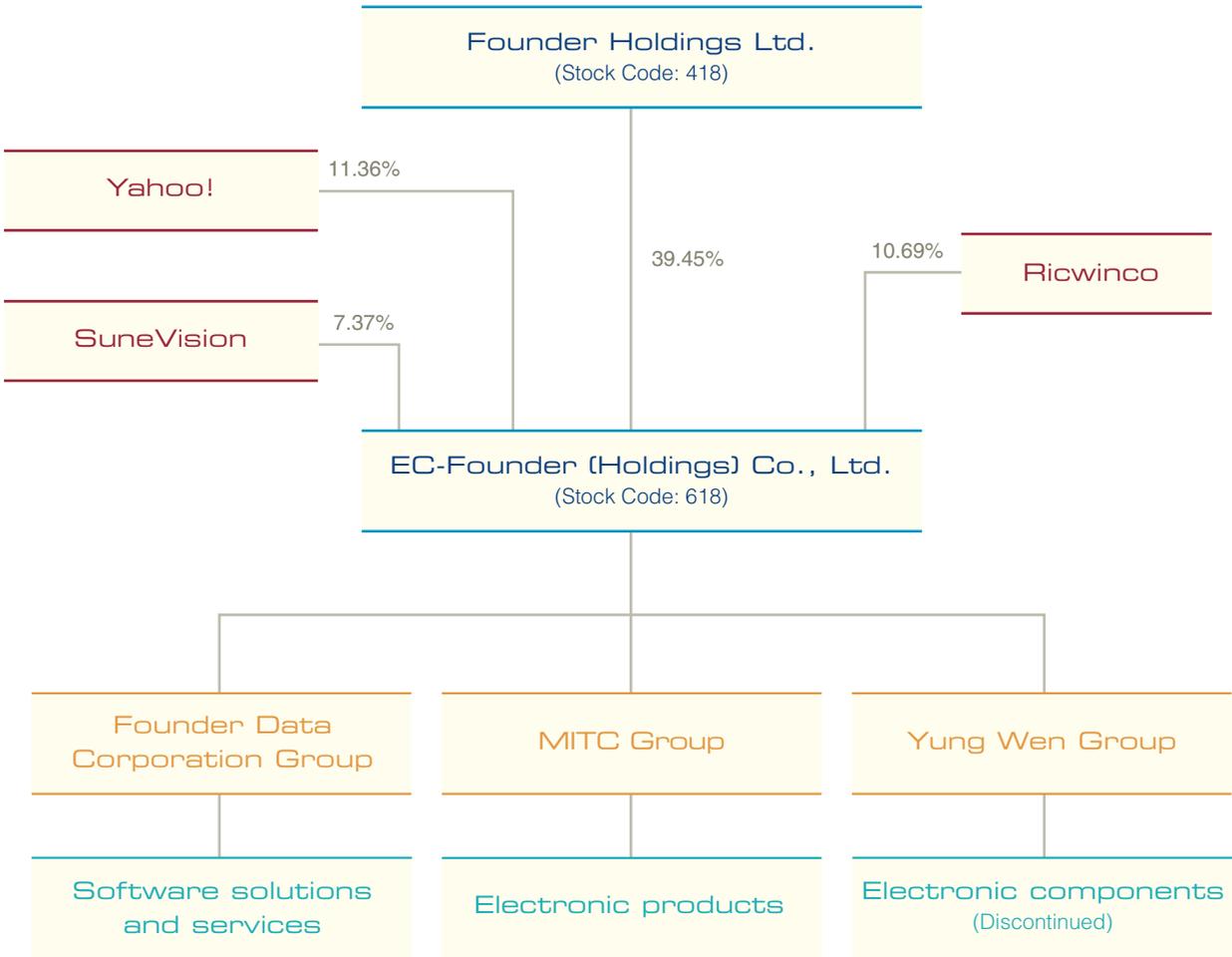
Year	2002	2001	2000	1999	1998
Turnover (HK\$' million)	312	331	259	314	367
Total assets (HK\$' million)	222	376	426	327	314
Total liabilities (HK\$' million)	85	192	173	140	145
Net assets (HK\$' million)	137	184	253	187	169
Net assets per share (HK\$)	0.17	0.22	0.31	1.05	0.95
Current assets ratio	1.79	1.49	1.68	1.19	1.27
Long term debt to equity ratio	0.004	0.011	0.018	0.035	0.034

FINANCIAL HIGHLIGHTS

Turnover by Business



ORGANISATION CHART



CHAIRMAN'S STATEMENT

I herein present the annual report for the results of the Group for the year ended 31 December 2002.

OVERALL PERFORMANCE

The turnover for the year ended 31 December 2002 decreased by 5.9% to approximately HK\$311.9 million compared to last year turnover of approximately HK\$331.5 million and the gross profit for the year ended 31 December 2002 decreased by approximately 5.6% to approximately HK\$53.5 million compared to last year gross profit of approximately HK\$56.6 million. The decrease was mainly due to decrease in turnover and gross profit of Electronic component business, which was disposed of in June 2002 and increase in turnover and gross profit of Electronic products business.

The net loss attributable to shareholders for this year increase to approximately HK\$85.4 million compared to last year's net loss of approximately HK\$69.0 million. The major reason was due to the accounting treatment of goodwill which required the Group to recognise the impairment of goodwill, an amount of HK\$36.5 million, in current years' profit and loss account which has been previously written off in the Group's reserve. If the effect of impairment of goodwill was excluded, the net loss for current year was approximately HK\$48.9 million which was approximately 29.1% less than the net loss in 2001.

OPERATING REVIEW AND PROSPECTS

(A) Software solutions and services business

The turnover of software solutions and services business ("Software business") for the year decreased slightly by approximately 3.9% to approximately HK\$70.8 million (2001: HK\$73.7 million) and segmental loss increased slightly by approximately 1.9% to approximately HK\$35.7 million (2001: loss of HK\$35.0 million).

The Software business was still facing fierce competition in the PRC market and due to internal senior management restructure, the turnover in 2002 decreased slightly by approximately 3.9% than last year. The Group has cautiously reduced the operating expenses by: streamlined the departmental structure and reduced the headcount by approximately 5%, less marketing expenses were incurred after previous year's first launch of information security products and other tight controls on operation expenses were implemented. Although the operating loss was reduced, some expenses related to the internal restructure to close down those non-core and loss making companies were incurred. As a result, the segment loss in 2002 was slightly higher by approximately 1.9% compared to 2001.

