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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 Biu, Andrew

### COMPANY SECRETARY

Ms Tang Yuk Bo, Yvonne

### REGISTERED OFFICE

Canon's Court  
 22 Victoria Street  
 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 (Hong Kong) Limited  
 The Hongkong and Shanghai Banking Corporation Limited

### LEGAL ADVISER

Norton Rose  
 Morrison & Foerster

### AUDITORS

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

### SHARE REGISTRARS AND TRANSFER OFFICE

*Principal registrars:*  
 Butterfield Fund Services (Bermuda) Limited  
 Rosebank Centre  
 11 Bermudiana Road  
 Pembroke  
 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

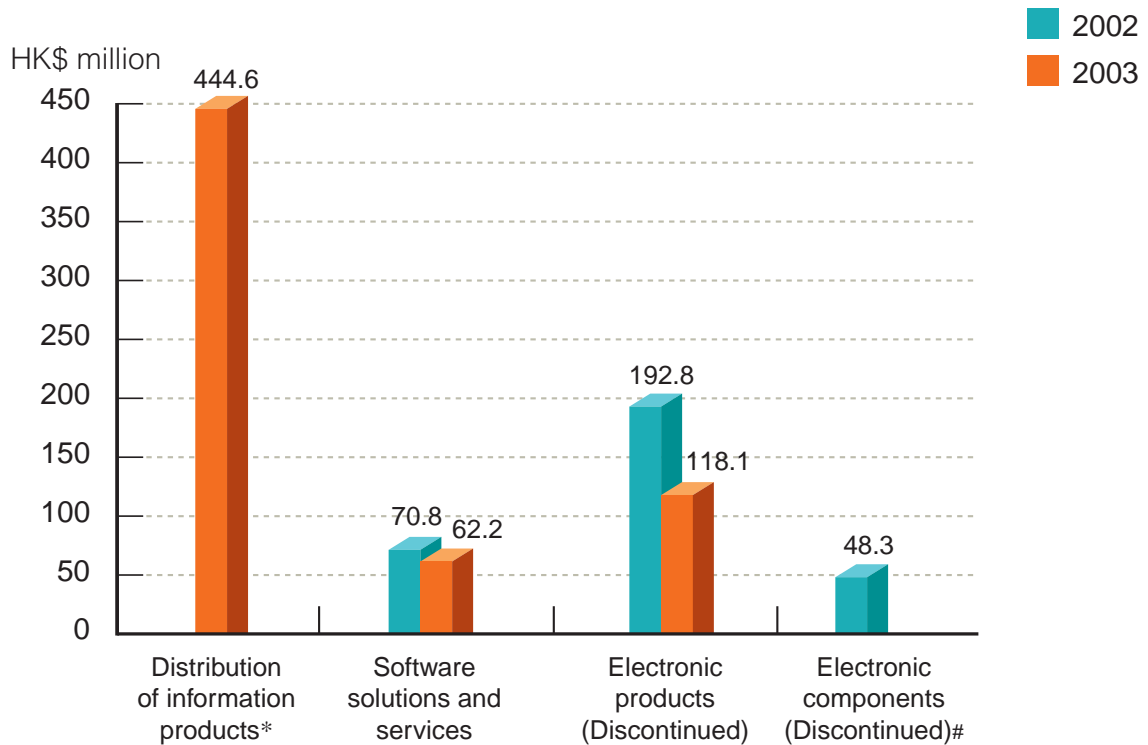
<http://www.ecfounder.com>

## FINANCIAL HIGHLIGHTS

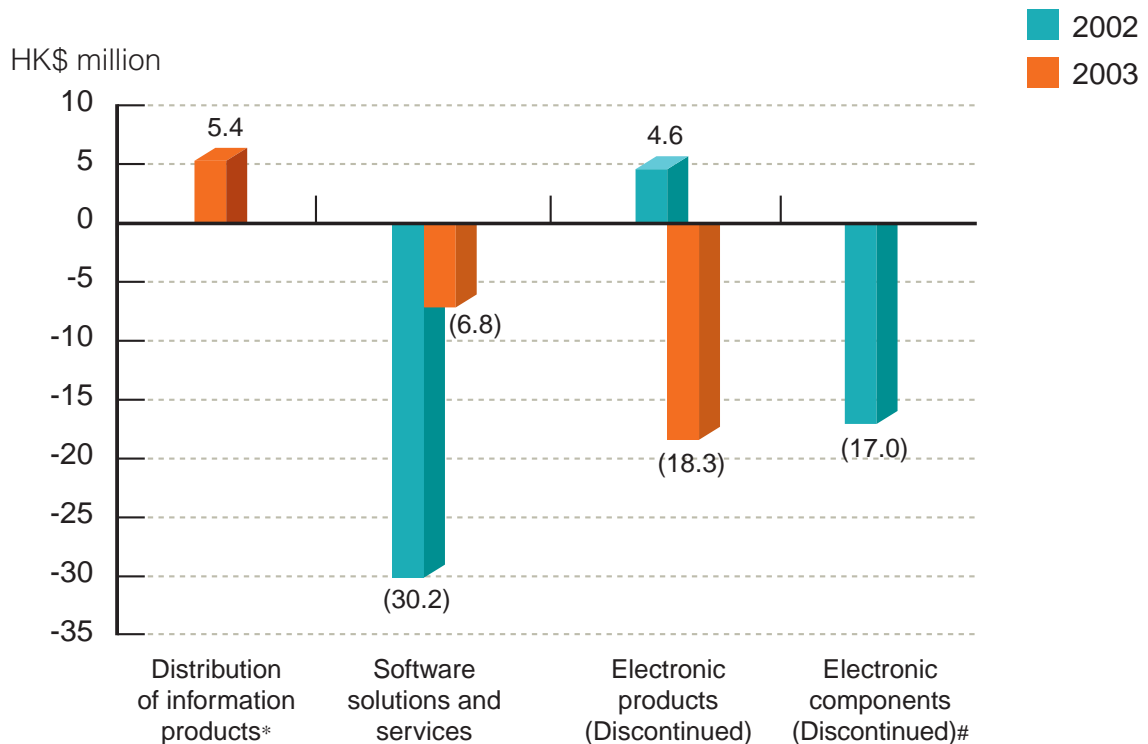
Year	2003	2002	2001	2000	1999
Turnover ( <i>HK\$' million</i> )	625	312	331	259	314
Total assets ( <i>HK\$' million</i> )	458	224	379	428	327
Total liabilities ( <i>HK\$' million</i> )	282	85	192	173	140
Net assets ( <i>HK\$' million</i> )	176	139	187	255	187
Net assets per share ( <i>HK\$</i> )	0.16	0.17	0.22	0.31	1.05
Current assets ratio	1.50	1.79	1.49	1.68	1.19
Long term debt to equity ratio	Nil	0.004	0.011	0.018	0.035

