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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

AUDIT COMMITTEE

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

Bank of China (Hong Kong) Limited

The Hongkong and Shanghai Banking Corporation Limited

LEGAL ADVISER

Norton Rose

38th Floor, Jardine House

1 Connaught Place

Central, Hong Kong

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>

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

CONDENSED CONSOLIDATED BALANCE SHEET

		As at 30 June 2003 (Unaudited) HK\$'000	As at 31 December 2002 (Audited) HK\$'000
	Notes		
NON-CURRENT ASSETS			
Fixed assets		47,851	47,786
Interests in associates		18,392	22,864
		<u>66,243</u>	<u>70,650</u>
CURRENT ASSETS			
Inventories		34,685	35,031
Systems integration contracts		1,036	–
Trade and bills receivables	9	41,135	48,744
Prepayments and other receivables		8,264	4,664
Pledged deposits		7,799	7,801
Cash and cash equivalents		59,164	55,068
		<u>152,083</u>	<u>151,308</u>
CURRENT LIABILITIES			
Systems integration contracts		–	2,411
Trade and bills payables	10	34,478	36,873
Other payables and accruals		34,389	32,921
Interest-bearing bank and other borrowings		12,562	12,533
		<u>81,429</u>	<u>84,738</u>
NET CURRENT ASSETS			
		<u>70,654</u>	<u>66,570</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			
		136,897	137,220
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings		111	206
Finance lease payables		372	394
		<u>483</u>	<u>600</u>
		<u>136,414</u>	<u>136,620</u>
CAPITAL AND RESERVES			
Issued capital		82,056	82,056
Reserves		54,358	54,564
		<u>136,414</u>	<u>136,620</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Issued 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
As at 1 January 2003	82,056	118,299	488,759	181	3,777	(556,452)	136,620
Net loss from ordinary activities attributable to shareholders for the period	-	-	-	-	-	(206)	(206)
As at 30 June 2003	<u>82,056</u>	<u>118,299</u>	<u>488,759</u>	<u>181</u>	<u>3,777</u>	<u>(556,658)</u>	<u>136,414</u>
	Issued 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
As at 1 January 2002	82,056	118,299	452,259	(996)	3,777	(471,022)	184,373
Realisation on disposal of discontinued operations	-	-	-	1,173	-	-	1,173
Exchange realignment	-	-	-	(25)	-	-	(25)
Net gains not recognised in the profit and loss account	-	-	-	1,148	-	-	1,148
Net loss from ordinary activities attributable to shareholders for the period	-	-	-	-	-	(33,408)	(33,408)
As 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>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	For the six months ended 30 June	
	2003 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000
Net cash inflow/(outflow) from operating activities	2,246	(10,868)
Net cash inflow from investing activities	2,338	32,054
Net cash outflow from financing activities	<u>(488)</u>	<u>(22,723)</u>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	4,096	(1,537)
Cash and cash equivalents at beginning of period	55,068	65,785
Effect of foreign exchange rate changes, net	<u>–</u>	<u>(744)</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>59,164</u>	<u>63,504</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	31,543	39,024
Non-pledged time deposits with original maturity of less than three months when acquired	<u>27,621</u>	<u>24,480</u>
	<u>59,164</u>	<u>63,504</u>

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The unaudited condensed consolidated interim financial statements of the Group are prepared in accordance with Hong Kong Statements of Standard Accounting Practice (“SSAP”) No. 25 “Interim financial reporting” issued by the Hong Kong 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	2002	2003	2002	2003	2002	2003	2002
	(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>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 (Unaudited) HK\$'000	2002 (Unaudited) 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)

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 (the "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.

4. DISCONTINUING/DISCONTINUED OPERATIONS (Continued)

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

	Electronic products (Discontinuing operations)	Electronic components (Discontinued operations)
	As at 30 June 2003 (Unaudited) HK\$'000	As at 31 December 2002 (Audited) HK\$'000
Total assets	128,297	126,608
Total liabilities (Note)	(58,558)	(54,801)
Net assets	<u>69,739</u>	<u>71,807</u>
		<u>1,304</u>

