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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

Cedar House

41 Cedar Avenue

Hamilton HM12

Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Unit 1408, 14th Floor

Cable TV Tower

9 Hoi Shing Road

Tsuen Wan

New Territories

Hong Kong

PRINCIPAL BANKERS

BNP Paribas Hong Kong Branch

The Bank of China (Hong Kong) Limited

The Hongkong and Shanghai Banking Corporation Limited

LEGAL ADVISER

Koo and Partners

AUDITORS

Ernst & Young

Certified Public Accountants

SHARE REGISTRARS AND TRANSFER OFFICE

Principal registrars:

Butterfield Fund Services (Bermuda) Limited

Rosebank Centre

14 Bermudiana Road

Hamilton

Bermuda

Hong Kong branch share

registrars and transfer office:

Tengis Limited

4/F Hutchison House

10 Harcourt Road

Hong Kong

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UNAUDITED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

The Board of Directors (the "Directors") of EC-Founder (Holdings) Company Limited (the "Company") announces the unaudited condensed consolidated interim financial statements of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 June 2002 together with the comparative figures. The condensed consolidated interim financial statements are unaudited, but have been reviewed by the Company's audit committee.

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

		For the six months ended 30 June	
		2002	2001
		(Unaudited)	(Unaudited)
	<i>Notes</i>	HK\$'000	<i>HK\$'000</i>
TURNOVER	2		
Continuing operations		134,663	88,282
Discontinued operation		48,283	45,298
		182,946	133,580
Cost of sales		(150,842)	(110,732)
Gross profit		32,104	22,848
Other revenue	3	3,272	15,314
Selling and distribution costs		(19,919)	(22,242)
Administrative expenses		(30,574)	(35,683)
Other operating expenses		(1,816)	(1,299)
Loss on disposal of discontinued operation	5	(15,079)	–
LOSS FROM OPERATING ACTIVITIES	4	(32,012)	(21,062)
Finance costs	6	(3,716)	(4,289)
Share of profits and losses of associates		2,424	2,974
PROFIT/(LOSS) BEFORE TAX			
Continuing operations		(13,545)	(23,474)
Discontinued operation	5	(19,759)	1,097
		(33,304)	(22,377)
Tax	7	(274)	(871)
LOSS BEFORE MINORITY INTERESTS		(33,578)	(23,248)
Minority interests		170	1,208
NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		(33,408)	(22,040)
LOSS PER SHARE	8		
Basic		4.07 cents	2.69 cents
Diluted		N/A	N/A

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital (Unaudited) HK\$'000	Share premium account (Unaudited) HK\$'000	Contributed surplus (Unaudited) HK\$'000	Exchange fluctuation reserve (Unaudited) HK\$'000	Revaluation reserve (Unaudited) HK\$'000	Accumulated losses (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
At 1 January 2002	82,056	118,299	452,259	(996)	3,777	(471,022)	184,373
Realisation on disposal of discontinued operation	-	-	-	1,173	-	-	1,173
Exchange realignments	-	-	-	(25)	-	-	(25)
Loss for the period	-	-	-	-	-	(33,408)	(33,408)
At 30 June 2002	<u>82,056</u>	<u>118,299</u>	<u>452,259</u>	<u>152</u>	<u>3,777</u>	<u>(504,430)</u>	<u>152,113</u>
	Share capital (Unaudited) HK\$'000	Share premium account (Unaudited) HK\$'000	Contributed surplus (Unaudited) HK\$'000	Exchange fluctuation reserve (Unaudited) HK\$'000	Revaluation reserve (Unaudited) HK\$'000	Retained profits/ (accumulated losses) (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
At 1 January 2001							
As previously reported	82,056	118,299	-	(988)	3,777	50,278	253,422
Reserves restated upon adoption of transitional provision of SSAP 30	-	-	434,557	-	-	17,103	451,660
Impairment of goodwill recognised upon adoption of SSAP 31 (Note)	-	-	-	-	-	(451,660)	(451,660)
At 1 January 2001 (restated)	<u>82,056</u>	<u>118,299</u>	<u>434,557</u>	<u>(988)</u>	<u>3,777</u>	<u>(384,279)</u>	<u>253,422</u>
Exchange realignments	-	-	-	693	-	-	693
Loss for the period	-	-	-	-	-	(22,040)	(22,040)
At 30 June 2001	<u>82,056</u>	<u>118,299</u>	<u>434,557</u>	<u>(295)</u>	<u>3,777</u>	<u>(406,319)</u>	<u>232,075</u>

