



**EC-FOUNDER (HOLDINGS) COMPANY LIMITED**  
**方正數碼(控股)有限公司\***

(Incorporated in Bermuda with limited liability)

Web sites: [www.ecfounder.com](http://www.ecfounder.com) [www.irasia.com/listco/hk/ecfounder](http://www.irasia.com/listco/hk/ecfounder)

**INTERIM RESULTS ANNOUNCEMENT**  
**FOR THE SIX MONTHS ENDED 30 JUNE 2003**

**UNAUDITED INTERIM RESULTS**

The Board of Directors (the “Directors”) of EC-Founder (Holdings) Company Limited (the “Company”) announces the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively the “Group”) for the six months ended 30 June 2003 together with the comparative figures. The condensed consolidated interim results are unaudited, but have been reviewed by the Company’s audit committee.

**UNAUDITED CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT**

		<b>For the six months ended 30 June</b>	
		<b>2003</b>	<b>2002</b>
		<b>(Unaudited)</b>	<b>(Unaudited)</b>
	<i>Notes</i>	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>TURNOVER</b>			
Continuing operations		<b>26,923</b>	40,249
Discontinuing/discontinued operations	4	<b>84,579</b>	142,697
		<hr/>	<hr/>
Cost of sales	2	<b>111,502</b>	182,946
		<b>(91,998)</b>	(150,842)
		<hr/>	<hr/>
<b>Gross profit</b>		<b>19,504</b>	32,104
Other revenue and gains		<b>5,598</b>	3,272
Selling and distribution costs		<b>(12,595)</b>	(19,919)
Administrative expenses		<b>(15,587)</b>	(30,574)
Other operating income/(expenses), net		<b>1,308</b>	(590)
Impairment of fixed assets		–	(1,226)
Loss on disposal of discontinued operation	4	–	(15,079)
		<hr/>	<hr/>
<b>LOSS FROM OPERATING ACTIVITIES</b>	3	<b>(1,772)</b>	(32,012)
Finance costs	5	<b>(347)</b>	(3,716)
Share of profits of associates		<b>2,555</b>	2,424
		<hr/>	<hr/>
<b>PROFIT/(LOSS) BEFORE TAX</b>			
Continuing operations		<b>(1,572)</b>	(15,823)
Discontinuing/discontinued operations		<b>2,008</b>	(17,481)
		<hr/>	<hr/>
Tax	6	<b>436</b>	(33,304)
		<b>(642)</b>	(274)
		<hr/>	<hr/>
<b>LOSS BEFORE MINORITY INTERESTS</b>		<b>(206)</b>	(33,578)
Minority interests		–	170
		<hr/>	<hr/>
<b>NET LOSS FROM ORDINARY ACTIVITIES</b>			
<b>ATTRIBUTABLE TO SHAREHOLDERS</b>		<b>(206)</b>	(33,408)
		<hr/>	<hr/>
<b>LOSS PER SHARE – BASIC</b>	7	<b>(0.03 cents)</b>	(4.07 cents)
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Notes:

## 1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The unaudited condensed consolidated interim financial statements of the Group are prepared in accordance with Hong Kong Statements of Standard Accounting Practice (“SSAP”) No. 25 “Interim financial reporting” issued by the Hong Kong Society of Accountants (the “HKSA”). The accounting policies and basis of presentation used in the preparation of these unaudited condensed consolidated interim financial statements are consistent with those used in the preparation of the audited consolidated financial statements of the Group for the year ended 31 December 2002, except that the Group has adopted the following new or revised SSAPs issued by the HKSA which are effective for the first time in the preparation of the current period’s unaudited condensed consolidated interim financial statements:

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

A summary of their major effects is as follows:

SSAP 12 (Revised) principally prescribes the accounting treatment and disclosures for deferred tax. In prior years, deferred tax is provided using the income statement liability method on all significant timing differences to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax is not recognised until its realisation is assured beyond reasonable doubt. SSAP 12 (Revised) requires the adoption of the balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. The adoption of SSAP 12 (Revised) has had no material effect on the results for the current or prior accounting periods.