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

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

	Electronic products (Discontinuing operations)	Electronic components (Discontinued operations)
	For the six months ended 30 June 2003 (Unaudited) HK\$'000	Period ended 28 June 2002 (Audited) HK\$'000
TURNOVER	84,579	94,414
Cost of sales	(75,212)	(74,653)
Gross profit/(loss)	9,367	19,761
Other revenue and gains	2,267	493
Selling and distribution costs	(1,893)	(1,370)
Administrative expenses	(9,260)	(15,928)
Other operating income/(expenses), net	1,690	(457)
Loss on disposal of discontinued operations	-	-
	-	(15,079)
PROFIT/(LOSS) FROM OPERATING ACTIVITIES	2,171	2,499
Finance costs	(163)	(221)
Share of profits of an associate	-	-
	-	24
PROFIT/(LOSS) BEFORE TAX	2,008	2,278
Tax	-	-
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	<u>2,008</u>	<u>2,278</u>
		<u>(19,759)</u>

4. DISCONTINUING/DISCONTINUED OPERATIONS *(Continued)*

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

	Electronic products (Discontinuing operations) For the six months ended 30 June 2003 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000	Electronic components (Discontinued operations) Period ended 28 June 2002 (Audited) HK\$'000
Operating	9,243	10,328	(13,648)
Investing	(3,588)	(2,577)	11,014
Financing	(488)	(812)	1,873
Net cash inflows/(outflows)	<u>5,167</u>	<u>6,939</u>	<u>(761)</u>

5. FINANCE COSTS

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

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.

6. TAX *(Continued)*

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).

9. TRADE AND BILLS RECEIVABLES

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

9. TRADE AND BILLS RECEIVABLES (Continued)

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

	As at 30 June 2003 (Unaudited) HK\$'000	As at 31 December 2002 (Audited) HK\$'000
Within 6 months	36,776	44,457
7 – 12 months	2,616	1,460
13 – 24 months	1,721	2,827
Over 24 months	22	–
	<u>41,135</u>	<u>48,744</u>

10. TRADE AND BILLS PAYABLES

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

	As at 30 June 2003 (Unaudited) HK\$'000	As at 31 December 2002 (Audited) HK\$'000
Within 6 months	28,573	31,696
7 – 12 months	2,100	1,836
13 – 24 months	3,712	3,166
Over 24 months	93	175
	<u>34,478</u>	<u>36,873</u>

11. CONTINGENT LIABILITIES

As at the balance sheet date, the contingent liabilities not provided for in the unaudited condensed consolidated interim financial statements are as follows:

	As at 30 June 2003 (Unaudited) HK\$'000	As at 31 December 2002 (Audited) HK\$'000
Guarantee given to a trade creditor in connection with credit facilities granted to related companies	<u>–</u>	<u>28,000</u>

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

12. CAPITAL COMMITMENTS

The Group had the following capital commitment as at the balance sheet date:

	As at 30 June 2003 (Unaudited) HK\$'000	As at 31 December 2002 (Audited) HK\$'000
Contracted, but not provided for:		
Leasehold improvements	<u>666</u>	<u>—</u>

13. RELATED PARTY TRANSACTIONS

- (a) On 19 March 2003, the Company entered into a conditional sale and purchase agreement (the "S&P Agreement") with Founder (Hong Kong) Limited ("FHK"), a wholly-owned subsidiary of FHL. Pursuant to the S&P Agreement, the Company acquired the entire equity 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.
- (b) On 29 April 2003, the Group entered into a lease agreement with Peking University Founder Group Corporation ("Peking Founder") to lease from Peking Founder certain premises in Beijing, the PRC, as its office for an annual rental and management fee of approximately HK\$2,386,000 effective from 1 May 2003 to 31 December 2005. No rental and management fee had been charged during the period as a rent free period from 1 May 2003 to 30 June 2003 was granted to the Group.
- (c) During the period, the Group received commission income of approximately HK\$2,503,000 (2002: HK\$934,000) for the provision of advertising agency services from a subsidiary of Yahoo! Inc., a substantial shareholder of the Company.
- (d) During the period, the Group recognised the profit guarantees of approximately HK\$1,600,000 payable by Ricwinco. Further details are set out in note 3 to the unaudited condensed consolidated interim financial statements.
- (e) During the period, rental expenses of approximately HK\$255,000 (2002: Nil) were paid by the Group to the YW Group. The transactions were conducted at current market prices as determined between the two parties.
- (f) On 4 April 2002, the Company entered into a conditional disposal agreement with Ricwinco to dispose the electronic components business. Further details are set out in note 4(b) to the unaudited condensed consolidated interim financial statements.
- (g) For the six months ended 30 June 2002, the Group received loan interest from MC.Founder Limited, an associate of the Company, of approximately HK\$152,000. The loan was unsecured, bore interest at Hong Kong dollar prime rate per annum and was repaid during 2002.