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)

CHAIRMAN'S STATEMENT

OPERATING REVIEW AND PROSPECTS *(Continued)*

Information Security

Since March 2001 the Group launched its self developed product – *Founder FireGate* (方正方御防火牆) and through the sales agent network, have reached nationally in the PRC and in particular, the product was well accepted by the Chinese Government and The People's Bank of China (中國人民銀行). There were frequent visits from the government officials to the Group to discuss the latest development on information security systems. Government bureaus have granted the Group several high standard official certificates to credit the competence and expertise in the field of information security. The Group will continue to launch new versions of information security products and to position itself as one of the leading experts in such field.

Geographic Information System

The Group distributes Geographic Information System (GIS) products through various channels and provides solutions and services which mainly focused in providing information to the management in the area of location based intelligence that combines managerial 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)

As the GIS products are widely accepted by various industries and enterprises, the Group will carry on to achieve steady growth in this sector.

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.

In light of e-banking will be the future path of most financial institutions, the Group has set itself ready to serve its customers with best expertise.

Enterprise/Government Information

The Group completed various projects for enterprises and government in last year and as more government bureaus will computerize both their internal and external systems (電子政務化) in the future, the Group will likely to benefit from its background and competent technical skills.

Hence, the Group will focus and utilize its resources to further develop the Software business.

CHAIRMAN'S STATEMENT

OPERATING REVIEW AND PROSPECTS *(Continued)*

(B) Electronic products business

The turnover of Electronic products business for the year increased by approximately 13.6% to approximately HK\$192.8 million (2001: HK\$169.8 million) and segmental profit decreased by approximately 17.6% to approximately HK\$3.9 million (2001: profit of HK\$4.7 million).

The growth in the turnover was mainly related to the increase in sales volume in the America market. However, the segment results were worsened by approximately 17.6% than last year due to increase in operating costs.

(C) Electronic components business

The turnover of Electronic components business for the year decreased by approximately 45.1% to approximately HK\$48.3 million (2001: HK\$88.0 million) and segmental loss decreased by approximately 16.8% to approximately HK\$19.4 million (2001: loss of HK\$23.4 million).

The decrease in turnover was due to the disposal of the business in June 2002 and the Group has completed the disposal on 28 June 2002.

MAJOR ACQUISITION

On 19 March 2003, the Company entered into a conditional sale and purchase agreement (the "Agreement") with Founder (Hong Kong) Limited ("FHK"), a wholly-owned subsidiary of Founder Holdings Limited ("FHL"), the controlling shareholder of the Company holding approximately 39.45% interest. Pursuant to the Agreement, the Company will acquire the entire interests in Founder Century (Hong Kong) Limited ("HK Century") and Beijing Founder Century Information System Co., Ltd ("PRC Century") from FHK. Such transaction will be subject, among other things, to the approval by independent shareholders of the Company. Further details of the transaction were set out in the joint announcement of the Company and FHL on 19 March 2003.

The principal activities of HK Century and PRC Century are distribution of information products in Hong Kong and the PRC and the products distributed include, among other things, servers, workstations and networking products of various international brand names.

Capitalised on the expertise of the Software business, the Group will be able to further expand the business of HK Century and PRC Century by offering software applications developed by the Software business to the clients in order to provide a total solution. On the other hand, the vast distribution network and channels of HK Century and PRC Century will magnify the opportunities of Software business to market its software products and solicit potential customers.

CHAIRMAN'S STATEMENT

LIQUIDITY AND FINANCIAL RESOURCES

Net Assets

At 31 December 2002, the Group recorded total assets of approximately HK\$221.9 million which were financed by liabilities of approximately HK\$85.3 million and equity of approximately HK\$136.6 million. The Group's net asset value as at 31 December 2002 decreased by approximately 25.9% to approximately HK\$136.6 million as compared to approximately HK\$184.4 million as at 31 December 2001.

Liquidity

The Group had total cash and bank balances of approximately HK\$62.9 million as at 31 December 2002 (2001: approximately HK\$118.0 million). After deducting bank loans and overdrafts of approximately HK\$12.2 million (2001: approximately HK\$65.9 million), the Group recorded a net cash balance of approximately HK\$50.7 million as at 31 December 2002 as compared to approximately HK\$52.1 million as at 31 December 2001. As at 31 December 2002, the Group's working capital ratio was 1.79 (2001: 1.49) and a long term debt to equity ratio of 0.4% (2001: 1.1%) with equity being defined as the total of capital and reserves.

Charges on Assets

At 31 December 2002, the land and building situated overseas of the Group and fixed deposits of approximately HK\$2.5 million and approximately HK\$7.8 million respectively, 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 year 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 31 December 2002, the Company had contingent liabilities in relation to guarantees given to banks in connection with facilities granted to certain subsidiaries amounting to approximately HK\$35 million.

At 31 December 2002, the Company and the Group had contingent liabilities in relation to guarantees given to trade creditor in connection with credit facilities granted to related companies amounting to approximately HK\$28 million.

CHAIRMAN'S STATEMENT

EMPLOYEE AND REMUNERATION POLICIES

As of 31 December 2002, the Group had approximately 230 and 1,480 employees for the Software business and Electronic products business, respectively. These employees of which approximately 97% work in the Mainland China 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.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

In the opinion of the Directors, the Company complied with the Code of Best Practice (the "Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the year covered by the annual report, except that the independent non-executive directors of the Company are not appointed for specific terms as required by paragraph 7 of the Code, 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 requirements of the Code throughout the accounting year covered by the annual report.

DETAILED RESULTS ANNOUNCEMENT

A detailed results announcement containing all the information required by paragraphs 45(1) to 45(3) of Appendix 16 of the Listing Rules will be subsequently published on The Stock Exchange of Hong Kong Limited web site in the due course.

Zhang Zhao Dong
Chairman

Hong Kong, 24 April 2003

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr Zhang Zhao Dong, aged 53, is appointed as the Chairman and President of the Company on 1 August 2002. Mr Zhang is also an executive director of Founder Holdings Limited ("Founder"), a substantial shareholder of the Company, and the Vice Chairman and President of Peking University Founder Group Corporation ("Peking Founder"). Mr Zhang graduated from the Department of Geophysics at Peking University in 1977 and is a research fellow at Peking University.

Mr Cheung Shuen Lung, aged 47, is the executive director of the Company. Mr Cheung is also the Chairman and President of Founder and an executive director of Peking Founder. He is a research fellow of the Enterprise Research Institute at Peking University and one of the founders of Founder. He has extensive experience in the information technology industry.

