

CONTENTS

	<i>Pages</i>
Corporate Information	2
Condensed Consolidated Profit and Loss Account	3
Condensed Consolidated Balance Sheet	4
Condensed Consolidated Statement of Changes in Equity	5
Condensed Consolidated Cash Flow Statement	6
Notes to Condensed Consolidated Interim Financial Statements	7-14
Management Discussion and Analysis and Other Information	15-24

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

Canon's Court
22 Victoria Street
Hamilton HM12
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

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

PRINCIPAL BANKERS

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

LEGAL ADVISER

Norton Rose
Morrison & Foerster

AUDITORS

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

SHARE REGISTRARS AND TRANSFER OFFICE

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

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

WEBSITE ADDRESS

<http://www.ecfounder.com>

STOCK CODE

618

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 2004 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	
		2004	2003
		(Unaudited)	(Unaudited)
	<i>Notes</i>	HK\$'000	<i>HK\$'000</i>
TURNOVER			
Continuing operations		531,711	26,923
Discontinued operation	4	–	84,579
		<hr/>	<hr/>
	2	531,711	111,502
Cost of sales		(498,522)	(91,998)
		<hr/>	<hr/>
Gross profit		33,189	19,504
Other revenue and gains		1,742	5,598
Selling and distribution costs		(19,710)	(12,595)
Administrative expenses		(16,970)	(15,587)
Other operating income/(expenses), net		(770)	1,308
Impairment of goodwill		(43,500)	–
		<hr/>	<hr/>
LOSS FROM OPERATING ACTIVITIES	3	(46,019)	(1,772)
Finance costs	5	(45)	(347)
Share of profits of associates		4,256	2,555
		<hr/>	<hr/>
PROFIT/(LOSS) BEFORE TAX			
Continuing operations		(41,808)	(1,572)
Discontinued operation	4	–	2,008
		<hr/>	<hr/>
		(41,808)	436
Tax	6	(1,480)	(642)
		<hr/>	<hr/>
NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		(43,288)	(206)
		<hr/>	<hr/>
LOSS PER SHARE – BASIC	7	(3.93 cents)	(0.03 cents)
		<hr/>	<hr/>

CONDENSED CONSOLIDATED BALANCE SHEET

	As at 30 June 2004 (Unaudited) HK\$'000	As at 31 December 2003 (Audited) HK\$'000
<i>Notes</i>		
NON-CURRENT ASSETS		
Fixed assets	10,439	9,621
Goodwill	2,571	2,892
Interests in associates	24,252	21,473
Deferred tax	1,230	1,230
	<u>38,492</u>	<u>35,216</u>
CURRENT ASSETS		
Inventories	106,907	79,721
Systems integration contracts	679	1,980
Trade and bills receivables	198,274	152,013
Prepayments, deposits and other receivables	44,649	29,545
Pledged deposits	23,474	17,399
Cash and cash equivalents	104,438	142,070
	<u>478,421</u>	<u>422,728</u>
CURRENT LIABILITIES		
Trade and bills payables	293,220	223,946
Tax payable	15	25
Other payables and accruals	46,870	57,847
	<u>340,105</u>	<u>281,818</u>
NET CURRENT ASSETS	<u>138,316</u>	<u>140,910</u>
	<u>176,808</u>	<u>176,126</u>
CAPITAL AND RESERVES		
Issued capital	110,056	110,056
Reserves	66,752	66,070
	<u>176,808</u>	<u>176,126</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
At 1 January 2004	110,056	154,699	471,656	(111)	-	(560,174)	176,126
Exchange realignment	-	-	-	470	-	-	470
Impairment of goodwill	-	-	43,500	-	-	-	43,500
Net loss from ordinary activities attributable to shareholders for the period	-	-	-	-	-	(43,288)	(43,288)
At 30 June 2004	110,056	154,699	515,156	359	-	(603,462)	176,808
	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
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)
At 30 June 2003	82,056	118,299	488,759	181	3,777	(556,658)	136,414

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	For the six months ended 30 June	
	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
Net cash inflow/(outflow) from operating activities	(28,892)	2,246
Net cash inflow/(outflow) from investing activities	(8,839)	2,338
Net cash outflow from financing activities	—	(488)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(37,731)	4,096
Cash and cash equivalents at beginning of period	142,070	55,068
Effect of foreign exchange rate changes, net	99	—
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>104,438</u>	<u>59,164</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	101,532	31,543
Non-pledged time deposits with original maturity of less than three months when acquired	2,906	27,621
	<u>104,438</u>	<u>59,164</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 Institute of Certified Public Accountants.