## FINANCIAL HIGHLIGHTS

### Turnover by Business



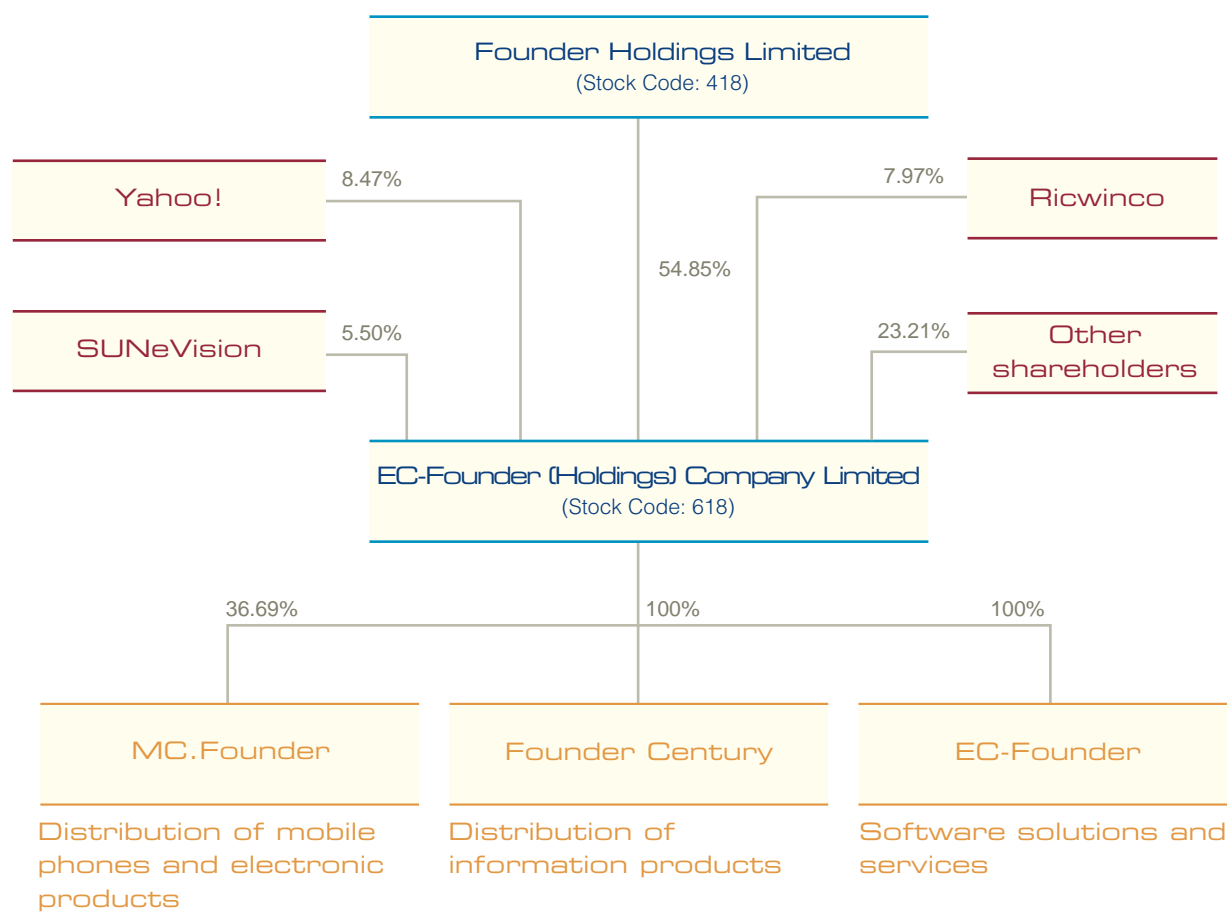
### Segment results by Business



\* Acquired during the year

# Disposed in 2002

## ORGANISATION CHART



# MANAGEMENT DISCUSSION AND ANALYSIS

## OVERALL PERFORMANCE

Following to the restructure of the Group's business in 2003, the Group's results were significantly improved. The turnover for the year ended 31 December 2003 increased by 100% to HK\$625.0 million compared to last year turnover of HK\$311.9 million and the gross profit for the year ended 31 December 2003 increased by 6% to HK\$56.7 million compared to last year gross profit of HK\$53.5 million. The Group's audited consolidated loss after tax and minority interests for the year was narrowed by 73% to HK\$22.8 million (2002: loss of HK\$86.0 million).

The result improvement was mainly due to acquisition of the distribution business ("Distribution business") of information technology ("IT") products which was completed in July 2003 and recorded a turnover of HK\$444.6 million and segmental profit of HK\$5.4 million in the second half year of 2003. On the other hand, the segmental loss of software solutions and services business ("Software business") reduced by 77% to HK\$6.8 million (2002: loss of HK\$30.2 million). Also, there is no impairment of goodwill in 2003 (2002: HK\$36.5 million). As a result, the loss before tax for continuing operations for the year ended 31 December 2003 reduced by 97% to HK\$2.4 million as compared to loss of HK\$68.6 million in 2002.

## OPERATING REVIEW AND PROSPECTS

### CONTINUING OPERATIONS

#### (A) Distribution of information products ("Distribution business")

In July 2003, the Group completed the acquisition of the Distribution business by acquiring the entire interests of Beijing Founder Century Information System Co. Ltd. and Founder Century (Hong Kong) Limited from its controlling shareholder – Founder Holdings Limited ("FHL"). The Group recorded the results of the Distribution business for the first time in the second half of year 2003 and this sector contributed turnover of HK\$444.6 million and segmental profit of HK\$5.4 million to the Group.

The Distribution business is mainly focused on the distribution of IT products include servers, workstations, data storage devices and networking products of various international brand names such as HP, IBM, 華為3 COM, SUN, Netgear and Apple. Significant efforts were made by management to reduce the inventory level and tighten up the credit control systems. Also, the management has strengthened the logistic process to enhance the efficiency and reduction of overhead costs. As a result, the 2003 annual result of the Distribution business was significantly improved by an increase of 47% in turnover to HK\$756.8 million (2002: HK\$514.6 million) and turnaround to record segmental profit of HK\$6.9 million (2002: loss of HK\$20.7 million).

The Distribution business has gained its ranking from the 11th place in 2002 to the 7th place in 2003 among the top 100 enterprises in the distribution business in PRC. Besides the headquarter in Beijing, it has established branch offices in Shanghai, Guangzhou and Chengdu.

The internal demand for IT products in the PRC will remain strong as the PRC's gross domestic products is expected to continue to increase at an annual growth rate of approximately 7% to 8% for the next ten years. Also, after PRC's accession into the World Trade Organisation and the running up of the Olympic Games of 2008 to be held in Beijing, it is expected the investments in the IT sector will grow with a double digit compound annual rate over the next five years. Hence, it is expected the Distribution business will continue to grow with the IT market in the future.

**(B) Software solutions and services business ("Software business")**

The turnover of Software business for the year decreased by 12% to HK\$62.2 million (2002: HK\$70.8 million) and segmental loss reduced by 77% to HK\$6.8 million (2002: loss of HK\$30.2 million).

The Software business was still facing fierce competition in the PRC market and the turnover in 2003 decreased by 12% than last year. The Group has cautiously reduced the operating expenses by: streamlined the departmental structure by closing down those loss making departments and reduced the headcount by 16%. As a result, the segment loss in 2003 was reduced by 77% compared to 2002.