Professor Wei Xin, aged 47, is an executive director of the Company. He is also the executive director of Founder, Chairman of Peking Founder, Chairman and President of Shanghai Founder Yanzhong Science & Technology Group Co., Ltd. Professor Wei obtained a Master degree from the College of Economics at Peking University. He is also the Managing Vice Dean of College of Education at Peking University.

Professor Zou Wei, aged 39, is an executive director of the Company. He is also the Chief Technology Officer of EC-Founder Co., Ltd. in Beijing. He is an associate professor and a supervisor of post-graduates of the Peking University. He obtained his Master degree from the Science Academy of China in 1988 and subsequently obtained the second prize for National Scientific and Advancement in 1992. Professor Zou mainly involved in the research and development of the software solutions and services business of the Group.

Mr Yung Richard Jr., aged 39, is a son of Mr Yung Chih Shin, Richard. He joined the Group in 1987 after graduated with a Business Administration degree from the University of Southern California. He is the managing director of Management Investment & Technology Company Limited and is mainly responsible for the electronic products business of the Group.

NON-EXECUTIVE DIRECTOR

Mr Yung Chih Shin, Richard, aged 68, is the Honorary Chairman of the Company. Mr Yung graduated in electrical engineering from Massachusetts Institute of Technology. He founded Management Investment & Technology Company Limited in 1975 and has extensive experience in marketing, product design, factory planning and production management in the electronic industry.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr Yang Lin, Richard, aged 74, is the Vice Chairman of Chongqing Da Dah Navigation Co. Ltd., PRC, a director of Chongqing Taipan Storage (Petroleum) Ltd., PRC, and Taipan Storage (Petroleum) Pte. Ltd., Singapore and managing director of E-Hsiang Steamship Co. Ltd., Taiwan. He has extensive experience in providing agency, dealer and consultancy services for companies interested in the areas of Taiwan and the PRC. Mr Yang has been a non-executive director of the Company since 1995.

Mr Lee Ying Bui, Andrew, aged 39, is a Partner of Robertsons, Solicitors and Notaries. Before joining Robertsons Double & Lee in 1990 as an Associate, Mr Lee served his articleship with Robert W.H. Wang & Co. He was admitted as a Partner since 1992. He was also admitted as lawyer in England and Wales and Australia. He mainly handles civil litigation cases and specialises in insurance cases. Mr Lee has been a non-executive director of the Company since 2000.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Mr Shi Xi Zhong, aged 39, is the President of EC-Founder Co., Ltd. Mr Shi graduated from Peking University and holds a Master degree in Mechanics, he also graduated from the Buffalo New York State University e-MBA. Mr Shi is responsible for the software solutions and services business of the Group.

Mr Ho Yui Pok, aged 37, is the Group Financial Controller of the Company. He has extensive experience in the accounting field and he was an audit manager of an international certified public accountants firm. Mr Ho holds a Master degree in Management Science and a Bachelor degree in Accounting from the University of Kent, England. He is an associate member of both the Hong Kong Society of Accountants and the Association of Chartered Accountants in England and Wales. He is also a Certified Public Accountant in Hong Kong. He is responsible for the financial function of the Group.

Mr Yung, Roger, aged 28, is a younger son of Mr Yung Chih Shin, Richard. He joined the Group in 1998 after graduation with a Business Administration degree from the University of San Francisco. Mr Yung is mainly responsible for the internal control and special project of the electronic products business.

Mr Mak Kwok Hong, Eric, aged 47, is the vice-president of operations of Management Investment & Technology Company Limited and is responsible for all its manufacturing operations and related activities. He holds a Master of Science degree in Engineering Management from the City University of Hong Kong. Prior to joining the Group in 1985, he had extensive experience in industrial engineering and production material control with several major electronic manufacturing companies. He is mainly responsible for the management of electronic products business of the Group.

Mr Lam Ying Lun, England, aged 43, is the vice-president of marketing of Management Investment & Technology Company Limited. He has extensive experience in marketing of electrical and electronic products. Mr Lam has been with the Group since 1984. He is mainly responsible for the marketing activities of electronic products business of the Group.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the annual general meeting of EC-Founder (Holdings) Company Limited (the "Company") will be held at Unit 1408, 14th Floor, Cable TV Tower, 9 Hoi Shing Road, Tsuen Wan, New Territories, Hong Kong on 28 May 2003 at 10:30 a.m. for the following purposes:

1. To receive and consider the audited financial statements and the directors' and auditors' reports of the Company for the year ended 31 December 2002.
2. To re-elect the retiring directors and to fix the remuneration of directors.
3. To re-appoint auditors and to authorise the board of directors to fix their remuneration.

ORDINARY RESOLUTIONS

As special business, to consider and, if thought fit, pass with or without amendments, the following resolutions as ordinary resolutions of the Company:

4. "THAT:–
 - (A) subject to paragraph (B) of this Resolution no. 4 below, the exercise by the directors of the Company during the Relevant Period (as defined in paragraph (C) of this Resolution no. 4 below) of all the powers of the Company to purchase Shares (as defined in paragraph (C) of this Resolution no. 4 below) on The Stock Exchange of Hong Kong Limited ("Stock Exchange") or on any other stock exchange on which the Shares may be listed and which is recognised for this purpose by the Securities and Futures Commission of Hong Kong and the Stock Exchange, subject to and in accordance with all applicable laws, including the Hong Kong Code on Share Repurchases and the Rules Governing the Listing of Securities on the Stock Exchange or of any other stock exchange (as amended from time to time), be and is hereby generally and unconditionally approved;
 - (B) the aggregate nominal amount of Shares which may be purchased or agreed conditionally or unconditionally to be purchased pursuant to the approval in paragraph (A) of this Resolution no. 4 above shall not exceed 10 per cent. of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing of this Resolution no. 4, and the said approval be limited accordingly; and
 - (C) for the purposes of this Resolution no. 4:–
 - (i) "Relevant Period" means the period from (and including) the passing of this Resolution no. 4 until whichever is the earliest of:–
 - (a) the conclusion of the next annual general meeting of the Company;
 - (b) the expiration of the period within which the next annual general meeting of the Company is required by the bye-laws of the Company or any applicable law to be held; or
 - (c) the revocation or variation of this Resolution no. 4 by an ordinary resolution of the shareholders of the Company in general meeting; and

NOTICE OF ANNUAL GENERAL MEETING

- (ii) "Shares" means shares of all classes in the capital of the Company and warrants and other securities which carry a right to subscribe or purchase shares in the Company."