13. RELATED PARTY TRANSACTIONS *(Continued)*

- (h) For the six months ended 30 June 2002, raw materials of approximately HK\$23,701,000 were purchased from Discrete Association Semiconductors Pte. Limited ("DAS"), an associate of the Company. The purchases of raw materials were made according to the published prices and conditions similar to those offered to other customers of the supplier.

For the six months ended 30 June 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 six months ended 30 June 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.

- (i) For the six months ended 30 June 2002, Ricwinco guaranteed approximately HK\$9,125,000 of the unsecured bank overdrafts and trust receipt loans of the Group.
- (j) For the six months ended 30 June 2002, the Group paid approximately HK\$1,560,000 advertising expenses to a subsidiary of Yahoo! Inc.

14. POST BALANCE SHEET EVENTS

- (a) Pursuant to the S&P Agreement entered by the Company and FHK on 19 March 2003, the acquisition of HK Century and PRC Century was completed on 1 July 2003. Further details were set out in note 13(a) to the unaudited condensed consolidated interim financial statements. The principal activities of HK Century and PRC Century are the distribution of information products in Hong Kong and the PRC.
- (b) On 1 August 2003, the Company entered into the DA with Honour Glory to dispose the electronic products business. Further details were set out in note 4(a) to the unaudited condensed consolidated interim financial statements.

MANAGEMENT DISCUSSION AND ANALYSIS AND OTHER INFORMATION

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.

Operating Review and Prospects *(Continued)*

(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) to the unaudited condensed consolidated interim financial statements 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) to the unaudited condensed consolidated interim financial statements 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

As set out in notes 13(a) and 14(a) to the unaudited condensed consolidated interim financial statements, the Company entered into the S&P Agreement with FHK on 19 March 2003. Pursuant to the S&P Agreement, the Company acquired the entire interests in HK Century and PRC Century from FHK. 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.

DIRECTORS' INTERESTS IN SECURITIES

At 30 June 2003, the interests and short positions of the directors and the chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept by the Company under 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 ("Model Code") contained in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows:

Long position in the shares of the Company

Name of director	Number of ordinary shares held and nature of interest			Total	Percentage of the issued share capital
	Corporate	Personal	As trustee (Note 1)		
Mr. Yung Chih Shin, Richard (Note 2)	87,680,000	-	-	87,680,000	10.69%
Mr. Cheung Shuen Lung	-	36,890,100	63,459,100	100,349,200	12.23%
Mr. Zhang Zhao Dong	-	3,956,000	63,459,100	67,415,100	8.22%
Professor Wei Xin	-	3,956,000	63,459,100	67,415,100	8.22%
Professor Zou Wei	-	-	63,459,100	63,459,100	7.73%

Note 1: These shares held by each of the directors of the Company (a total of 63,459,100 ordinary shares of the Company) are held by F2 Consultant Limited as nominee on behalf of the directors of Founder Data Corporation International Limited ("FDC"), a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of the Company, who are acting in their capacity as the trustees of a discretionary trust for the employees of FDC and its subsidiaries.

Note 2: Mr. Yung Chih Shin, Richard is interested in these shares through Ricwinco.

DIRECTORS' INTERESTS IN SECURITIES (Continued)

Short position in the shares of the Company

Name of director	Number of ordinary shares	Percentage of the issued share capital
Mr. Yung Chih Shin, Richard (Note 3)	41,227,917	5.02%

Note 3: Ricwinco has charged 41,227,917 ordinary shares of the Company to FDC pursuant to a share mortgage dated 28 June 2002 (the "Share Mortgage"). Mr. Yung Chih Shin, Richard is deemed to have a short position over such shares under the SFO by virtue of his interest in Ricwinco.

Long position in the shares of a subsidiary of the Company

Name of director	Subsidiary in which shares are held	Number of shares held	Nature of interest
Mr. Yung Chih Shin, Richard (Note 4)	Management Investment & Technology Company Limited	20,000,000 non-voting deferred shares	Corporate

Note 4: Mr. Yung Chih Shin, Richard is interested in these shares through Ricwinco.

In addition to the above, as at 30 June 2003, certain directors had non-beneficial personal equity interests in certain subsidiaries of the Company held for the benefit of the Company, solely for the purpose of complying with the minimum company membership requirements.

Long position in the underlying shares of the Company

The interests of the directors in the share options of the Company are separately disclosed under the heading "Share option schemes" below.