SSAP 35 prescribes the accounting treatment and disclosures for government grants and disclosures for other forms of government assistance. This SSAP has had no material effect on the results for the current or prior accounting periods.

## 2. TURNOVER AND SEGMENT INFORMATION

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

The Group is principally engaged in (i) the provision of software solutions and services; and (ii) design, manufacture and distribution of electronic products (discontinuing operations – note 4)

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

	Provision of software solutions and services (Continuing operations)		Electronic products (Discontinuing operations)		Electronic components (Discontinued operations)		Consolidated	
	2003 (Unaudited) HK\$’000	2002 (Unaudited) HK\$’000	2003 (Unaudited) HK\$’000	2002 (Unaudited) HK\$’000	2003 (Unaudited) HK\$’000	2002 (Unaudited) HK\$’000	2003 (Unaudited) HK\$’000	2002 (Unaudited) HK\$’000
Segment revenue:								
Sales to external customers	<u>26,923</u>	<u>40,249</u>	<u>84,579</u>	<u>94,414</u>	<u>-</u>	<u>48,283</u>	<u>111,502</u>	<u>182,946</u>
Segment results	<u>(5,115)</u>	<u>(12,547)</u>	<u>1,504</u>	<u>2,260</u>	<u>-</u>	<u>(19,449)</u>	<u>(3,611)</u>	<u>(29,736)</u>
Interest and other income							<u>3,999</u>	<u>3,272</u>
Unallocated expenses							<u>(2,160)</u>	<u>(5,548)</u>
Loss from operating activities							<u>(1,772)</u>	<u>(32,012)</u>
Finance costs							<u>(347)</u>	<u>(3,716)</u>
Share of profits of associates							<u>2,555</u>	<u>2,424</u>
Profit/(Loss) before tax							<u>436</u>	<u>(33,304)</u>
Tax							<u>(642)</u>	<u>(274)</u>
Loss before minority interests							<u>(206)</u>	<u>(33,578)</u>
Minority interests							<u>-</u>	<u>170</u>
Net loss from ordinary activities attributable to shareholders							<u>(206)</u>	<u>(33,408)</u>

### 3. LOSS FROM OPERATING ACTIVITIES

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

	For the six months ended 30 June	
	2003	2002
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Depreciation of fixed assets	4,483	6,405
Amortisation and write-off of deferred development costs	–	379
Provision and write-off/(reversal and write-back) of doubtful trade debts	(127)	2,051
Provision for obsolete inventories	–	4,410
Profit guarantees (Note)	(1,600)	–
Gain on disposal of fixed assets	(99)	(18)
Interest income	(207)	(365)
	<u>4,483</u>	<u>6,405</u>

Note: Pursuant to the management agreement entered into between the Company and Ricwinco Investment Limited ("Ricwinco"), a substantial shareholder of the Company, dated 17 May 2000 relating to, among other matters, the appointment of Ricwinco to manage the electronic products business, the Group recognised the profit guarantees of approximately HK\$1,600,000 payable by Ricwinco for the six months ended 30 June 2003.

### 4. DISCONTINUING/DISCONTINUED OPERATIONS

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

On 1 August 2003, the Company entered into a conditional disposal agreement ("DA") with Honour Glory Limited ("Honour Glory"), a company which is 90% owned by Mr. Yung Richard, Jr., a director of the Company. Pursuant to the DA, the Company conditionally agreed to dispose of its entire issued share capital of MIT at a total cash consideration of HK\$45,500,000. Further details of the transaction were set out in the joint announcement of the Company and Founder Holdings Limited ("FHL"), the controlling shareholder of the Company, on 1 August 2003.

The principal activities of the MIT and its subsidiaries are the design, manufacture and distribution of electronic products.

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

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 YW Group was completed on 28 June 2002.