5. "THAT:-

- (A) subject to paragraph (B) of this Resolution no. 5 below, the exercise by the directors of the Company during the Relevant Period (as defined in paragraph (C) of this Resolution no. 5 below) of all the powers of the Company to allot, issue, grant, distribute and otherwise deal with additional Shares (as defined in paragraph (C) of this Resolution no. 5 below) and to make, issue or grant offers, agreements, options, warrants and other securities which might require Shares to be allotted, issued, granted, or distributed or otherwise dealt with during or after the end of the Relevant Period, be and is hereby generally and unconditionally approved;
- (B) the aggregate nominal amount of share capital allotted, issued, granted, distributed or otherwise dealt with or agreed conditionally or unconditionally to be allotted, issued, granted, distributed or otherwise dealt with (whether pursuant to an option, conversion or otherwise) by the directors of the Company pursuant to the approval in paragraph (A) of this Resolution no. 5 above, otherwise than pursuant to:-
 - (i) a Rights Issue (as defined in paragraph (C) of this Resolution no. 5 below);
 - (ii) the grant of options under the share option scheme of the Company or the exercise of any of the subscription rights attaching to any options that have been or may be granted thereunder;
 - (iii) the exercise of rights of subscription or conversion under the terms of any warrant issued by the Company or any securities which are convertible into Shares; or
 - (iv) any scrip dividend scheme or similar arrangement providing for allotment of Shares in lieu of the whole or part of any dividend on Shares in accordance with the bye-laws of the Company

shall not exceed the aggregate of:

- (a) 20 per cent. of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing this Resolution no. 5; and
- (b) (if the directors of the Company are so authorised by a separate resolution of the shareholders of the Company) the aggregate nominal amount of the share capital of the Company purchased by the Company subsequent to the passing of this Resolution no. 5 (up to a maximum equivalent to 10 per cent. of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing this Resolution no. 5),

and the said approval shall be limited accordingly; and

- (C) for the purposes of this Resolution no. 5:–
- (i) “Relevant Period” means the period from the passing of this Resolution until whichever is the earliest of:–
 - (a) the conclusion of the next annual general meeting of the Company;
 - (b) the expiration of the period within which the next annual general meeting of the Company is required by the bye-laws of the Company or any applicable law to be held; and
 - (c) the revocation or variation of this Resolution no. 5 by an ordinary resolution of the shareholders of the Company in general meeting;
 - (ii) “Shares” means shares of all classes in the capital of the Company and warrants and other securities which carry a right to subscribe or purchase shares in the Company; and
 - (iii) “Rights Issue” means an offer of Shares open for a period fixed by the directors of the Company to holders of Shares on the register of members (and, if appropriate, to the holders of warrants and other securities which carry a right to subscribe or purchase shares in the Company on the relevant register) on a fixed record date in proportion to their then holdings of such Shares (and, if appropriate, such warrants and other securities), (subject to such exclusions or other arrangements as the directors of the Company may deem necessary or expedient in relation to fractional entitlements or having regard to any legal or practical restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any jurisdiction or territory applicable to the Company).”
6. “**THAT** subject to the passing of Resolutions nos. 4 and 5 set out in this Notice, the exercise by the directors of the Company of the powers referred to in paragraph (A) of Resolution no. 5 in respect of the share capital of the Company referred to in sub-paragraph (b) of paragraph (B) of Resolution no. 5, be and is hereby approved and authorised.”

NOTICE OF ANNUAL GENERAL MEETING

SPECIAL RESOLUTION

As special business, to consider and, if thought fit, pass with or without amendments, the following resolution as special resolution of the Company:

7. "THAT "方正數碼(控股)有限公司" be and is hereby adopted as the Chinese name of the Company for the purpose of registration under Part XI of the Companies Ordinance (Cap.32) of the Laws of Hong Kong."

By Order of the Board
EC-Founder (Holdings) Company Limited
Tang Yuk Bo, Yvonne
Company Secretary

Hong Kong, 24 April 2003

Notes:

1. Any member entitled to attend and vote at the annual general meeting is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to attend on the same occasion. A proxy need not be a member of the Company.
2. Where there are joint holders of any share, any one of such joint holders may vote at the annual general meeting, either in person or by proxy, in respect of such share as if he were solely entitled thereto but if more than one of such joint holders is present at the annual general meeting, then one of the said persons so present whose name stands first on the register of members in respect of such share shall alone be entitled to vote in respect thereof.
3. To be valid, the instrument appointing a proxy, together with a power of attorney or other authority, if any, under which it is signed (or a notarially certified copy of such power or authority) must be deposited at the Company's principal place of business in Hong Kong at Unit 1408, 14th Floor, Cable TV Tower, 9 Hoi Shing Road, Tsuen Wan, New Territories, Hong Kong not less than 48 hours before the time appointed for holding the meeting or adjourned meeting (as the case may be). Delivery of an instrument appointing a proxy shall not preclude a member from attending and voting in person at the meeting or at any adjourned meeting.

The directors present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2002.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the principal subsidiaries are set out in note 17 to the financial statements. Apart from the disposal and discontinuance of the Group's electronic components business, further details of which are set out in note 6 to the financial statements, there were no significant changes in the nature of the Group's principal activities during the year.

RESULTS AND DIVIDENDS

The Group's loss for the year ended 31 December 2002 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 23 to 71.

The directors do not recommend the payment of any dividend in respect of the year.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited financial statements and reclassified as appropriate, is set out on page 72. This summary does not form part of the audited financial statements.

FIXED ASSETS

Details of movements in the fixed assets of the Company and the Group during the year are set out in note 14 to the financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws or the laws of Bermuda which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 33 to the financial statements.

DISTRIBUTABLE RESERVES

At 31 December 2002, the Company's reserves available for distribution amounted to approximately HK\$47,853,000. In addition, the Company's share premium account, in the amount of approximately HK\$118,299,000, may be distributed in the form of fully paid bonus shares.

REPORT OF THE DIRECTORS

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for approximately 59% (2001: 56%) of the total sales for the year and sales to the largest customer included therein amounted to approximately 26% (2001: 18%). Purchases from the Group's five largest suppliers accounted for less than 30% of the total purchases for the year.

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or suppliers.