Save as disclosed above and as disclosed below under the heading "Directors' rights to acquire shares and debentures", as at 30 June 2003, none of the directors or the chief executives of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under 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 AND DEBENTURES

Apart from as disclosed under the heading "Share option schemes" 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 or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

SHARE OPTION SCHEMES

On 24 May 2002, the Company adopted a share option scheme (the "New Scheme") in compliance with Chapter 17 of the Listing Rules. No share options had been granted under the New Scheme during the six months ended 30 June 2003.

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

The following share options were outstanding under the 1991 Scheme and the 2001 Scheme during the period:

Name or category of participant	Number of outstanding share options as at 1 January 2003 and as at 30 June 2003	Date of grant of share options	Exercise period of share options	Exercise price of share options** HK\$
1991 Scheme				
<i>Directors, chief executives and substantial shareholders</i>				
Mr. Yung Richard, Jr.	2,700,000	18.5.2001	15.12.2001* to 14.12.2006	0.450
<i>Other employees</i>				
In aggregate	3,200,000	18.5.2001	15.12.2001* to 14.12.2006	0.450
Total under the 1991 Scheme	<u><u>5,900,000</u></u>			

SHARE OPTION SCHEMES (Continued)

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\$
	As at 1 January 2003	Lapsed during the period	As at 30 June 2003			
2001 Scheme						
Directors, chief executives and substantial shareholders						
Mr. Cheung Shuen Lung	2,000,000	–	2,000,000	18.5.2001	18.5.2001 to 17.5.2011	0.450
Professor Wei Xin	2,000,000	–	2,000,000	18.5.2001	18.5.2001 to 17.5.2011	0.450
Professor Zou Wei	2,000,000	–	2,000,000	18.5.2001	18.5.2001 to 17.5.2011	0.450
Subtotal	<u>6,000,000</u>	<u>–</u>	<u>6,000,000</u>			
Other employees						
In aggregate	18,900,000	(8,000,000)	10,900,000	18.5.2001	18.5.2001 to 17.5.2011	0.450
Subtotal	<u>18,900,000</u>	<u>(8,000,000)</u>	<u>10,900,000</u>			
Total under the 2001 Scheme	<u>24,900,000</u>	<u>(8,000,000)</u>	<u>16,900,000</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 share capital of the Company.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2003, the following corporations (other than a director or chief executive of the Company) had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO:

Name of shareholder	Notes	Long position under the SFO		Short position under the SFO	
		Number of ordinary shares held	Percentage of the issued share capital	Number of ordinary shares held	Percentage of the issued share capital
Peking Founder	1	668,533,477	81.47%	–	–
FHL	2	668,533,477	81.47%	–	–
Yahoo! Inc.		93,240,000	11.36%	–	–
Ricwinco	3	87,680,000	10.69%	41,227,917	5.02%
F2 Consultant Limited	4	63,459,100	7.73%	–	–
HSBC International Trustee Limited	5	60,500,000	7.37%	–	–
Sun Hung Kai Properties Limited	5	60,500,000	7.37%	–	–
Sunco Resources Limited	5	60,500,000	7.37%	–	–
SUNeVision Holdings Ltd.	5	60,500,000	7.37%	–	–
Hugh Profit Investments Ltd.	5	60,500,000	7.37%	–	–
Well Drive Holdings Limited		60,500,000	7.37%	–	–

Notes:

1. Peking Founder is deemed to be interested in the 668,533,477 shares of the Company under the SFO by virtue of its interest in FHL.
2. FHL's interests in the 668,533,477 shares of the Company comprise (i) 323,690,000 shares held by FHL as beneficial owner of such shares; (ii) 41,227,917 shares held by FDC pursuant to the Share Mortgage; (iii) 280,000,000 shares being new shares which will be issued to FHK (or as it may direct) upon completion pursuant to the S&P Agreement entered into between FHK and the Company; and (iv) 23,615,560 shares being new shares which will be issued to FHK (or as it may direct) at the option of FHK pursuant to the S&P Agreement entered into between FHK and the Company. FHL is deemed to be interested in the interests of FDC and FHK in those shares under the SFO.
3. Ricwinco is a wholly-owned subsidiary of Mr. Yung Chih Shin, Richard. Among the 87,680,000 shares of the Company beneficially owned by Ricwinco, 41,227,917 shares were charged to FDC pursuant to the Share Mortgage which are classified as a short position of Ricwinco under the SFO.
4. F2 Consultant Limited owns 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.

SUBSTANTIAL SHAREHOLDERS *(Continued)*

Save as disclosed above, as at 30 June 2003, no other person (other than a director or chief executive of the Company) had an interest or short position in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

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 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.

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

Hong Kong
19 September 2003