The Software business mainly focused on the provision of systems integration services – especially for the financial institutes, selling and distribution of self-developed information security products – Founder FireGate (方正方御防火牆) and selling and distribution of other software products such as Geographic Information System. The system integration services is based on the application software systems to develop consolidated solutions for e-government, e-finance and enterprises. The applications are mainly used in the area of government, resources companies and digitalise cities. At the same time, it also provides comprehensive financial products, customer services products and solutions for institutes and companies such as banks, brokerage and securities, fund management and insurance industries. The self-developed information security products is a leading network security solution in the PRC. The product can be applied as a professional system in different industries and at the same time it can be applied as total solution for small and medium enterprises. Our software business clients include China Construction Bank (中國建設銀行), The People's Bank of China (中國人民銀行), oil & petroleum companies such as PetroChina (中國石油天然氣公司), telecommunication companies and Government bureaus – such as Military Police bureau (武警), tax bureau and education bureau.

The merger of Distribution business and Software business is complementary to each other. The Software business can now leverage on the strong selling and distribution channels of the Distribution business. On the other hand, the Distribution business has solid technical support and services from the Software business to provide more comprehensive and total solutions to the clients.

**DISCONTINUED OPERATIONS****(A) Electronic products business**

The Group decided to concentrate the resources on the IT business and therefore disposed of the Electronic products business which was completed in September 2003.

The turnover of Electronic products business for the year decreased by 39% to HK\$118.1 million (2002: HK\$192.8 million) and segmental loss of HK\$18.3 million (2002: profit of HK\$4.6 million). The loss was mainly due to increase in the material costs, overhead costs and the disposal loss of business.

**(B) Electronic components business**

The Electronic components business was disposed of in June 2002 and therefore no turnover of Electronic components business was not recorded in the year 2003 (2002: HK\$48.3 million) and no record of segmental results (2002: segmental loss of HK\$17.0 million).

## MANAGEMENT DISCUSSION AND ANALYSIS

### FINANCIAL REVIEW

#### Liquidity, financial resources and capital commitments

As at 31 December 2003, the Group recorded total assets of HK\$457.9 million (2002: HK\$223.9 million) which were financed by liabilities of HK\$281.8 million (2002: HK\$85.3 million) and equity of HK\$176.1 million (2002: HK\$138.6 million). The Group's net asset value as at 31 December 2003 increased by 27% to HK\$176.1 million as compared to HK\$138.6 million as at 31 December 2002.

The Group had total cash and bank balances of HK\$159.5 million as at 31 December 2003 (2002: HK\$62.9 million). The Group had no bank loan and overdraft as at 31 December 2003 (2002: HK\$12.2 million), hence the Group recorded a net cash balance of HK\$159.5 million as at 31 December 2003 as compared to HK\$50.7 million as at 31 December 2002. As at 31 December 2003, the Group's current ratio was 1.50 (2002: 1.79) and the Group had no long term debt as at 31 December 2003 as compared to a long term debt to equity ratio of 0.4% in 2002 with equity being defined as the total of capital and reserves.

As at 31 December 2003, the Group did not have any material capital expenditure commitments.

#### 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 and United States dollars.

#### Contracts

As at 31 December 2003, the major contracts in hand for the Software business amounted to HK\$13 million, which are all expected to be completed within eighteen months.

#### Material acquisitions and disposals of subsidiaries and associates

In July 2003, the Group completed the acquisition of Distribution business from the controlling shareholder of the Company, FHL. The total fair consideration of acquisition in the amount of HK\$74,720,000 was satisfied by issuing 280,000,000 ordinary shares of the Company and cash consideration of HK\$10,320,000. The results of the Distribution business contributed a segmental profit of HK\$5.4 million to the Group for the year 2003 and the Group recorded goodwill on acquisition of HK\$3.2 million.

In September 2003, the Group completed the disposal of Electronic products business to a director of the Company for a total cash consideration of HK\$45.5 million. The results of the Electronic products business recorded a segmental loss of HK\$18.3 million to the Group for the year 2003.

#### Employees

As at 31 December 2003, the Group had 238 and 187 employees for the Distribution business and Software business, respectively. These employees of which almost all work in the Mainland China. The Company has also established share option schemes and the share options are granted at Directors' discretion to motivate and reward the employees with outstanding performance.

#### Charges on Assets

As at 31 December 2003, bank deposits of approximately HK\$17.4 million were pledged to banks to secure general banking facilities granted.



## MANAGEMENT DISCUSSION AND ANALYSIS

### 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

As at 31 December 2003, the Company had contingent liabilities in relation to guarantees given to suppliers in connection with credit facilities granted to certain subsidiaries amounting to HK\$19.4 million.

## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

### EXECUTIVE DIRECTORS

**Mr Zhang Zhao Dong**, aged 54, is the Chairman and executive director of the Company. Mr Zhang is also an executive director of Founder Holdings Limited ("FHL"), the controlling shareholder of the Company, the Vice Chairman and President of Peking University Founder Group Corporation ("Peking Founder") and a director of Founder Technology Group Corp. 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 48, is the executive director of the Company. Mr Cheung is also the Chairman and President of FHL 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 FHL. He has extensive experience in the information technology industry.

**Professor Wei Xin**, aged 48, is an executive director of the Company. He is also the executive director of FHL, Chairman of Peking Founder and Founder Technology Group Corp. Professor Wei obtained a Master degree from the College of Economics at Peking University. He is also the Executive Dean of College of Education at Peking University.

**Professor Zou Wei**, aged 40, is an executive director of the Company. He is also the Vice President and Chief Technology Officer of the Company. 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 40, 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 has extensive experience in marketing, product design and production management in electronic industry.

### NON-EXECUTIVE DIRECTOR

**Mr Yung Chih Shin, Richard**, aged 69, 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 75, 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 Biu, Andrew**, aged 40, 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

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## SENIOR MANAGEMENT

**Mr Liu Xiao Kun**, aged 44, is the Executive President of the Company. Mr Liu graduated from Sichuan University and holds a Master degree in Economics. Mr Liu is mainly responsible for the overall management and operation of the Group's distribution of information products business and software solutions and services business .

**Mr Zhang Shu Ren**, aged 42, is the Vice President of the Company. Mr Zhang has extensive experience in accounting, audit and asset valuation and he is also a qualified member of the Chinese Institute of Certified Public Accountants. Mr Zhang graduated from the Capital University of Economics and Business with a Bachelor degree in Accounting and also holds a MBA degree from the China-Europe International Business School. Mr Zhang is mainly responsible for the legal matters and the personnel management of the Group in the PRC.

**Mr Ho Yui Pok**, aged 38, 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.

## 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 24 May 2004 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 2003.
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

- (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

## NOTICE OF ANNUAL GENERAL MEETING

- (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.”

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

Hong Kong, 2 April 2004

## NOTICE OF ANNUAL GENERAL MEETING

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### Notes:

1. Any shareholder 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 shareholder 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 shareholder 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 shareholder from attending and voting in person at the meeting or at any adjourned meeting.
4. Concerning the Ordinary Resolution No. 2 above, Professor Wei Xin and Professor Zou Wei will retire by rotation and, being eligible, offer themselves for re-election at the Annual General Meeting. Details of the above directors are set out in the circular to be enclosed with the Annual Report 2003.

## REPORT OF THE DIRECTORS

The directors present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2003.

### 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 16 to the financial statements. Other than the disposal and discontinuance of the Group's electronic products business and the acquisition of distribution of information products business, further details of which are included in notes 6, 33(b) and 33(c) 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 2003 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 75.

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 76. 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.

### SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year, together with the reasons therefor, are set out in notes 30 and 31 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 32 to the financial statements.