DIRECTORS

The directors of the Company during the year were:

Executive directors:

Mr Zhang Zhao Dong (appointed on 1 August 2002)
Mr Cheung Shuen Lung
Professor Wei Xin
Professor Zou Wei
Mr Yung Richard, Jr.
Mr Lei Hon Sang (resigned on 6 September 2002)

Non-executive directors:

Professor Wang Xuan (resigned on 22 February 2002)
Mr Yung Chih Shin, Richard
Mr Yang Lin, Richard*
Mr Lee Ying Biu, Andrew*

* *Independent non-executive directors*

In accordance with the Company's bye-laws, Mr Cheung Shuen Lung and Mr Lee Ying Biu, Andrew will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 11 to 12 of the annual report.

DIRECTORS' SERVICE CONTRACTS

No director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in note 38 to the financial statements, no director had a material interest in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

MANAGEMENT CONTRACTS

Save as disclosed in note 38 to the financial statements, no contract concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the year.

DIRECTORS' INTERESTS IN SHARES

At 31 December 2002, the interests of the directors in the share capital of the Company or 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:

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 Zhang Zhao Dong	–	3,956,000
Professor Wei Xin	–	3,956,000
	87,680,000	44,802,100

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 Investment Limited ("Ricwinco"), a company which is beneficially owned by Mr Yung Chih Shin, Richard.

The interests of the directors in the share options of the Company are separately disclosed in note 32 to the financial statements.

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.

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.

REPORT OF THE DIRECTORS

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Apart from as disclosed in the share option scheme disclosures in note 32 to the financial statements, at no time during the year were rights to acquire benefits by means of the acquisition of shares in 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 or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

SHARE OPTION SCHEMES

Due to the adoption of Statement of Standard Accounting Practice No. 34 "Employee benefits" during the year, the detailed disclosures relating to the Company's share option schemes have been moved to note 32 to the financial statements.

SUBSTANTIAL SHAREHOLDERS

At 31 December 2002, the following interests of 10% or more of the issued 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 issued 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	10.69
Mr Yung Chih Shin, Richard	2	87,680,000	10.69

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 his deemed interests in the shares of the Company by virtue of his 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.

REPORT OF THE DIRECTORS

CONNECTED TRANSACTIONS

The independent non-executive directors of the Company have reviewed the connected transactions as set out in note 38(a) to 38(d) to the financial statements, and have confirmed to the board of directors that, in their opinions, such transactions were conducted in the ordinary course of the Group's business and were fair and reasonable so far as the shareholders of the Company are concerned.

POST BALANCE SHEET EVENT

Details of the significant post balance sheet event of the Group are set out in note 37 to the financial statements.

CODE OF BEST PRACTICE

In the opinion of the directors, the Company complied with the Code of Best Practice (the "Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, throughout the accounting year covered by the annual report, except that the independent non-executive directors of the Company are not appointed for specific terms as required by paragraph 7 of the Code, 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.

AUDIT COMMITTEE

The Company has an audit committee which was established in accordance with the requirements of the Code, for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises the two independent non-executive directors of the Company.

AUDITORS

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

Zhang Zhao Dong
Chairman

Hong Kong
24 April 2003

REPORT OF THE AUDITORS

To the members

EC-Founder (Holdings) Company Limited

(Incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 23 to 71 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2002 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young

Certified Public Accountants

Hong Kong

24 April 2003

CONSOLIDATED PROFIT AND LOSS ACCOUNT

Year ended 31 December 2002

	Notes	2002 HK\$'000	2001 HK\$'000
TURNOVER			
Continuing operations		263,650	243,443
Discontinued operation	6	<u>48,283</u>	<u>88,012</u>
	5	311,933	331,455
Cost of sales		<u>(258,454)</u>	<u>(274,810)</u>
Gross profit		53,479	56,645
Other revenue and gains	5	9,646	45,507
Selling and distribution costs		(36,300)	(44,162)
Administrative expenses		(56,104)	(70,394)
Other operating expenses		(6,488)	(13,972)
Impairment of fixed assets		(1,226)	(38,180)
Impairment of goodwill		(36,500)	–
Loss on disposal of discontinued operation	6	<u>(15,079)</u>	<u>–</u>
LOSS FROM OPERATING ACTIVITIES	7	(88,572)	(64,556)
Finance costs	8	(4,147)	(9,069)
Share of profits and losses of associates		<u>8,448</u>	<u>4,346</u>
LOSS BEFORE TAX			
Continuing operations		(64,512)	(39,372)
Discontinued operation	6	<u>(19,759)</u>	<u>(29,907)</u>
		(84,271)	(69,279)
Tax	11	<u>(1,494)</u>	<u>(1,432)</u>
LOSS BEFORE MINORITY INTERESTS		(85,765)	(70,711)
Minority interests		<u>335</u>	<u>1,670</u>
NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	12	<u><u>(85,430)</u></u>	<u><u>(69,041)</u></u>
LOSS PER SHARE	13		
Basic		<u><u>10.4 cents</u></u>	<u><u>8.4 cents</u></u>
Diluted		<u><u>N/A</u></u>	<u><u>N/A</u></u>

CONSOLIDATED BALANCE SHEET

31 December 2002

	Notes	2002 HK\$'000	2001 HK\$'000
NON-CURRENT ASSETS			
Fixed assets	14	47,786	71,910
Intangible assets	15	–	1,270
Interests in associates	18	22,864	22,527
Long term investment	19	–	1,075
		<u>70,650</u>	<u>96,782</u>
CURRENT ASSETS			
Inventories	20	35,031	54,157
Systems integration contracts	21	–	173
Trade and bills receivables	22	48,744	53,957
Prepayments and other receivables	23	4,664	53,025
Pledged deposits	24	7,801	48,313
Cash and cash equivalents	24	55,068	69,691
		<u>151,308</u>	<u>279,316</u>
CURRENT LIABILITIES			
Systems integration contracts	21	2,411	–
Trade and bills payables	25	36,873	82,562
Other payables and accruals	26	32,921	26,247
Other loans		–	9,852
Interest-bearing bank and other borrowings	27	12,533	68,685
		<u>84,738</u>	<u>187,346</u>
NET CURRENT ASSETS		<u>66,570</u>	<u>91,970</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		137,220	188,752
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	28	206	279
Finance lease payables	29	394	1,764
		<u>600</u>	<u>2,043</u>
MINORITY INTERESTS		–	2,336
		<u>136,620</u>	<u>184,373</u>
CAPITAL AND RESERVES			
Issued capital	31	82,056	82,056
Reserves	33	54,564	102,317
		<u>136,620</u>	<u>184,373</u>