Note: The Group had performed an assessment of the fair value of goodwill that had previously been eliminated against contributed surplus. The Group has retrospectively restated its previously reported net loss for the year ended 31 December 2000 by approximately HK\$452 million for the impairment of goodwill arising from the acquisition of subsidiaries.

CONDENSED CONSOLIDATED BALANCE SHEET

		As at 30 June 2002 (Unaudited) HK\$'000	As at 31 December 2001 (Audited) HK\$'000
	Notes		
NON-CURRENT ASSETS			
Fixed assets		50,884	71,910
Intangible assets		–	1,270
Interests in associates		22,357	22,527
Long term investments		–	1,075
		<u>73,241</u>	<u>96,782</u>
CURRENT ASSETS			
Inventories		30,401	54,330
Trade and bills receivables	10	46,092	53,957
Other receivables		11,902	53,025
Pledged deposits		15,628	48,313
Cash and cash equivalents		63,504	69,691
		<u>167,527</u>	<u>279,316</u>
CURRENT LIABILITIES			
Trade and bills payables	11	36,687	82,562
Other payables and accruals		27,799	26,247
Other loans		–	9,852
Interest-bearing bank and other borrowings		23,386	68,685
		<u>87,872</u>	<u>187,346</u>
NET CURRENT ASSETS			
		<u>79,655</u>	<u>91,970</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			
		152,896	188,752
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings		115	279
Finance lease payables		634	1,764
		<u>749</u>	<u>2,043</u>
MINORITY INTERESTS			
		<u>34</u>	<u>2,336</u>
		<u>152,113</u>	<u>184,373</u>
CAPITAL AND RESERVES			
Issued capital		82,056	82,056
Reserves		70,057	102,317
		<u>152,113</u>	<u>184,373</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	For the six months ended 30 June	
	2002 (Unaudited) <i>HK\$'000</i>	2001 (Unaudited) (Restated) <i>HK\$'000</i>
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	(10,868)	(38,533)
Net cash inflow from investing activities	32,054	29,166
Net cash inflow/(outflow) from financing activities	(22,723)	8,738
DECREASE IN CASH AND CASH EQUIVALENTS	(1,537)	(629)
Cash and cash equivalents at beginning of period	65,785	94,700
Effect of foreign exchange rate changes, net	(744)	–
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>63,504</u>	<u>94,071</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	39,024	55,067
Time deposits	24,480	39,625
Bank overdrafts	–	(621)
	<u>63,504</u>	<u>94,071</u>

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION AND ACCOUNTING POLICIES

The unaudited condensed consolidated interim financial statements of the Group are prepared in accordance with Hong Kong Statement of Standard Accounting Practice (“SSAP”) No.25 “Interim Financial Reporting” and Appendix 16 of the rules governing the listing of securities (the “Listing Rules”) on the Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The accounting policies and basis of presentation used in the preparation of these unaudited interim financial statements are the same as those used in the audited financial statements for the year ended 31 December 2001, except the following new/revised SSAPs have been adopted for the first time in the preparation of the current period’s unaudited condensed consolidated financial statements:

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

A summary of their major effects is as follows:

SSAP 1 (Revised) prescribes the basis for the presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. The main revision to this SSAP is to change the requirements from presenting a statement of recognised gains and losses to a statement of changes in equity. The condensed consolidated statement of changes in equity for the current interim period and the comparative figures have been presented in accordance with the revised SSAP.