## DISTRIBUTABLE RESERVES

As at 31 December 2003, the Company had no reserves available for distribution. However, the Company's share premium account, in the amount of approximately HK\$154,699,000, may be distributed in the form of fully paid bonus shares.

## MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for less than 30% of the total sales for the year. Purchases from the Group's five largest suppliers accounted for approximately 63% (2002: 23%) of the total purchases for the year and purchases from the largest supplier included therein amounted to approximately 44% (2002: 7%).

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 suppliers.

## DIRECTORS

The directors of the Company during the year were:

### Executive directors:

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

### Non-executive directors:

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, Professor Wei Xin and Professor Zou Wei 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 10 to 11 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.

## REPORT OF THE DIRECTORS

### DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in note 36 to the financial statements, no director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, its holding company, any of its subsidiaries or fellow subsidiaries was a party during the year.

### MANAGEMENT CONTRACTS

Save as disclosed in note 36 to the financial statements, no contract concerning the management and administration of the whole or any substantial part of the business of the Group was entered into or existed during the year.

### DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2003, the interests and short positions of the directors in the share capital of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code"), were as follows:

Long positions in ordinary shares of the Company:

Name of director	Number of ordinary shares held, capacity and nature of interest			Total	Percentage of the Company's issued share capital
	Directly beneficially owned	Through controlled corporation	As trustee (Note 1)		
Mr Yung Chih Shin, Richard (Note 2)	–	87,680,000	–	87,680,000	7.97%
Mr Cheung Shuen Lung	36,890,100	–	63,459,100	100,349,200	9.12%
Mr Zhang Zhao Dong	3,956,000	–	63,459,100	67,415,100	6.13%
Professor Wei Xin	3,956,000	–	63,459,100	67,415,100	6.13%
Professor Zou Wei	–	–	63,459,100	63,459,100	5.77%

Notes:

- These shares were held by F2 Consultant Limited as nominee on behalf of these directors who are acting in their capacity as the trustees of a discretionary trust for the employees of Founder Data Corporation International Limited ("FDC") and its subsidiaries. FDC is incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of the Company.
- 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.

# REPORT OF THE DIRECTORS

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## DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES (Continued)

The interests of the directors in the share options of the Company are separately disclosed in note 31 to the financial statements.

In addition to the above, Mr Cheung Shuen Lung had 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, none of the directors had registered an interest or short position in the shares and underlying shares of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save as disclosed under the heading "Directors' interests and short positions in shares and underlying shares" above and in the share option scheme disclosures in note 31 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 minor children, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

## SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 31 December 2003, the following interests of 5% 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 336 of the SFO:

Long positions:

Name	Notes	Capacity and nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital
Peking University Founder Group Corporation ("Peking Founder")	1	Through a controlled corporation	627,305,560	57.00%
Founder Holdings Limited ("FHL")	2	Directly beneficially owned	627,305,560	57.00%
Yahoo! Inc.		Directly beneficially owned	93,240,000	8.47%
Ricwinco	3	Directly beneficially owned	87,680,000	7.97%
F2 Consultant Limited	4	Owned as Nominee	63,459,100	5.77%
HSBC International Trustee Limited	5	Through a controlled corporation	60,500,000	5.50%
Sun Hung Kai Properties Limited	5	Through a controlled corporation	60,500,000	5.50%
Sunco Resources Limited	5	Through a controlled corporation	60,500,000	5.50%
SUNeVision Holdings Ltd.	5	Through a controlled corporation	60,500,000	5.50%
Hugh Profit Investments Ltd.	5	Through a controlled corporation	60,500,000	5.50%
Well Drive Holdings Limited		Directly beneficially owned	60,500,000	5.50%

## REPORT OF THE DIRECTORS

### SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES *(Continued)*

Notes:

1. Peking Founder is deemed to be interested in the 627,305,560 shares of the Company under the SFO by virtue of its interest in FHL.
2. FHL's interests in the 627,305,560 shares of the Company comprise (i) 603,690,000 shares held by FHL as beneficial owner of such shares; and (ii) 23,615,560 shares being new shares which will be issued to Founder (Hong Kong) Limited ("FHK"), a wholly-owned subsidiary of FHL, or as it may direct at the option of FHK, as the final consideration ("Final Consideration") pursuant to a conditional sale and purchase agreement entered into between FHK and the Company. FHL is deemed to be interested in the interests of FHK in those shares under the SFO. Subsequent to the balance sheet date, on 2 January 2004, FHK selected to receive the Final Consideration in cash, but not the 23,615,560 shares of the Company.
3. Mr Yung Chih Shin, Richard is interested in these shares through Ricwinco.
4. F2 Consultant Limited holds the shares of the Company as nominee on behalf of the directors of FDC who are acting in their capacity as the trustees of a discretionary trust for the employees of FDC and its subsidiaries.
5. Each of HSBC International Trustee Limited, Sun Hung Kai Properties Limited, Sunco Resources Limited, SUNeVision Holdings Ltd. and Hugh Profit Investments Ltd. is deemed to be interested in 60,500,000 shares of the Company under the SFO by virtue of its, direct or indirect, interests in Well Drive Holdings Limited.

Save as disclosed above, no person, other than the directors of the Company, whose interests are set out in the section "Directors' interests and short positions in shares and underlying shares" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

### CONNECTED TRANSACTIONS

Details of the connected transactions are set out in notes 36(a) to 36(f) to the financial statements.

The independent non-executive directors of the Company have reviewed the connected transactions as set out in notes 36(d) to 36(f) to the financial statements, and have confirmed to the board of directors that, in their opinion, such transactions were (i) conducted in the ordinary and usual course of the Group's business; (ii) fair and reasonable so far as the interests of the shareholders of the Company as a whole are concerned; (iii) conducted in accordance with the terms of the agreements governing the transactions; and (iv) within the prescribed limits as set out in the waiver letters in respect of connected transactions granted by the Stock Exchange.

### 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.

# REPORT OF THE DIRECTORS

## 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 established an audit committee 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 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, 2 April 2004

## 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 75 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 financial statements and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

### 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 2003 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, 2 April 2004

# CONSOLIDATED PROFIT AND LOSS ACCOUNT

Year ended 31 December 2003

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	Notes	2003 HK\$'000	2002 HK\$'000 (Restated)
<b>TURNOVER</b>			
Continuing operations		506,835	70,825
Discontinued operations	6	<u>118,137</u>	<u>241,108</u>
Cost of sales	5	<u>624,972</u> <u>(568,308)</u>	<u>311,933</u> <u>(258,454)</u>
<b>Gross profit</b>		<b>56,664</b>	<b>53,479</b>
Other revenue and gains	5	6,503	9,646
Selling and distribution costs		(36,577)	(36,300)
Administrative expenses		(39,435)	(56,104)
Other operating expenses, net		(112)	(6,488)
Impairment of fixed assets		–	(1,226)
Impairment of goodwill		–	(36,500)
Loss on disposal of discontinued operations	6	<u>(13,260)</u>	<u>(15,079)</u>
<b>LOSS FROM OPERATING ACTIVITIES</b>	7	<b>(26,217)</b>	<b>(88,572)</b>
Finance costs	8	(832)	(4,147)
Share of profits of associates		<u>6,224</u>	<u>8,448</u>
<b>LOSS BEFORE TAX</b>			
Continuing operations		(2,371)	(68,588)
Discontinued operations	6	<u>(18,454)</u>	<u>(15,683)</u>
		(20,825)	(84,271)
Tax	11	<u>(2,002)</u>	<u>(2,028)</u>
<b>LOSS BEFORE MINORITY INTERESTS</b>		<b>(22,827)</b>	<b>(86,299)</b>
Minority interests		<u>–</u>	<u>335</u>
<b>NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS</b>	12	<b><u>(22,827)</u></b>	<b><u>(85,964)</u></b>
<b>LOSS PER SHARE – BASIC</b>	13	<b><u>2.4 cents</u></b>	<b><u>10.5 cents</u></b>