Zhang Zhao Dong
Director

Cheung Shuen Lung
Director

CONSOLIDATED SUMMARY STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2002

	<i>Notes</i>	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
TOTAL EQUITY AT 1 JANUARY		184,373	253,422
Realisation of exchange fluctuation reserve on disposal of discontinued operation	33	1,892	–
Exchange differences on translation of the financial statements of foreign entities	33	<u>(715)</u>	<u>(8)</u>
Net gains/(losses) not recognised in the profit and loss account		<u>1,177</u>	<u>(8)</u>
Net loss from ordinary activities attributable to shareholders	33	(85,430)	(69,041)
Impairment of goodwill previously eliminated against contributed surplus	33	<u>36,500</u>	<u>–</u>
TOTAL EQUITY AT 31 DECEMBER		<u><u>136,620</u></u>	<u><u>184,373</u></u>

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2002

	Notes	2002 HK\$'000	2001 HK\$'000 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		(84,271)	(69,279)
Adjustments for:			
Finance costs	8	4,147	9,069
Share of profits and losses of associates		(8,448)	(4,346)
Interest income	5	(980)	(3,576)
Profit guarantees	5	–	(40,746)
Gain on deemed partial disposal of an associate	5	(48)	–
Depreciation	7	11,422	13,424
Impairment of fixed assets	7	1,226	38,180
Impairment of goodwill	7	36,500	–
Amortisation and write-off of deferred development costs	7	379	3,864
Provision for doubtful debts	7	5,954	1,158
Provision for obsolete stock	7	6,433	2,193
Loss on disposal of an associate	7	–	1,115
Fixed assets written off	7	1,943	–
Loss on disposal of fixed assets	7	36	22
Loss on disposal of discontinued operation	7, 34(c)	15,079	–
		<hr/>	<hr/>
Operating loss before working capital changes		(10,628)	(48,922)
Decrease/(increase) in inventories		(12,452)	17,566
Decrease/(increase) in systems integration contracts		2,584	(173)
Increase in trade and bills receivables		(14,907)	(13,088)
Decrease in prepayments		1,479	1,164
Decrease/(increase) in deposits and other receivables		913	(2,039)
Decrease in amounts due from related companies		2,819	53,355
Increase/(decrease) in trade and bills payables		(6,990)	5,667
Increase/(decrease) in accruals		4,488	(1,339)
Increase/(decrease) in other liabilities		5,399	(2,623)
Increase/(decrease) in amounts due to related companies		536	(4,693)
Exchange difference		(723)	–
		<hr/>	<hr/>
Cash generated/(utilised) from operations		(27,482)	4,875
Interest received		980	3,576
Interest paid		(3,987)	(8,672)
Interest element on finance lease rental payments		(160)	(397)
		<hr/>	<hr/>
Net cash outflow from operating activities		(30,649)	(618)

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2002

	Notes	2002 HK\$'000	2001 HK\$'000 (Restated)
Net cash outflow from operating activities		<u>(30,649)</u>	<u>(618)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of fixed assets and additions to construction in progress	14	(6,903)	(9,746)
Proceeds from disposal of fixed assets		131	931
Payment for deferred development costs		–	(154)
Disposal of subsidiaries	34(c)	6,565	–
Advances of loans to an associate		(7,000)	–
Repayment of loans to an associate		10,250	9,000
Decrease in an amount due from an associate		11,297	230
Additional investment in an associate		–	(1,800)
Acquisition of an associate		–	(1,136)
Decrease/(increase) in pledged deposits		<u>40,512</u>	<u>(43,313)</u>
Net cash inflow/(outflow) from investing activities		<u>54,852</u>	<u>(45,988)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Capital contributions by minority shareholders		–	675
Repayment to minority shareholders upon dissolution of subsidiaries		(705)	–
Increase/(decrease) in trust receipt loans		9,258	(6,774)
New other loans		5,000	9,852
Repayment of other loans		(13,943)	(15,000)
New bank loans		7,581	39,160
Repayment of bank loans		(39,669)	(355)
Capital element of finance lease rental payments		<u>(2,437)</u>	<u>(4,859)</u>
Net cash inflow/(outflow) from financing activities		<u>(34,915)</u>	<u>22,699</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS		(10,712)	(23,907)
Cash and cash equivalents at beginning of year		65,785	89,700
Effect of foreign exchange rate changes, net		<u>(5)</u>	<u>(8)</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR		<u>55,068</u>	<u>65,785</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	24	30,548	51,160
Non-pledged time deposits with original maturity of less than three months when acquired	24	24,520	18,531
Bank overdrafts	28	<u>–</u>	<u>(3,906)</u>
		<u>55,068</u>	<u>65,785</u>

BALANCE SHEET

31 December 2002

	Notes	2002 HK\$'000	2001 HK\$'000
NON-CURRENT ASSETS			
Fixed assets	14	190	2,155
Interests in subsidiaries	17	<u>224,495</u>	<u>255,114</u>
		<u>224,685</u>	<u>257,269</u>
CURRENT ASSETS			
Loan to an associate	18	–	3,250
Due from an associate	18	–	42
Prepayments and other receivables	23	266	7,190
Cash and cash equivalents	24	<u>26,786</u>	<u>19,405</u>
		<u>27,052</u>	<u>29,887</u>
CURRENT LIABILITIES			
Other payables and accruals	26	<u>3,529</u>	<u>8,283</u>
NET CURRENT ASSETS			
		<u>23,523</u>	<u>21,604</u>
		<u>248,208</u>	<u>278,873</u>
CAPITAL AND RESERVES			
Issued capital	31	82,056	82,056
Reserves	33	<u>166,152</u>	<u>196,817</u>
		<u>248,208</u>	<u>278,873</u>

Zhang Zhao Dong
Director

Cheung Shuen Lung
Director

NOTES TO FINANCIAL STATEMENTS

31 December 2002

1. CORPORATE INFORMATION

The registered office of EC-Founder (Holdings) Company Limited is located at Unit 1408, 14th Floor, Cable TV Tower, 9 Hoi Shing Road, Tsuen Wan, New Territories, Hong Kong.

During the year, the Group was involved in the following principal activities:

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

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

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

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2002

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

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

Basis of consolidation

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

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

Subsidiaries

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2002

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

Associates

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

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

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

Goodwill

Goodwill arising on the acquisition of subsidiaries and associates represents the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition.

Goodwill arising on acquisitions is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life.

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2002

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2002

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

Fixed assets and depreciation *(Continued)*

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

Land and buildings	2%
Leasehold improvements	5% – 10%
Machinery, equipment and moulds	6.67% – 25%
Furniture, fixtures and office equipment	12.5%
Motor vehicles	20%

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account, is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents structures, plant and machinery and other fixed assets under construction or installation, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises direct costs of installation and testing during the period of installation. Construction in progress is reclassified to the appropriate category of fixed assets when completed and ready for use.