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 2003.

2. TURNOVER AND SEGMENT INFORMATION

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

The Group is principally engaged in (i) the distribution of information products (acquired in July 2003); and (ii) the provision of software solutions and services.

2. TURNOVER AND SEGMENT INFORMATION (Continued)

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

	Distribution of information products		Provision of software solutions and services		Electronic products (Discontinued)		Corporate		Consolidated	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:										
Sales to external customers	<u>503,656</u>	-	<u>28,055</u>	<u>26,923</u>	-	<u>84,579</u>	-	-	<u>531,711</u>	<u>111,502</u>
Segment results	<u>2,945</u>	-	<u>(3,560)</u>	<u>(2,045)</u>	-	<u>2,170</u>	<u>(2,290)</u>	<u>(2,104)</u>	<u>(2,905)</u>	<u>(1,979)</u>
Interest income									<u>386</u>	<u>207</u>
Impairment of goodwill									<u>(43,500)</u>	<u>-</u>
Loss from operating activities									<u>(46,019)</u>	<u>(1,772)</u>
Finance costs									<u>(45)</u>	<u>(347)</u>
Share of profits of associates									<u>4,256</u>	<u>2,555</u>
Profit/(loss) before tax									<u>(41,808)</u>	<u>436</u>
Tax									<u>(1,480)</u>	<u>(642)</u>
Net loss from ordinary activities attributable to shareholders									<u>(43,288)</u>	<u>(206)</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	
	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
Depreciation of fixed assets	1,746	4,483
Goodwill:		
Amortisation for the period	321	-
Impairment during the period	43,500	-
Provision and write-off/(reversal and write-back) of doubtful trade debts	193	(127)
Provision and write-off for obsolete inventories	263	-
Profit guarantees (Note)	-	(1,600)
Loss/(gain) on disposal of fixed assets	255	(99)
Interest income	(386)	(207)

Note: The profit guarantees was related to the Electronic products business which was discontinued following to the completion of disposal of business on 26 September 2003.

4. DISCONTINUED OPERATION

Disposal of MIT Holdings Limited (“MIT”) – Electronic products business

On 1 August 2003, the Company entered into a conditional disposal agreement with Honour Glory Limited (“Honour Glory”), a company which is 90% owned by Mr. Yung Richard, Jr., a director of the Company, to dispose of its entire issued share capital of MIT at a total cash consideration of HK\$45,500,000 (the “Disposal”).

The principal activities of MIT and its subsidiaries were the design, manufacture and distribution of electronic products. The Group discontinued the electronic products operation upon the completion of the Disposal on 26 September 2003.

The turnover, other revenue and gains, expenses and results of the discontinued operation which had been included in the consolidated profit and loss account were as follows:

	For the six months ended 30 June 2003 (Unaudited) HK\$'000
TURNOVER	84,579
Cost of sales	<u>(75,212)</u>
Gross profit	9,367
Other revenue and gains	2,267
Selling and distribution costs	(1,894)
Administrative expenses	(9,260)
Other operating income, net	<u>1,690</u>
PROFIT FROM OPERATING ACTIVITIES	2,170
Finance costs	<u>(162)</u>
PROFIT BEFORE TAX	2,008
Tax	<u>–</u>
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	<u><u>2,008</u></u>

4. DISCONTINUED OPERATION *(Continued)*

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

	As at 30 June 2003 (Unaudited) <i>HK\$'000</i>
Total assets	128,297
Total liabilities	<u>(58,558)</u>
Net assets	<u><u>69,739</u></u>

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

	For the six months ended 30 June 2003 (Unaudited) <i>HK\$'000</i>
Operating	9,243
Investing	(3,588)
Financing	<u>(488)</u>
Net cash inflows	<u><u>5,167</u></u>