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

### 5. FINANCE COSTS

	For the six months ended 30 June	
	2003	2002
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Interest on bank loans	188	1,342
Interest on other loans wholly repayable within five years	123	2,320
Interest on finance leases	36	54
	<u>347</u>	<u>3,716</u>

### 6. TAX

	For the six months ended 30 June	
	2003	2002
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Share of tax attributable to an associate	642	274

Hong Kong profits tax has been provided at the rate of 17.5% (2002: 16%) on the estimated assessable profits of an associate arising in Hong Kong during the period.

EC-Founder Co., Ltd., a wholly-owned subsidiary of the Group in the People's Republic of China (the "PRC"), is exempted from PRC profits tax for the three fiscal years which commenced in 2001 and ending on 31 December 2003 and, thereafter, will be taxed at 50% of its standard tax rate in the fourth to sixth years, inclusive. At present, the standard tax rate applicable to EC-Founder Co., Ltd. is 15%.

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

No recognition of the potential deferred tax assets relating to tax losses and other deductible temporary differences have been made as the recoverability of the potential deferred tax assets is uncertain.

#### **7. LOSS PER SHARE**

The calculation of basic loss per share for the six months ended 30 June 2003 is based on the unaudited net loss from ordinary activities attributable to shareholders for the period of approximately HK\$206,000 (2002: HK\$33,408,000), and the weighted average of 820,562,040 (2002: 820,562,040) ordinary shares in issue during the period.

Diluted loss per share for the six months ended 30 June 2003 and 2002 have not been disclosed as the impact of the outstanding share options was anti-dilutive.

#### **8. INTERIM DIVIDEND**

The Directors do not recommend the payment of any interim dividend for the six months ended 30 June 2003 (2002: Nil).

### **MANAGEMENT DISCUSSION AND ANALYSIS**

#### **Overall Performance**

The Group's unaudited consolidated loss after tax and minority interests for the period ended 30 June 2003 was substantially narrowed by 99% to approximately HK\$0.2 million (2002: HK\$33.4 million). The substantial improvement was due to the decrease in loss of software solutions and services business of approximately HK\$11 million and the disposal of loss making electronic components business in 2002 which recorded loss of approximately HK\$19 million in the last period.

The Group's turnover for the period ended 30 June 2003 decreased by 39% to approximately HK\$111.5 million (2002: HK\$182.9 million). The decrease in turnover was mainly due to the exclusion of turnover in the electronic components business of approximately HK\$48.3 million as the business was disposed in 2002 and the decrease in software solutions and services business. The Group's gross profit decreased by 39% to approximately HK\$19.5 million (2002: HK\$32.1 million). The decrease in gross profit was mainly due to the decrease in electronic products business by approximately HK\$10.4 million.

#### **Operating Review and Prospects**

##### *(A) Software solutions and services business (continuing operations)*

The turnover of the software solutions and services business for the period decreased by 33% to approximately HK\$26.9 million (2002: HK\$40.2 million) and the segmental loss was significantly narrowed by 59% to approximately HK\$5.1 million (2002: HK\$12.5 million).

The software solutions and services business was still facing fierce competition in the PRC market. Although the turnover decreased by 33% in current period, the gross profit margin in this sector improved by approximately 6 margin points to approximately 37%. The increase in gross profit margin in current period was mainly due to tight cost control. On the other hand, the expenditure was substantially reduced by approximately HK\$13 million which included cutting headcounts; less spending in marketing expenses and streamline the organization structure. Through our efforts in the past few years, we have established strong reputation in the banking and government sectors for our e-finance systems, information security systems, geographic information systems and government information systems. Following to the completion of acquisition of the distribution of information products business on 1 July 2003, it is believed that the Group can now deliver a total solution package to satisfy the customers' needs.

##### *(B) Electronic products business (discontinuing operations)*

The turnover of the electronic products business for the period decreased by 10% to approximately HK\$84.6 million (2002: HK\$94.4 million) and the segmental profit decreased by 33% to approximately HK\$1.5 million (2002: HK\$2.3 million).