SSAP 11 (Revised) prescribes the basis for the translation of foreign currency transactions and financial statements. The principal impact of this revised SSAP on the condensed consolidated financial statements is that the profit and loss account of subsidiaries and associates operating in Mainland China and overseas are translated at an average rate for the period on consolidation, rather than translated at the applicable rates of exchange ruling at the balance sheet date as was previously required. This SSAP is required to be applied retrospectively. The Group has adopted the transitional provision of this SSAP that where the calculation of a prior year adjustment is impractical, these changes in policy are applied only to current and future financial statements and the effect on the results of the current period is not significant.

SSAP 15 (Revised) prescribes the provision of information about the historical changes in cash and cash equivalents by means of a cash flow statement which classifies cash flows during the period into operating, investing and financing activities. The unaudited condensed consolidated cash flow statement for the current interim period and the comparative figures have been presented in accordance with the revised SSAP.

SSAP 33 prescribes the basis for reporting information about discontinuing/discontinued operations. The impact of this SSAP is the inclusion of significant additional disclosure which are set out in note 5 to the unaudited condensed consolidated financial statements.

SSAP 34 prescribes the accounting treatment and disclosures for employee benefits. This SSAP has had no major impact on these unaudited condensed consolidated financial statements.

2. TURNOVER AND SEGMENT INFORMATION

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

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 other business segments. Summary details of the business segments are as follows:

- (a) the provision of software solutions and e-Commerce services segment is the development of security and geographical information softwares and provision of system and integrated solutions to financial institutions, enterprises and government departments in the PRC which are in the process of computerisation;
- (b) the electronic products segment manufactures weighing scales and lighting products; and
- (c) the electronic components segment manufactures the semi-conductor products.

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

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

2. TURNOVER AND SEGMENT INFORMATION (Continued)

(a) Business segments

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

Group	Provision of software solutions and e-Commerce services				Electronic products		Electronic components (Discontinued)		Consolidated			
	2002		2001		2002		2001		2002		2001	
	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000		
Segment revenue:												
Sales to external customers	<u>40,249</u>	<u>20,294</u>	<u>94,414</u>	<u>67,988</u>	<u>48,283</u>	<u>45,298</u>	<u>182,946</u>	<u>133,580</u>				
Segment results	<u>(12,547)</u>	<u>(22,577)</u>	<u>2,260</u>	<u>2,210</u>	<u>(19,449)</u>	<u>3,464</u>	<u>(29,736)</u>	<u>(16,903)</u>				
Interest and other income							<u>3,272</u>	<u>4,580</u>				
Unallocated expenses							<u>(5,548)</u>	<u>(8,739)</u>				
Loss from operating activities							<u>(32,012)</u>	<u>(21,062)</u>				
Finance costs							<u>(3,716)</u>	<u>(4,289)</u>				
Share of profits and losses of associates							<u>2,424</u>	<u>2,974</u>				
Loss before tax							<u>(33,304)</u>	<u>(22,377)</u>				
Tax							<u>(274)</u>	<u>(871)</u>				
Loss before minority interests							<u>(33,578)</u>	<u>(23,248)</u>				
Minority interests							<u>170</u>	<u>1,208</u>				
Net loss from ordinary activities attributable to shareholders							<u>(33,408)</u>	<u>(22,040)</u>				

(b) Geographical segments

The following tables present revenue and profit/(loss) for the Group's geographical segments for the six months ended 30 June.

Group	Hong Kong		Elsewhere in the PRC		Singapore		United States of America		United Kingdom		Others		Consolidated			
	2002		2001		2002		2001		2002		2001		2002		2001	
	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	
Segment revenue:																
Sales to external customers	<u>19,588</u>	<u>18,653</u>	<u>48,226</u>	<u>29,886</u>	<u>19,731</u>	<u>13,822</u>	<u>77,608</u>	<u>47,630</u>	<u>13,842</u>	<u>17,353</u>	<u>3,951</u>	<u>6,236</u>	<u>182,946</u>	<u>133,580</u>		
Segment results	<u>(8,736)</u>	<u>(2,545)</u>	<u>(14,551)</u>	<u>(19,431)</u>	<u>(7,411)</u>	<u>1,475</u>	<u>1,318</u>	<u>2,500</u>	<u>294</u>	<u>440</u>	<u>(650)</u>	<u>658</u>	<u>(29,736)</u>	<u>(16,903)</u>		