Intangible assets

Research and development costs

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2002

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

Leased assets

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

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

Long term investments

Long term investments are non-trading investments in debentures intended to be held on a long term basis. Long term investments are stated at cost less any impairment losses deemed necessary by the directors.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average or standard costing basis which approximates average actual cost and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Systems integration contracts

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2002

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

Systems integration contracts *(Continued)*

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

Cash and cash equivalents

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

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

Deferred tax

Deferred tax is provided, using the liability method, on all significant timing differences to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

Revenue recognition

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2002

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

Revenue recognition *(Continued)*

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

Employee benefits

Retirement benefits schemes

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

The employees of the Group's subsidiaries which operate in the Mainland of the People's Republic of China (the "Mainland China" or the "PRC") are required to participate in a central pension scheme operated by the local municipal government. The assets of the scheme are held separately from those of the Group in an independent administered fund. Contributions are made based on a percentage of the participating employees' salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the central pension scheme.

Share option schemes

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

NOTES TO FINANCIAL STATEMENTS

31 December 2002

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

Foreign currencies

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

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

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

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

4. SEGMENT INFORMATION

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2002

4. SEGMENT INFORMATION *(Continued)*

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2002

4. SEGMENT INFORMATION (Continued)

(a) Business segments

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2002

4. SEGMENT INFORMATION (Continued)

(b) Geographical segments

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2002

5. TURNOVER, OTHER REVENUE AND GAINS

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2002

6. DISCONTINUED OPERATION

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

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2002

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6. DISCONTINUED OPERATION *(Continued)*

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2002

7. LOSS FROM OPERATING ACTIVITIES

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

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

* The amortisation and write-off of deferred development costs for the year are included in "Cost of sales" on the face of the consolidated profit and loss account.

** At 31 December 2002, the Group had no forfeited contributions available to reduce its contributions to the pension scheme in future years.

NOTES TO FINANCIAL STATEMENTS

31 December 2002

8. FINANCE COSTS

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

9. DIRECTORS' REMUNERATION

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

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2002

10. FIVE HIGHEST PAID EMPLOYEES

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

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

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

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

11. TAX

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2002

12. NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

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

13. LOSS PER SHARE

The calculation of basic loss per share is based on the net loss from ordinary activities attributable to shareholders for the year of approximately HK\$85,430,000 (2001: HK\$69,041,000), and the weighted average of 820,562,040 (2001: 820,562,040) ordinary shares in issue during the year.

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

NOTES TO FINANCIAL STATEMENTS

31 December 2002

14. FIXED ASSETS

Group

	Land and buildings HK\$'000	Leasehold improvements HK\$'000	Machinery, equipment and moulds HK\$'000	Furniture, fixtures and office equipment HK\$'000	Motor vehicles HK\$'000	Construction in progress HK\$'000	Total HK\$'000
Cost or valuation:							
At 1 January 2002	38,527	25,414	87,316	22,464	6,394	416	180,531
Additions	27	-	892	972	494	4,998	7,383
Transfer from construction in progress	-	753	3,364	590	219	(4,926)	-
Written off	-	(844)	-	(1,959)	-	-	(2,803)
Disposals	-	-	(120)	(164)	(213)	-	(497)
Disposal of subsidiaries	(17,771)	(11,067)	(57,337)	(4,870)	(1,354)	-	(92,399)
Exchange realignment	-	-	-	(2)	-	-	(2)
At 31 December 2002	<u>20,783</u>	<u>14,256</u>	<u>34,115</u>	<u>17,031</u>	<u>5,540</u>	<u>488</u>	<u>92,213</u>
Accumulated depreciation and impairment:							
At 1 January 2002	16,280	14,460	61,830	11,681	4,370	-	108,621
Provided during the year	861	2,622	4,764	2,412	763	-	11,422
Impairment during the year recognised in the profit and loss account	1,090	136	-	-	-	-	1,226
Written off	-	(169)	-	(691)	-	-	(860)
Disposals	-	-	(61)	(56)	(213)	-	(330)
Disposal of subsidiaries	(15,057)	(7,713)	(47,404)	(4,220)	(1,258)	-	(75,652)
At 31 December 2002	<u>3,174</u>	<u>9,336</u>	<u>19,129</u>	<u>9,126</u>	<u>3,662</u>	<u>-</u>	<u>44,427</u>
Net book value:							
At 31 December 2002	<u>17,609</u>	<u>4,920</u>	<u>14,986</u>	<u>7,905</u>	<u>1,878</u>	<u>488</u>	<u>47,786</u>
At 31 December 2001	<u>22,247</u>	<u>10,954</u>	<u>25,486</u>	<u>10,783</u>	<u>2,024</u>	<u>416</u>	<u>71,910</u>
Analysis of cost and valuation:							
At cost	2,783	14,256	34,115	17,031	5,540	488	74,213
At 1993 valuation	18,000	-	-	-	-	-	18,000
	<u>20,783</u>	<u>14,256</u>	<u>34,115</u>	<u>17,031</u>	<u>5,540</u>	<u>488</u>	<u>92,213</u>

NOTES TO FINANCIAL STATEMENTS

31 December 2002

14. FIXED ASSETS (Continued)

Company

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2002

14. FIXED ASSETS (Continued)

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

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

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

15. INTANGIBLE ASSETS

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

NOTES TO FINANCIAL STATEMENTS

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16. GOODWILL

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

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

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

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

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17. INTERESTS IN SUBSIDIARIES

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

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

Particulars of the principal subsidiaries are as follows:

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

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17. INTERESTS IN SUBSIDIARIES (Continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Founder Data Corporation International Limited	British Virgin Islands/ Hong Kong	Ordinary US\$20,000	100	–	Investment holding
Beijing AdTargeting Inc.*	Mainland China	Registered US\$300,000	–	100	Provision of internet advertising agency services

* Wholly-owned foreign investment enterprises

Notes:

- (a) The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.
- (b) The non-voting deferred shares carry no rights to dividends or to receive notice of or to attend or vote at any general meeting of the company. On winding-up, the holders of the non-voting deferred shares are entitled to one half of the return of the assets after a total sum of HK\$100,000,000 million has been distributed to the holders of each of the ordinary shares of the company.