5. FINANCE COSTS

	For the six months ended 30 June	
	2004 (Unaudited) <i>HK\$'000</i>	2003 (Unaudited) <i>HK\$'000</i>
Interest on bank loans	45	188
Interest on other loans wholly repayable within five years	–	123
Interest on finance leases	–	<u>36</u>
	<u>45</u>	<u><u>347</u></u>

6. TAX

	For the six months ended 30 June	
	2004	2003
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Group:		
Current – Hong Kong	3	–
Share of tax attributable to associates	<u>1,477</u>	<u>642</u>
Total tax charge for the period	<u><u>1,480</u></u>	<u><u>642</u></u>

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 17.5%) on the estimated assessable profits 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 ended on 31 December 2003 and, thereafter, is taxed at 50% of its standard tax rate in the fourth to sixth years, inclusive. Beijing Founder Century Information System Co., Ltd. ("BJ Founder Century"), a wholly-owned PRC subsidiary of the Group, is exempted from PRC profits tax for the three fiscal years which commenced in 2002 and ending on 31 December 2004 and, thereafter, will be taxed at 50% of its standard tax rate in the fourth to sixth years, inclusive. At present, the standard tax rate applicable to EC-Founder Co., Ltd. and BJ Founder Century 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.

7. LOSS PER SHARE

The calculation of basic loss per share for the six months ended 30 June 2004 is based on the unaudited net loss from ordinary activities attributable to shareholders for the period of approximately HK\$43,288,000 (2003: HK\$206,000), and the weighted average of 1,100,562,040 (2003: 820,562,040) ordinary shares in issue during the period.

Diluted loss per share for the six months ended 30 June 2004 and 2003 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 2004 (2003: 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.

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 2004 (Unaudited) HK\$'000	As at 31 December 2003 (Audited) HK\$'000
Within 6 months	185,648	146,392
7 – 12 months	10,581	3,412
13 – 24 months	487	1,619
Over 24 months	1,558	590
	<u>198,274</u>	<u>152,013</u>

Included in the Group's trade and bills receivables are amounts due from fellow subsidiaries, of approximately HK\$2,095,000 (2003: HK\$2,557,000), which are repayable on similar credit terms to those offered to the major customers of the Group.

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 2004 (Unaudited) HK\$'000	As at 31 December 2003 (Audited) HK\$'000
Within 6 months	289,045	219,959
7 – 12 months	946	326
Over 12 months	3,229	3,661
	<u>293,220</u>	<u>223,946</u>

11. CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities as at 30 June 2004.

12. RELATED PARTY TRANSACTIONS

- (a) On 29 April 2003, the Group entered into a lease agreement with Peking University Founder Group Corporation (“Peking Founder”), the controlling shareholder of Founder Holdings Limited (“FHL”) – the controlling shareholder of the Company, to lease from Peking Founder certain premises in Beijing, the PRC, as its offices effective from 1 May 2003 to 31 December 2005. During the period, rental and management fee expenses of approximately HK\$2,146,000 (2003: Nil) were paid to Peking Founder according to the terms of the lease agreements.
- (b) During the period, the Group received commission income of approximately HK\$1,877,000 (2003: HK\$1,533,000) for the provision of advertising agency services from a subsidiary of Yahoo! Inc., a shareholder which held 8.47% of the shares of the Company.
- (c) During the period, products of approximately HK\$7,337,000 (2003: Nil) were sold to fellow subsidiaries. The sales of products were made according to published prices and conditions similar to those offered to other customers of the Group.
- (d) As at 30 June 2004, Peking Founder guaranteed banking facilities given by the PRC banks to the Group of approximately HK\$306,475,000 (2003: Nil) which were utilised to the extent of approximately HK\$255,495,000 (2003: Nil).
- (e) During the period, products of approximately HK\$22,518,000 (2003: Nil) were purchased from a company in which one director of a subsidiary was a shareholder. The purchase prices were determined based on actual costs incurred.
- (f) 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 interests in BJ Founder Century and Founder Century (Hong Kong) Limited from FHK. The acquisition was completed on 1 July 2003.
- (g) On 1 August 2003, the Company entered into a conditional disposal agreement with Honour Glory to dispose of the Electronic products business. Further details of the transaction are set out in note 4 to the unaudited condensed consolidated interim financial statements. The Disposal was completed on 26 September 2003.