3. OTHER REVENUE

	For the six months ended 30 June	
	2002 (Unaudited) HK\$'000	2001 (Unaudited) HK\$'000
Profit guarantees (Note)	–	10,734
Interest income	365	2,012
Rental income	210	210
Others	2,697	2,358
	<u>3,272</u>	<u>15,314</u>

Note: Pursuant to the Management Agreement dated 17 May 2000, Ricwinco Investment Limited (“Ricwinco”), a substantial shareholder of the Company, should pay a guaranteed amount of approximately HK\$10,734,000 to the Group for the period from 1 January 2001 to 30 June 2001 during which the profit guarantee is effective.

4. LOSS FROM OPERATING ACTIVITIES

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

	For the six months ended 30 June	
	2002 (Unaudited) HK\$'000	2001 (Unaudited) HK\$'000
Depreciation	6,405	7,330
Operating lease rental	3,477	2,212
Amortisation and write-off of deferred development costs	379	1,005
Staff costs (including directors’ remuneration)	48,977	33,000
Provision for doubtful debts	2,051	1,299
Provision for obsolete stock	4,410	–
Rental income	(210)	(210)
Interest income	(365)	(2,012)
	<u>(365)</u>	<u>(2,012)</u>

5. DISCONTINUED OPERATION

On 4 April 2002, the Company entered into a conditional Disposal Agreement (“DA”) with Ricwinco. Pursuant to the DA, the Company conditionally agreed to dispose of its entire issued share capital of Yung Wen Investment & Finance Limited (“YWIF”) and to assign the indebtedness due to the Group by YWIF and its subsidiaries (the “YWIF Group”) to Ricwinco for a total cash consideration of HK\$15,000,000. In addition, Ricwinco conditionally agreed to procure the release of the Company from all existing guarantees and undertakings it had given in respect of the liabilities of the YWIF Group except to a trade creditor aggregating HK\$28 million which will be released by no later than 31 March 2003. The principal activity of the YWIF Group is manufacture, marketing and distribution of electronic components.

5. DISCONTINUED OPERATION *(Continued)*

The carrying amounts of the total assets and liabilities relating to the discontinued operation as at 30 June 2002 are as follows. Comparative information for electronic components business in 2001 is included in accordance with SSAP 33 "Discontinuing operations".

	Electronic components	
	As at 30 June 2002 (Unaudited) HK\$'000	As at 31 December 2001 (Audited) HK\$'000
Total assets	104,768	147,649
Total liabilities	(73,557)	(111,038)
Net assets	<u>31,211</u>	<u>36,611</u>

The turnover, other revenue, expenses and result from the ordinary operation of electronic components business for the six months ended 30 June 2002 and 2001 are as follows:

	Electronic components For the six months ended 30 June	
	2002 (Unaudited) HK\$'000	2001 (Unaudited) HK\$'000
TURNOVER	48,283	45,298
Cost of sales	(48,570)	(44,084)
Gross profit/(loss)	(287)	1,214
Other revenue	2,683	12,505
Selling and distribution costs	(1,572)	(630)
Administrative expenses	(2,511)	(7,816)
Loss on disposal of discontinued operation	(15,079)	-
PROFIT/(LOSS) FROM OPERATING ACTIVITIES	(16,766)	5,273
Finance costs	(3,017)	(4,176)
Share of profits of an associate	24	-
PROFIT/(LOSS) BEFORE TAX	(19,759)	1,097
Tax	-	-
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	<u>(19,759)</u>	<u>1,097</u>

5. DISCONTINUED OPERATION *(Continued)*

The net cash flows attributable to the electronic components business for the six months ended 30 June 2002 and 2001 are as follows:

	Electronic components For the six months ended 30 June	
	2002 (Unaudited) HK\$'000	2001 (Unaudited) HK\$'000
Operating	(2,393)	2,878
Investing	(241)	(1,376)
Financing	1,875	(2,312)
Net cash outflows	<u>(759)</u>	<u>(810)</u>

6. FINANCE COSTS

	For the six months ended 30 June	
	2002 (Unaudited) HK\$'000	2001 (Unaudited) HK\$'000
Interest on bank loans and overdrafts	1,342	2,145
Interest on other loans wholly repayable within five years	2,320	1,010
Interest on finance leases	54	1,134
Total finance costs	<u>3,716</u>	<u>4,289</u>

7. TAX

No provision for Hong Kong profits tax has been made for the Company and its subsidiaries as they either have no assessable profits or have available tax loss brought forward from prior years to offset against current period estimated assessable profits.