# CONSOLIDATED BALANCE SHEET

31 December 2003

	Notes	2003 HK\$'000	2002 HK\$'000 (Restated)
<b>NON-CURRENT ASSETS</b>			
Fixed assets	14	9,621	47,786
Goodwill	15	2,892	–
Interests in associates	17	21,473	22,864
Deferred tax	29	1,230	2,002
		<u>35,216</u>	<u>72,652</u>
<b>CURRENT ASSETS</b>			
Inventories	18	79,721	35,031
Systems integration contracts	19	1,980	–
Trade and bills receivables	20	152,013	48,744
Prepayments, deposits and other receivables	21	29,545	4,664
Pledged deposits	22	17,399	7,801
Cash and cash equivalents	23	142,070	55,068
		<u>422,728</u>	<u>151,308</u>
<b>CURRENT LIABILITIES</b>			
Systems integration contracts	19	–	2,411
Trade and bills payables	24	223,946	36,873
Tax payable		25	–
Other payables and accruals	25	57,847	32,921
Interest-bearing bank and other borrowings	26	–	12,533
		<u>281,818</u>	<u>84,738</u>
<b>NET CURRENT ASSETS</b>		<u>140,910</u>	<u>66,570</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>176,126</u>	<u>139,222</u>
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing bank borrowings	27	–	206
Finance lease payables	28	–	394
		<u>–</u>	<u>600</u>
		<u>176,126</u>	<u>138,622</u>
<b>CAPITAL AND RESERVES</b>			
Issued capital	30	110,056	82,056
Reserves	32	66,070	56,566
		<u>176,126</u>	<u>138,622</u>

Zhang Zhao Dong  
Director

Cheung Shuen Lung  
Director



# CONSOLIDATED SUMMARY STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2003

	Notes	2003 HK\$'000	2002 HK\$'000 (Restated)
Total equity at 1 January:			
As previously reported		136,620	184,373
Prior year adjustment:			
Statement of Standard Accounting Practice ("SSAP") 12 – restatement of deferred tax	29, 32	<u>2,002</u>	<u>2,536</u>
As restated		<u>138,622</u>	<u>186,909</u>
Issue of shares	30	28,000	–
Increase in share premium arising from issue of shares	32	36,400	–
Impairment of fixed assets recognised directly in revaluation reserve	32	(3,777)	–
Exchange differences on translation of the financial statements of foreign entities	32	<u>(292)</u>	<u>(715)</u>
Net gains/(losses) not recognised in the profit and loss account		<u>60,331</u>	<u>(715)</u>
Realisation of exchange fluctuation reserve upon disposal of discontinued operations	32	–	1,892
Impairment of goodwill previously eliminated against contributed surplus	32	–	36,500
Net loss from ordinary activities attributable to shareholders	32	<u>(22,827)</u>	<u>(85,964)</u>
Total equity at 31 December		<u><u>176,126</u></u>	<u><u>138,622</u></u>

# CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2003

	Notes	2003 HK\$'000	2002 HK\$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Loss before tax		(20,825)	(84,271)
Adjustments for:			
Finance costs	8	832	4,147
Share of profits of associates		(6,224)	(8,448)
Interest income	5	(697)	(980)
Gain on deemed partial disposal of an associate	5	–	(48)
Depreciation	7	7,624	11,422
Impairment of fixed assets	7	–	1,226
Impairment of goodwill	7	–	36,500
Amortisation of deferred development costs	7	–	379
Amortisation of goodwill	7	321	–
Fixed assets write-off	7	–	1,943
Loss/(gain) on disposal of fixed assets	7	(123)	36
Loss on disposal of discontinued operations	7, 33(c)	13,260	15,079
Operating loss before working capital changes		(5,832)	(23,015)
Increase in inventories		(32,209)	(6,019)
Decrease/(increase) in systems integration contracts		(4,391)	2,584
Increase in trade and bills receivables		(2,925)	(8,953)
Decrease in prepayments		15,488	1,479
Decrease/(increase) in deposits and other receivables		(3,947)	913
Decrease in amounts due from related companies		–	2,819
Increase/(decrease) in trade and bills payables		70,270	(6,990)
Increase/(decrease) in accruals		(2,254)	4,488
Increase/(decrease) in other payables		(22,074)	4,162
Increase in trading receipts in advance		3,597	1,237
Increase in amounts due to fellow subsidiaries		5,771	–
Increase/(decrease) in amounts due to related companies		(36)	536
Exchange difference		(166)	(723)
Cash generated from/(used in) from operations		21,292	(27,482)
Interest received		697	980
Interest paid		(775)	(3,987)
Interest element on finance lease rental payments		(57)	(160)
Net cash inflow/(outflow) from operating activities		21,157	(30,649)

# CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2003

	Notes	2003 HK\$'000	2002 HK\$'000
Net cash inflow/(outflow) from operating activities		21,157	(30,649)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Dividend received from an associate		2,935	–
Purchases of fixed assets and additions to construction in progress		(8,957)	(6,903)
Proceeds from disposal of fixed assets		1,010	131
Purchase of long term investment		(63)	–
Acquisition of subsidiaries	33(b)	35,126	–
Disposal of subsidiaries	33(c)	40,129	6,565
Advances of loans to an associate		–	(7,000)
Repayment of loans to an associate		3,450	10,250
Decrease in an amount due from an associate		–	11,297
Decrease in pledged deposits		41	40,512
Net cash inflow from investing activities		73,671	54,852
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Repayment to minority shareholders upon dissolution of subsidiaries		–	(705)
Increase in trust receipt loans		191	9,258
New other loans		–	5,000
Repayment of other loans		–	(13,943)
New bank loans		–	7,581
Repayment of bank loans		(7,413)	(39,669)
Capital element of finance lease rental payments		(487)	(2,437)
Net cash outflow from financing activities		(7,709)	(34,915)
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>		87,119	(10,712)
Cash and cash equivalents at beginning of year		55,068	65,785
Effect of foreign exchange rate changes, net		(117)	(5)
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>		<b>142,070</b>	<b>55,068</b>
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>			
Cash and bank balances	23	119,516	30,548
Non-pledged time deposits with original maturity of less than three months when acquired	23	22,554	24,520
		<b>142,070</b>	<b>55,068</b>

## BALANCE SHEET

31 December 2003

	Notes	2003 HK\$'000	2002 HK\$'000
<b>NON-CURRENT ASSETS</b>			
Fixed assets	14	161	190
Interests in subsidiaries	16	197,596	224,495
		<u>197,757</u>	<u>224,685</u>
<b>CURRENT ASSETS</b>			
Prepayments, deposits and other receivables	21	265	266
Cash and cash equivalents	23	27,838	26,786
		<u>28,103</u>	<u>27,052</u>
<b>CURRENT LIABILITIES</b>			
Other payables and accruals	25	3,232	3,529
<b>NET CURRENT ASSETS</b>			
		<u>24,871</u>	<u>23,523</u>
		<u>222,628</u>	<u>248,208</u>
<b>CAPITAL AND RESERVES</b>			
Issued capital	30	110,056	82,056
Reserves	32	112,572	166,152
		<u>222,628</u>	<u>248,208</u>