MANAGEMENT DISCUSSION AND ANALYSIS AND OTHER INFORMATION

Overall performance

The Group's operating results were significantly improved after the restructure of the Group's business in 2003. The turnover for the period ended 30 June 2004 increased by 3.8 times to approximately HK\$531.7 million (2003: HK\$111.5 million) and the gross profit for the period ended 30 June 2004 increased by 70% to approximately HK\$33.2 million (2003: HK\$19.5 million). The result improvement was mainly due to acquisition of the distribution of information products business ("Distribution business") which was completed in July 2003.

The loss attributable to shareholders for the period ended 30 June 2004 was approximately HK\$43.3 million (2003: HK\$206,000). The increase in loss was due to the impairment of goodwill of HK\$43.5 million. If the effect on impairment of goodwill of HK\$43.5 million was excluded, the Group's results for the period ended 30 June 2004 were turnaround and recorded a profit attributable to shareholders of approximately HK\$212,000 as compared to a loss of HK\$206,000 in 2003. The major improvement was mainly contributed by the segmental profit of Distribution business of approximately HK\$2.9 million.

Due to fierce market competition, the segmental loss of the provision of software solutions and services business ("Software business") increased by 74% to approximately HK\$3.6 million in the first half of 2004. Although the Group has taken tight measurements to reduce overhead expenses, the profit margins of Software business decreased due to strong market competition, and therefore resulted in loss making. As the results of Software business was unsatisfactory, there will be further scaling down of business both in terms of headcount and business units. In the light of continuous loss since the acquisition and further scaling down of Software business, it was determined that the carrying amount of goodwill of such business was impaired and therefore required to be written off in the income statement in accordance to the SSAP. As such, an amount of impairment of goodwill of HK\$43.5 million was recorded. As permitted under the previous SSAP requirements, the Group has previously written off such goodwill against the Group's consolidation reserves prior to the adoption of SSAP 30 in 2001. However, under the current requirements of SSAP, it is necessary to reflect in the income statement for the impairment of goodwill and reverse out the amount which was previously written off already in the Group's consolidation reserves. Such accounting treatment was made in order to comply with the presentation requirement of SSAP and the Group's total net assets were not affected nor being reduced from this impairment of goodwill.

OPERATING REVIEW AND PROSPECTS

Continuing operations

(A) DISTRIBUTION BUSINESS

The turnover of Distribution business for the period increased by 63% to approximately HK\$503.7 million (2003: HK\$309.9 million) and the segmental profit increased by 93% to approximately HK\$2.9 million (2003: HK\$1.5 million). Since the Group completed the acquisition of the Distribution business (BJ Founder Century and Founder Century (Hong Kong) Limited) from its controlling shareholder, FHL, in July 2003, there is no comparative figures of Distribution business in the Group's segmental results as last year's interim results were included in the accounts of FHL.

The significant improvement was due to:

- a. increase range of products from suppliers such as 華為 3COM and HP;
- b. increase number of suppliers such as in March 2004, it was officially appointed by Apple as one of the distributors in the PRC for all its product lines and at the same time the sole distributor for the server and data storage products;
- c. expansion of distribution network and at present there are a total of 12 branch offices/representative offices (apart from the headquarter in Beijing): in Shanghai, Guangzhou, Chengdu, Shenyang, Shenzhen, Jinan, Nanjing, Wuhan, Hangzhou, Xian, Guiyang and Xizang Zizhiq; and
- d. tight control in operating cost, strengthen control in trade receivable and inventory level and effective financial management.

The Distribution business has established a solid reputation in its sector. For example, BJ Founder Century was awarded by the Computer Commercial Press (電腦商報) in June 2004 as the 6th Best Distributor among the top 500 distributors and also achieved the Best Improvement Award.