Taxes on profits assessable elsewhere have been calculated at the applicable rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	For the six months ended 30 June	
	2002 (Unaudited) HK\$'000	2001 (Unaudited) HK\$'000
Share of tax attributable to an associate	<u>274</u>	<u>871</u>
Tax charge for the period	<u>274</u>	<u>871</u>

8. LOSS PER SHARE

The calculation of basic loss per share is based on the unaudited net loss from ordinary activities attributable to shareholders for the six months ended 30 June 2002 of approximately HK\$33,408,000 (2001: HK\$22,040,000), and the weighted average of 820,562,040 (2001: 820,562,040) ordinary shares in issue during the period.

Diluted loss per share for the six months ended 30 June 2002 and 2001 have not been disclosed as the share options outstanding during these periods had anti-dilutive effect on the basic loss per share for these periods.

9. INTERIM DIVIDEND

The Directors do not recommend the payment of any interim dividend for the six months ended 30 June 2002 (2001: Nil).

10. 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 1 month, extending up to 5 months for major customers. 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 receivables as at the balance sheet date, based on invoice date is as follow:

	As at 30 June 2002 (Unaudited) HK\$'000	As at 31 December 2001 (Audited) HK\$'000
1 - 6 months	38,421	50,869
7 - 12 months	9,599	675
13 - 24 months	710	5,324
Over 24 months	22	5,236
	48,752	62,104
Provision	(2,660)	(8,147)
Total net of provision	46,092	53,957

11. TRADE AND BILLS PAYABLES

An aged analysis of trade and bills payables, based on the payment due date, is as follows:

	As at 30 June 2002 (Unaudited) HK\$'000	As at 31 December 2001 (Audited) HK\$'000
1 - 6 months	30,942	59,641
7 - 12 months	4,673	20,966
Over 12 months	1,072	1,955
	<u>36,687</u>	<u>82,562</u>

12. CONTINGENT LIABILITIES

	As at 30 June 2002 (Unaudited) HK\$'000	As at 31 December 2001 (Audited) HK\$'000
Bills discounted with recourse	–	10,288
Guarantees given to banks in connection with facilities granted to subsidiaries	35,000	50,500
Guarantee given to a trade creditor in connection with credit facilities granted to related companies	28,000	–
	<u>63,000</u>	<u>60,788</u>
Extent of the guaranteed facilities utilised by subsidiaries	9,125	24,795
Extent of the guaranteed credit facilities utilised by the related companies	23,885	–
	<u>33,010</u>	<u>24,795</u>

13. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its land and buildings under operating lease arrangements, with leases negotiated for a term of 1 year. The terms of the lease also require the tenant to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At 30 June 2002, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	As at 30 June 2002 (Unaudited) HK\$'000	As at 31 December 2001 (Audited) HK\$'000
Within one year	<u>149</u>	<u>380</u>

(b) As lessee

The Group leases certain of its office properties and machinery under operating lease arrangements. Leases for properties are negotiated for terms ranging from 1 to 5 years, and those for machinery for a term of 1 year.

At 30 June 2002, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	As at 30 June 2002 (Unaudited) HK\$'000	As at 31 December 2001 (Audited) HK\$'000
Within one year	5,893	6,563
In the second to fifth years, inclusive	<u>8,104</u>	<u>11,940</u>
	<u>13,997</u>	<u>18,503</u>

14. RELATED PARTY TRANSACTIONS

- (a) During the period, the Group entered into the following transactions with Digital Lighting Holdings Limited and its subsidiaries (the "DL Group") in which a substantial shareholder of the Company, Ricwinco, has significant interest.