Zhang Zhao Dong  
Director

Cheung Shuen Lung  
Director

# NOTES TO FINANCIAL STATEMENTS

31 December 2003

## 1. CORPORATE INFORMATION

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

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

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

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

## 2. IMPACT OF NEW AND REVISED SSAPs

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

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

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

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

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

Measurement and recognition:

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

## NOTES TO FINANCIAL STATEMENTS

31 December 2003

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

Measurement and recognition: *(Continued)*

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

Disclosures:

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

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

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

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Basis of preparation**

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

**Basis of consolidation**

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

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

**Subsidiaries**

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

# NOTES TO FINANCIAL STATEMENTS

31 December 2003

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

### *Subsidiaries (Continued)*

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

### *Associates*

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

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

### *Goodwill*

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

Goodwill arising on acquisitions is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life subject to a maximum of 20 years. In the case of associates, any unamortised goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

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

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

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

## NOTES TO FINANCIAL STATEMENTS

31 December 2003

### 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 2003

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

### Fixed assets and depreciation *(Continued)*

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

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

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

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

### Leased assets

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

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

### Inventories

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

## NOTES TO FINANCIAL STATEMENTS

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

#### Systems integration contracts

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

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

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

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

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

#### Cash and cash equivalents

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

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

#### Income tax

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

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

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

### Income tax *(Continued)*

Deferred tax liabilities are recognised for all taxable temporary differences:

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

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

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

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

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

### Government grants

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

# NOTES TO FINANCIAL STATEMENTS

31 December 2003

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

### Revenue recognition

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

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

### Employee benefits

#### *Retirement benefits schemes*

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

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

# NOTES TO FINANCIAL STATEMENTS

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

### Employee benefits *(Continued)*

#### Share option schemes

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

#### Foreign currencies

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

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

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

# NOTES TO FINANCIAL STATEMENTS

31 December 2003

## 4. SEGMENT INFORMATION

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

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

### Continuing operations:

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

### Discontinued operations:

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

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

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

# NOTES TO FINANCIAL STATEMENTS

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## 4. SEGMENT INFORMATION (Continued)

### (a) Business segments

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

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

31 December 2003

## (a) Business segments (Continued)

	Provision of						Electronic components		Consolidated	
Group	Distribution of information products		software solutions and services		Electronic products (Discontinued)		(Discontinued)			
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
										(Restated)
Segment assets	365,633	-	38,414	51,725	-	120,518	-	-	404,047	172,243
Interests in associates	-	-	-	-	-	-	-	-	21,473	22,864
Unallocated assets	-	-	-	-	-	-	-	-	32,424	28,853
Total assets									457,944	223,960
Segment liabilities	253,744	-	19,682	19,995	-	48,679	-	-	273,426	68,674
Unallocated liabilities	-	-	-	-	-	-	-	-	8,392	16,664
Total liabilities									281,818	85,338
Other segment information:										
Depreciation and amortisation	519	-	2,399	3,399	4,706	6,282	-	1,952	7,945	11,801
Write-off of fixed assets	-	-	-	882	-	-	-	-	-	1,943
Impairment of fixed assets recognised in the profit and loss account	-	-	-	-	-	-	-	1,226	-	1,226
Impairment of fixed assets recognised directly in equity	-	-	-	-	3,777	-	-	-	3,777	-
Capital expenditure	848	-	3,335	958	5,174	6,184	-	241	9,357	7,383



# NOTES TO FINANCIAL STATEMENTS

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## 4. SEGMENT INFORMATION (Continued)

### (b) Geographical segments

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

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

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

(Restated)

(Restated)

# NOTES TO FINANCIAL STATEMENTS

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## 5. TURNOVER, OTHER REVENUE AND GAINS

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts; an appropriate proportion of contract revenue of systems integration contracts; and the value of services rendered during the year.

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

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

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

# NOTES TO FINANCIAL STATEMENTS

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## 6. DISCONTINUED OPERATIONS

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

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

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

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

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

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

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

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

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

## NOTES TO FINANCIAL STATEMENTS

31 December 2003

## 6. DISCONTINUED OPERATIONS (Continued)

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

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

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

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

# NOTES TO FINANCIAL STATEMENTS

31 December 2003

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## 6. DISCONTINUED OPERATIONS *(Continued)*

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

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

# NOTES TO FINANCIAL STATEMENTS

31 December 2003

## 7. LOSS FROM OPERATING ACTIVITIES

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

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

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

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

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

# NOTES TO FINANCIAL STATEMENTS

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## 8. FINANCE COSTS

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

## 9. DIRECTORS' REMUNERATION

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

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

Fees include HK\$240,000 (2002: HK\$240,000) payable to the independent non-executive directors. There were no other emoluments payable to the independent non-executive directors during the year (2002: Nil).

# NOTES TO FINANCIAL STATEMENTS

31 December 2003

## 9. DIRECTORS' REMUNERATION (Continued)

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

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

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

## 10. FIVE HIGHEST PAID EMPLOYEES

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

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

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

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



# NOTES TO FINANCIAL STATEMENTS

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## 11. TAX

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

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

EC-Founder Co., Ltd., a wholly-owned PRC subsidiary of the Group, is exempted from PRC profits tax for the three fiscal years which commenced in 2001 and ended on 31 December 2003 and, thereafter, is taxed at 50% of its standard tax rate in the fourth to sixth years, inclusive. Beijing Founder Century Information System Co., Ltd. ("PRC Century"), a wholly-owned PRC subsidiary of the Group, is exempted from PRC profits tax for the three fiscal years which commenced in 2002 and ending on 31 December 2004 and, thereafter, will be taxed at 50% of its standard tax rate in the fourth to sixth years, inclusive. At present, the standard tax rate applicable to EC-Founder Co., Ltd. and PRC Century is 15%. No provision for PRC profits tax has been made for the year as the PRC subsidiaries were either under their tax exemption period or had sufficient tax losses brought forward to offset against the assessable profits arising during the year.

# NOTES TO FINANCIAL STATEMENTS

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## 11. TAX (Continued)

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

### Group – 2003

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

### Group – 2002

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

# NOTES TO FINANCIAL STATEMENTS

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## 12. NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

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

## 13. LOSS PER SHARE

The calculation of basic loss per share is based on the net loss from ordinary activities attributable to shareholders for the year of approximately HK\$22,827,000 (2002 (restated): HK\$85,964,000), and the weighted average of 960,945,601 (2002: 820,562,040) ordinary shares in issue during the year.