18. INTERESTS IN ASSOCIATES

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

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18. INTERESTS IN ASSOCIATES *(Continued)*

The loans to an associate and the amount due from an associate are unsecured, interest-free and are repayable on demand, except for a loan to an associate of approximately HK\$3,250,000 as at 31 December 2001 which bore interest at Hong Kong dollar prime rate plus 1.5% per annum and was repaid in 2002.

Particulars of the principal associates are as follows:

Name	Business structure	Place of incorporation/ registration and operations	Percentage of equity indirectly attributable to the Group		Principal activities
			2002	2001	
Discrete Association Semiconductors Pte. Limited ("DAS") *	Corporate	Singapore	–	49 #	Marketing and distribution of semi-conductors
MC.Founder Limited ("MCF")	Corporate	Hong Kong	36.69	40	Distribution of mobile phones
MC.Founder (Distribution) Limited	Corporate	Hong Kong	36.69	40	Distribution of mobile phones
MC.Founder (Technology) Limited	Corporate	Hong Kong	36.69	40	Distribution of electronic appliances

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

Disposed of during the year

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

NOTES TO FINANCIAL STATEMENTS

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19. LONG TERM INVESTMENT

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

20. INVENTORIES

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

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

21. SYSTEMS INTEGRATION CONTRACTS

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

NOTES TO FINANCIAL STATEMENTS

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22. TRADE AND BILLS RECEIVABLES

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

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

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

23. PREPAYMENTS AND OTHER RECEIVABLES

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

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

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24. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

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

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

25. TRADE AND BILLS PAYABLES

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

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

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26. OTHER PAYABLES AND ACCRUALS

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

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

27. INTEREST-BEARING BANK AND OTHER BORROWINGS

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

NOTES TO FINANCIAL STATEMENTS

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28. INTEREST-BEARING BANK BORROWINGS

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

The Group's secured bank loans at the balance sheet date are secured by:

- (i) mortgages over the Group's land and building situated overseas which had an aggregate net book value at the balance sheet date of approximately HK\$2,532,000 (2001: HK\$2,588,000); and
- (ii) the pledge of certain of the Group's time deposits amounting to approximately HK\$7,801,000 (2001: HK\$48,313,000).

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29. FINANCE LEASE PAYABLES

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

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

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

30. DEFERRED TAX

The principal components of the Group's provision for deferred tax, and the net deferred tax asset position not recognised in the financial statements are as follows:

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

NOTES TO FINANCIAL STATEMENTS

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31. SHARE CAPITAL

	Group and Company	
	2002	2001
	HK\$'000	HK\$'000
Authorised:		
3,000,000,000 ordinary shares of HK\$0.10 each	<u>300,000</u>	<u>300,000</u>
Issued and fully paid:		
820,562,040 ordinary shares of HK\$0.10 each	<u>82,056</u>	<u>82,056</u>

32. SHARE OPTION SCHEMES

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

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

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

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32. SHARE OPTION SCHEMES *(Continued)*

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

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32. SHARE OPTION SCHEMES (Continued)

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

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

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32. SHARE OPTION SCHEMES *(Continued)*

- * *The vesting period of the share options is from the date of the grant until the commencement of the exercise period.*
- ** *The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.*

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

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

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

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33. RESERVES

Group

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

NOTES TO FINANCIAL STATEMENTS

31 December 2002

33. RESERVES (Continued)

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

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

Company

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

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

34. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Adoption of SSAP 15

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

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

(a) Adoption of SSAP 15 (Continued)

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

(b) Major non-cash transaction

During the year, the Group entered into a finance lease arrangement in respect of fixed assets with a total capital value at the inception of the lease of approximately HK\$480,000 (2001: HK\$1,000,000).

(c) Disposal of subsidiaries

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

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

(c) Disposal of subsidiaries (Continued)

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

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

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

35. CONTINGENT LIABILITIES

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

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

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

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

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36. OPERATING LEASE ARRANGEMENTS

(a) As lessor

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

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

	Group	
	2002 HK\$'000	2001 HK\$'000
Within one year	—	380

(b) As lessee

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

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

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

NOTES TO FINANCIAL STATEMENTS

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37. POST BALANCE SHEET EVENT

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

38. RELATED PARTY TRANSACTIONS

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

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

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38. RELATED PARTY TRANSACTIONS *(Continued)*

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

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

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

39. COMPARATIVE AMOUNTS

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

40. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 24 April 2003.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the published audited financial statements and reclassified as appropriate, is set out below. The amounts for 2000 in the five year summary have been adjusted for the effects of the retrospective change in accounting policy affecting goodwill which arose in the prior year.

	Year ended 31 December				
	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000 (Restated)	1999 HK\$'000	1998 HK\$'000
RESULTS					
TURNOVER	<u>311,933</u>	<u>331,455</u>	<u>258,664</u>	<u>314,296</u>	<u>367,397</u>
PROFIT/(LOSS) FROM OPERATING ACTIVITIES	(92,719)	(73,625)	(505,193)	3,742	(43,981)
Share of profits and losses of:					
Jointly-controlled entities	-	-	14,014	14,830	(2,812)
Associates	<u>8,448</u>	<u>4,346</u>	<u>2,159</u>	<u>(1)</u>	<u>1</u>
PROFIT/(LOSS) BEFORE TAX	(84,271)	(69,279)	(489,020)	18,571	(46,792)
Tax	<u>(1,494)</u>	<u>(1,432)</u>	<u>(3,075)</u>	<u>(531)</u>	<u>515</u>
PROFIT/(LOSS) BEFORE MINORITY INTERESTS	(85,765)	(70,711)	(492,095)	18,040	(46,277)
Minority interests	<u>335</u>	<u>1,670</u>	<u>(5)</u>	<u>-</u>	<u>(3)</u>
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	<u>(85,430)</u>	<u>(69,041)</u>	<u>(492,100)</u>	<u>18,040</u>	<u>(46,280)</u>

ASSETS, LIABILITIES AND MINORITY INTERESTS

	31 December 2002 HK\$'000	31 December 2001 HK\$'000	31 December 2000 HK\$'000	31 December 1999 HK\$'000	31 December 1998 HK\$'000
TOTAL ASSETS	221,958	376,098	425,884	327,292	314,473
TOTAL LIABILITIES	(85,338)	(189,389)	(169,131)	(138,329)	(143,550)
MINORITY INTERESTS	-	(2,336)	(3,331)	(2,349)	(2,349)
NET ASSETS	<u>136,620</u>	<u>184,373</u>	<u>253,422</u>	<u>186,614</u>	<u>168,574</u>