The result of this sector was affected by the slowing down of demand of electronic products and increase in cost of sales. As disclosed in note 4(a) above, the Company entered into a conditional agreement to dispose the electronic products business. Following to the disposal of this business, the Company will now concentrate the resources to focus on its information technology business.

##### *(C) Electronic components business (discontinued operations)*

As disclosed in note 4(b) above, the Company has completed the disposal of electronic components business on 28 June 2002 and therefore the results of this sector were not included in the current period.

## **MAJOR ACQUISITION**

On 19 March 2003, the Company entered into a conditional sale and purchase agreement (the “S&P Agreement”) with Founder (Hong Kong) Limited (“FHK”), a wholly-owned subsidiary of FHL. Pursuant to the S&P Agreement, the Company will acquire the entire interests in Founder Century (Hong Kong) Limited (“HK Century”) and Beijing Founder Century Information System Co., Ltd. (“PRC Century”) from FHK. Further details of the transaction were set out in the joint announcement of the Company and FHL on 19 March 2003. The acquisition was completed on 1 July 2003.

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

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

## **LIQUIDITY AND FINANCIAL RESOURCES**

### **Net Assets**

As at 30 June 2003, the Group recorded total assets of approximately HK\$218.3 million which were financed by liabilities of approximately HK\$81.9 million and equity of approximately HK\$136.4 million. The Group’s net asset value as at 30 June 2003 was approximately HK\$136.4 million (31 December 2002: HK\$136.6 million).

### **Liquidity**

The Group had total cash and bank balances of approximately HK\$66.9 million as at 30 June 2003 (31 December 2002: HK\$62.9 million). After deducting bank loans and overdrafts of approximately of HK\$12.0 million (31 December 2002: HK\$12.2 million), the Group recorded a net cash balance of approximately HK\$54.9 million as at 30 June 2003 (31 December 2002: HK\$50.7 million). As at 30 June 2003, the Group’s working capital ratio was 1.87 (31 December 2002: 1.79) and a long term debt to equity ratio of 0.35% (31 December 2002: 0.44%) with equity being defined as the total of capital and reserves.

### **Charges on Assets**

As at 30 June 2003, the land and building situated overseas of the Group and fixed deposits of approximately HK\$2.5 million and approximately HK\$7.8 million respectively, were pledged to banks to secure banking facilities granted.

### **Treasury policies**

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

### **Exposure to fluctuations in exchange rates and related hedges**

Most of the Group’s borrowings are denominated in Hong Kong dollars, Renminbi and United States dollars while the turnover of the Group are mainly denominated in Hong Kong dollars, Renminbi and United States dollars. As the exchange rates of United States dollars and Renminbi against Hong Kong dollars were relatively stable during the 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**

As at 30 June 2003, the Group did not have any significant contingent liabilities.

## **EMPLOYEE AND REMUNERATION POLICIES**

As at 30 June 2003, the Group had approximately 200 and 1,480 employees for the software solutions and services business and electronic products business, respectively. These employees of which approximately 97% work in the 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.

## **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 six months ended 30 June 2003.

### **COMPLIANCE WITH THE CODE OF BEST PRACTICE**

In the opinion of the Directors, the Company has complied with the Code of Best Practice (the “Code”) as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) throughout the accounting period covered by the unaudited condensed consolidated interim financial statements of the Group, except that the independent non-executive directors of the Company are not appointed for specific terms as required by paragraph 7 of the Code, but are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the provisions of the Company’s Bye-laws.

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

### **DETAILED RESULTS ANNOUNCEMENT**

A detailed results announcement containing all the information required by paragraphs 46(1) to 46(6) of Appendix 16 of the Listing Rules will be subsequently published on The Stock Exchange of Hong Kong Limited web site in the due course.

By Order of the Board  
**EC-Founder (Holdings) Company Limited**  
**Zhang Zhao Dong**  
*Chairman*

Hong Kong, 19 September 2003

\* *For identification purpose only*