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

## NOTES TO FINANCIAL STATEMENTS

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## 14. FIXED ASSETS

## Group

	Land and buildings HK\$'000	Leasehold improvements HK\$'000	Machinery, equipment and moulds HK\$'000	Furniture, fixtures and office equipment HK\$'000	Motor vehicles HK\$'000	Construction in progress HK\$'000	Total HK\$'000
Cost or valuation:							
At 1 January 2003	20,783	14,256	34,115	17,031	5,540	488	92,213
Additions	–	1,550	1,755	1,776	1,219	3,057	9,357
Acquisition of subsidiaries	–	–	–	4,419	1,098	–	5,517
Transfer from construction in progress	–	829	1,501	224	442	(2,996)	–
Disposals	–	(2,878)	(29)	(956)	(326)	–	(4,189)
Disposal of subsidiaries	(20,783)	(12,577)	(37,342)	(3,493)	(4,867)	(549)	(79,611)
Exchange realignment	–	(18)	–	(80)	(7)	–	(105)
At 31 December 2003	–	1,162	–	18,921	3,099	–	23,182
Accumulated depreciation and impairment:							
At 1 January 2003	3,174	9,336	19,129	9,126	3,662	–	44,427
Acquisition of subsidiaries	–	–	–	3,222	429	–	3,651
Provided during the year	314	1,032	3,069	2,587	622	–	7,624
Impairment during the year recognised in the reserves	3,777	–	–	–	–	–	3,777
Disposals	–	(2,512)	(13)	(451)	(326)	–	(3,302)
Disposal of subsidiaries	(7,265)	(7,471)	(22,185)	(2,157)	(3,481)	–	(42,559)
Exchange realignment	–	(14)	–	(39)	(4)	–	(57)
At 31 December 2003	–	371	–	12,288	902	–	13,561
Net book value:							
At 31 December 2003	–	791	–	6,633	2,197	–	9,621
At 31 December 2002	17,609	4,920	14,986	7,905	1,878	488	47,786
Analysis of cost or valuation:							
At cost	–	1,162	–	18,921	3,099	–	23,182

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## 14. FIXED ASSETS (Continued)

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

No fixed assets of the Group were held under finance leases as at 31 December 2003. The net book value of the Group's fixed assets held under finance leases included in the total amount of machinery, equipment and moulds and motor vehicles as at 31 December 2002, amounted to approximately HK\$1,276,000 and HK\$879,000, respectively.

### Company

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

# NOTES TO FINANCIAL STATEMENTS

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## 15. GOODWILL

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

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

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

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

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

# NOTES TO FINANCIAL STATEMENTS

31 December 2003

## 16. INTERESTS IN SUBSIDIARIES

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

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

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
EC-Founder Co., Ltd.*	Mainland China	Registered US\$6,000,000	—	100	Provision of software solutions and services
EC-Founder (Hong Kong) Limited	Hong Kong	Ordinary HK\$2	—	100	Provision of software solutions and services
Founder Data Corporation International Limited	British Virgin Islands/ Hong Kong	Ordinary US\$20,000	100	—	Investment holding
Beijing AdTargeting Inc.*	Mainland China	Registered US\$300,000	—	100	Provision of internet advertising agency services

# NOTES TO FINANCIAL STATEMENTS

31 December 2003

## 16. INTERESTS IN SUBSIDIARIES (Continued)

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

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

# Acquired during the year.

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

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

## 17. INTERESTS IN ASSOCIATES

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

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



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## 17. INTERESTS IN ASSOCIATES (Continued)

Particulars of the principal associates are as follows:

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

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

## 18. INVENTORIES

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

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

# NOTES TO FINANCIAL STATEMENTS

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## 19. SYSTEMS INTEGRATION CONTRACTS

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

## 20. TRADE AND BILLS RECEIVABLES

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

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

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

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

# NOTES TO FINANCIAL STATEMENTS

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## 21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

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

## 22. PLEDGED DEPOSITS

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

## 23. CASH AND CASH EQUIVALENTS

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

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to approximately HK\$111,157,000 (2002: HK\$19,853,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

# NOTES TO FINANCIAL STATEMENTS

31 December 2003

## 24. TRADE AND BILLS PAYABLES

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

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

## 25. OTHER PAYABLES AND ACCRUALS

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

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

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

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## 26. INTEREST-BEARING BANK AND OTHER BORROWINGS

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

## 27. INTEREST-BEARING BANK BORROWINGS

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

# NOTES TO FINANCIAL STATEMENTS

31 December 2003

## 28. FINANCE LEASE PAYABLES

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

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

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

## 29. DEFERRED TAX

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

### Group

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

# NOTES TO FINANCIAL STATEMENTS

31 December 2003

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## 29. DEFERRED TAX (Continued)

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

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

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

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

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

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

## NOTES TO FINANCIAL STATEMENTS

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## 30. SHARE CAPITAL

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

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

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

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



31 December 2003

### 31. SHARE OPTION SCHEMES

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

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

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

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

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

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

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

# NOTES TO FINANCIAL STATEMENTS

31 December 2003

## 31. SHARE OPTION SCHEMES (Continued)

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

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

\* The vesting period of the share options is from the date of the grant until the commencement of the exercise period.

\*\* The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

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## 31. SHARE OPTION SCHEMES *(Continued)*

### 1991 Scheme

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

### 2001 Scheme

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

### New Scheme

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

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

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## 32. RESERVES

## (a) Group

	Share premium account HK\$'000	Contributed surplus HK\$'000	Exchange fluctuation reserve HK\$'000	Revaluation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2002:						
As previously reported	118,299	452,259	(996)	3,777	(471,022)	102,317
Prior year adjustment: SSAP 12 – restatement of deferred tax (note 29)	–	–	–	–	2,536	2,536
As restated	118,299	452,259	(996)	3,777	(468,486)	104,853
Realisation upon disposal of discontinued operations	–	–	1,892	–	–	1,892
Exchange realignment	–	–	(715)	–	–	(715)
Impairment of goodwill previously eliminated against contributed surplus	–	36,500	–	–	–	36,500
Net loss for the year (restated)	–	–	–	–	(85,964)	(85,964)
At 31 December 2002	<u>118,299</u>	<u>488,759</u>	<u>181</u>	<u>3,777</u>	<u>(554,450)</u>	<u>56,566</u>
At 1 January 2003:						
As previously reported	118,299	488,759	181	3,777	(556,452)	54,564
Prior year adjustment: SSAP 12 – restatement of deferred tax (note 29)	–	–	–	–	2,002	2,002
As restated	118,299	488,759	181	3,777	(554,450)	56,566
Issue of shares	36,400	–	–	–	–	36,400
Impairment of fixed assets	–	–	–	(3,777)	–	(3,777)
Exchange realignment	–	–	(292)	–	–	(292)
Transfer of goodwill previously eliminated against retained profits	–	(17,103)	–	–	17,103	–
Net loss for the year	–	–	–	–	(22,827)	(22,827)
At 31 December 2003	<u>154,699</u>	<u>471,656</u>	<u>(111)</u>	<u>–</u>	<u>(560,174)</u>	<u>66,070</u>

# NOTES TO FINANCIAL STATEMENTS

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## 32. RESERVES (Continued)

### (a) Group (Continued)

	Share premium account HK\$'000	Contributed surplus HK\$'000	Exchange fluctuation reserve HK\$'000	Revaluation reserve HK\$'000	Retained profits/ (accumulated losses) HK\$'000	Total HK\$'000
Reserves retained by:						
Company and subsidiaries	154,699	471,656	(111)	–	(580,847)	45,397
Associates	–	–	–	–	20,673	20,673
31 December 2003	<u>154,699</u>	<u>471,656</u>	<u>(111)</u>	<u>–</u>	<u>(560,174)</u>	<u>66,070</u>
Company and subsidiaries	118,299	488,759	181	3,777	(573,064)	37,952
Associates	–	–	–	–	18,614	18,614
31 December 2002	<u>118,299</u>	<u>488,759</u>	<u>181</u>	<u>3,777</u>	<u>(554,450)</u>	<u>56,566</u>

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

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

### (b) Company

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

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

# NOTES TO FINANCIAL STATEMENTS

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## 33. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

### (a) Major non-cash transactions

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

- (i) The Group entered into a finance lease arrangement in respect of fixed assets with a total capital value at the inception of the lease of approximately HK\$400,000 (2002: HK\$480,000).
- (ii) The Company allotted and issued 280,000,000 ordinary shares of HK\$0.10 each for the acquisition of subsidiaries.