		For the six months ended 30 June	
		2002	2001
	<i>Notes</i>	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Sales of finished goods to the DL Group	<i>(i)</i>	–	419
Reimbursement of services charges received from the DL Group	<i>(ii)</i>	–	278
Rental income received from the DL Group	<i>(iii)</i>	198	210

- (i) The sales of finished goods to the DL Group were made at cost plus a mark-up of 1.5%.
- (ii) The reimbursement of service charges received from the DL Group represented the reimbursement of actual general and administrative expenses received from the DL Group.
- (iii) The transactions were conducted at current market prices as determined between the two parties.
- (b) On 4 April 2002, the Company entered into a conditional DA with Ricwinco. Pursuant to the DA, the Company conditionally agreed to dispose of its entire issued share capital of YWIF and to assign the indebtedness due to the Group by YWIF Group to Ricwinco for a total cash consideration of HK\$15,000,000. Further details of the transaction is disclosed in note 5 of the unaudited condensed consolidated interim financial statements.
- (c) During the period, the Group received loan interest from an associate MC.Founder Limited of approximately HK\$152,000 (2001: HK\$577,000). The loans to the associate of HK\$3.45 million and HK\$4.25 million are interest-free and bear interest at Hong Kong dollar prime rate per annum respectively. These loans are unsecured and repayable on demand.
- (d) During the period, raw materials of approximately HK\$23.7 million were purchased from Discrete Association Semiconductors Pte. Limited ("DAS"), an associate of the Company. The Directors consider that the purchases of raw materials were made according to the published prices and conditions similar to those offered to other customers of the supplier.

14. RELATED PARTY TRANSACTIONS *(Continued)*

- (e) During the period, finished goods of approximately HK\$31.4 million were sold to and a commission of approximately HK\$900,000 were paid to DAS, according to the published prices offered to customers of the Group and 2.98% of invoiced amount respectively.
- (f) During the period, Ricwinco guaranteed approximately HK\$9,125,000 (2001: HK\$7,610,000) of the Group's unsecured bank overdrafts and trust receipt loans.
- (g) During the period, the Group paid approximately HK\$1,560,000 (2001: HK\$5,354,000) advertising expenses to a subsidiary of Yahoo! Inc., a substantial shareholder of the Company.

In the opinion of the Directors, the above transactions arose in the ordinary course of business.

15. COMPARATIVE FIGURES

As further explained in note 1 to the unaudited condensed consolidated interim financial statements, due to the adoption of certain new and revised SSAPs during the current period, certain comparative amounts have been reclassified to conform with the current period's presentation.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

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

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

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

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

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

REVIEW OF OPERATIONS

Software business

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

The major business sectors of Software business are:

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

Information Security

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

Geographic Information System

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

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

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

E-Finance

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

Enterprise/Government Information

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

Electronic products business

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

FUTURE PROSPECTS

Software business

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

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

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

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

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

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

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

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

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

Electronic products business

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

CONCLUSION

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

LIQUIDITY AND FINANCIAL RESOURCES

Net assets

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

Liquidity

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

Charges on assets

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

Treasury policies

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

Exposure to fluctuations in exchange rates and related hedges

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

Contingent liabilities

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

EMPLOYEE AND REMUNERATION POLICIES

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

DIRECTORS' INTERESTS IN SHARES

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

Ordinary shares of the Company

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

Subsidiary

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

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

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

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

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

DIRECTORS' INTERESTS IN SHARES *(Continued)*

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

DIRECTORS' RIGHTS TO ACQUIRE SHARES

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

SHARE OPTION SCHEME

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

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

SHARE OPTION SCHEME (Continued)

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

SHARE OPTION SCHEME (Continued)

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

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

SHARE OPTION SCHEME *(Continued)*

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

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

SUBSTANTIAL SHAREHOLDERS

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

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

Notes:

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

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

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

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

AUDIT COMMITTEE

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

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

COMPLIANCE WITH THE CODE OF BEST PRACTICE

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

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

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

Hong Kong
24 September 2002