### (b) Acquisition of subsidiaries

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

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

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

# NOTES TO FINANCIAL STATEMENTS

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

### (b) Acquisition of subsidiaries *(Continued)*

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

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

### (c) Disposal of subsidiaries

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

# NOTES TO FINANCIAL STATEMENTS

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

### (c) Disposal of subsidiaries (Continued)

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

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

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

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

## 34. CONTINGENT LIABILITIES

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

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



31 December 2003

**34. CONTINGENT LIABILITIES (Continued)**

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

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

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

**35. OPERATING LEASE ARRANGEMENTS AS LESSEE**

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

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

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

**36. RELATED PARTY TRANSACTIONS**

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

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

# NOTES TO FINANCIAL STATEMENTS

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## 36. RELATED PARTY TRANSACTIONS *(Continued)*

- (c) Pursuant to the management agreement (the "MA") dated 17 May 2000, Ricwinco was appointed as manager for a period of three years with responsibility for the management and conduct of the semi-conductor business, which was operated by the YW Group, and the weighing scale business, which was operated by the MIT Group. Ricwinco has unconditionally guaranteed to the Company that the aggregate of the audited consolidated profit after tax and minority interests of the YW Group and the MIT Group would not be less than an amount equal to 6% of the net asset value of the YW Group and the MIT Group as at 28 September 2000. The period for which the profit guarantee was effective commenced from 1 October 2000 and expired on 30 September 2003. The disposal of the YW Group during 2002 and the MIT Group during the year released Ricwinco from its profit guarantee obligations in respect of the YW Group and the MIT Group under the MA respectively.
- (d) On 29 April 2003, the Group entered into lease agreements with Peking University Founder Group Corporation ("Peking Founder"), the controlling shareholder of FHL, to lease from Peking Founder certain premises in Beijing, the PRC, as its offices for an aggregate annual rental and management fees of approximately HK\$4,308,000 effective from 1 May 2003 to 31 December 2005. During the year, rental and management fee expenses of approximately HK\$2,138,000 (2002: Nil) were paid to Peking Founder according to the terms of the lease agreements. The balance due from/to Peking Founder included in deposits and other receivables and other payables and accruals as at 31 December 2003 were approximately HK\$713,000 (2002: Nil) and approximately HK\$1,338,000 (2002: Nil), respectively.
- (e) During the year, products of approximately HK\$11,016,000 (2002: Nil) were sold to fellow subsidiaries. The sales of products were made according to published prices and conditions similar to those offered to other customers of the Group.
- (f) During the year, the Group received commission income of approximately HK\$3,052,000 (2002: HK\$840,000) for the provision of advertising agency services from a subsidiary of Yahoo! Inc., a shareholder which held 8.47% of the shares of the Company.
- (g) During the year, products of approximately HK\$854,000 (2002: Nil) were purchased from a fellow subsidiary. The purchase of goods were made according to published prices and conditions similar to those offered by the fellow subsidiary to its own customers.
- (h) As at 31 December 2003, Peking Founder guaranteed banking facilities given by the PRC banks to the Group of approximately HK\$238,935,000 (2002: Nil) which were utilised to the extent of approximately HK\$177,128,000 (2002: Nil).
- (i) As at 31 December 2003, Peking Founder guaranteed credit facilities given by a supplier and utilised by the Group of approximately HK\$5,265,000 (2002: Nil).
- (j) During the year, products of approximately HK\$23,062,000 (2002: Nil) were purchased from a company in which one director of a subsidiary was a shareholder. The purchase prices were determined based on actual costs incurred. The balance due from the related company included in prepayments, deposits and other receivables as at 31 December 2003 was approximately HK\$6,295,000 (2002: Nil).

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## 36. RELATED PARTY TRANSACTIONS *(Continued)*

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

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

For the year ended 31 December 2002, commissions of approximately HK\$902,000 were paid to DAS. The commissions paid were made based on 2.98% of the sales of semi-conductors to DAS.

## 37. POST BALANCE SHEET EVENT

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

## 38. COMPARATIVE AMOUNTS

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

## 39. APPROVAL OF THE FINANCIAL STATEMENTS

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

## FIVE YEAR FINANCIAL SUMMARY

A summary of the published 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. The amount in 2000, 2001 and 2002 have been adjusted for the effects of the retrospective change in accounting policy affecting income tax, as detailed in note 2 to these financial statements.

### RESULTS

	Year ended 31 December				
	2003 HK\$'000	2002 HK\$'000 (Restated)	2001 HK\$'000 (Restated)	2000 HK\$'000 (Restated)	1999 HK\$'000
TURNOVER	<u>624,972</u>	<u>311,933</u>	<u>331,455</u>	<u>258,664</u>	<u>314,296</u>
PROFIT/(LOSS) FROM OPERATING ACTIVITIES	(27,049)	(92,719)	(73,625)	(505,193)	3,742
Share of profits/(losses) of:					
Jointly-controlled entities	–	–	–	14,014	14,830
Associates	<u>6,224</u>	<u>8,448</u>	<u>4,346</u>	<u>2,159</u>	<u>(1)</u>
PROFIT/(LOSS) BEFORE TAX	(20,825)	(84,271)	(69,279)	(489,020)	18,571
Tax	<u>(2,002)</u>	<u>(2,028)</u>	<u>(681)</u>	<u>(1,290)</u>	<u>(531)</u>
PROFIT/(LOSS) BEFORE MINORITY INTERESTS	(22,827)	(86,299)	(69,960)	(490,310)	18,040
Minority interests	<u>–</u>	<u>335</u>	<u>1,670</u>	<u>(5)</u>	<u>–</u>
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	<u>(22,827)</u>	<u>(85,964)</u>	<u>(68,290)</u>	<u>(490,315)</u>	<u>18,040</u>

### ASSETS, LIABILITIES AND MINORITY INTERESTS

	31 December 2003 HK\$'000	31 December 2002 HK\$'000 (Restated)	31 December 2001 HK\$'000 (Restated)	31 December 2000 HK\$'000 (Restated)	31 December 1999 HK\$'000
TOTAL ASSETS	457,944	223,960	378,634	427,669	327,292
TOTAL LIABILITIES	(281,818)	(85,338)	(189,389)	(169,131)	(138,329)
MINORITY INTERESTS	<u>–</u>	<u>–</u>	<u>(2,336)</u>	<u>(3,331)</u>	<u>(2,349)</u>
	<u>176,126</u>	<u>138,622</u>	<u>186,909</u>	<u>255,207</u>	<u>186,614</u>