The Distribution business has delivered satisfactory results both in the turnover and the profit from last year. Through the expansion both in the products range and the distribution network, it is expected the growth can be sustained.

OPERATING REVIEW AND PROSPECTS *(Continued)*

Continuing operations *(Continued)*

(B) SOFTWARE BUSINESS

The turnover of Software business for the period increased by 4% to approximately HK\$28.1 million (2003: HK\$26.9 million) and segmental loss increased by 74% to approximately HK\$3.6 million (2003: HK\$2.0 million). The performance was affected by the fierce competition in the business and therefore narrowing down the profit margins of projects. The thin contributions from the projects were not enough to cover the overheads of this business and hence resulted in loss making.

As mentioned above, due to continuous loss of the Software business, there was an impairment of the goodwill which related to this business. As required by the SSAP, the impairment of goodwill was required to be reflected in the Group's income statement even though it has been written off against the Group consolidation reserves previously. The Group will take appropriate measures to further restructure the Software business as to reduce overhead costs and scale down the loss making business units.

Based on the past years accumulated experience and expertise in the field on e-finance, the Group will continue to concentrate on this sector to provide total solutions to financial institutions and commercial corporations for the services in developing treasury and fund control systems.

Discontinued operation

(A) ELECTRONIC PRODUCTS BUSINESS

The Group decided to concentrate the resources on information technology business and therefore disposed of the Electronic products business which was completed on 26 September 2003. As a result, there was no record of turnover (2003: HK\$84.6 million) and no record of segmental results (2003: profit HK\$2.2 million) for the period ended 30 June 2004.

Conclusion

After PRC's accession into the World Trade Organisation and running up of the Olympic Games of 2008 to be held in Beijing, it is expected the investments in the information technology sector will grow with a double digit compound annual rate in the coming years. Hence, it is expected the Group can benefit from it and continue to grow with the information technology sector in the future.

OPERATING REVIEW AND PROSPECTS *(Continued)*

Employee and remuneration policies

As at 30 June 2004, the Group had approximately 255 and 169 employees for the Distribution business and Software business, respectively. These employees of which almost all work in the Mainland China. The Company has also established share option schemes and the share options are granted at the Directors' discretion to motivate and reward the employees with outstanding performance.

FINANCIAL REVIEW

Liquidity, financial resources and capital commitments

As at 30 June 2004, the Group recorded total assets of approximately HK\$516.9 million (31 December 2003: HK\$457.9 million) which were financed by liabilities of approximately HK\$340.1 million (31 December 2003: HK\$281.8 million) and equity of approximately HK\$176.8 million (31 December 2003: HK\$176.1 million). The Group's net asset value as at 30 June 2004 was approximately HK\$176.8 million (31 December 2003: HK\$176.1 million).

The Group had total cash and bank balances of approximately HK\$127.9 million as at 30 June 2004 (31 December 2003: HK\$159.5 million). The Group had no bank loan and overdraft as at 30 June 2004 (31 December 2003: Nil), hence the Group recorded a net cash balance of approximately HK\$127.9 million as at 30 June 2004 (31 December 2003: HK\$159.5 million). As at 30 June 2004, the Group's current ratio was 1.41 (31 December 2003: 1.50) and the Group had no long term debt as at 30 June 2004 (31 December 2003: Nil).

As at 30 June 2004, the Group did not have any material capital expenditure commitments (31 December 2003: Nil).

Treasury policies

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

Contracts

As at 30 June 2004, the major contracts in hand for Software business amounted to approximately HK\$10 million, which are all expected to be completed within eighteen months.

Charges on assets

As at 30 June 2004, bank deposits of approximately HK\$23.5 million were pledged to banks to secure general banking facilities granted.

FINANCIAL REVIEW (Continued)

Exposure to fluctuations in exchange rates and related hedges

Most of the Group's borrowings are denominated in Hong Kong dollars and United States dollars and the turnover of the Group are mainly denominated in Renminbi and United States dollars. As the exchange rates of Renminbi and United States dollars 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 2004, the Group did not have any significant contingent liabilities.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 June 2004, the interests and short positions of the directors in the share capital of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO"), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code"), were as follows:

Long positions in ordinary shares of the Company

Name of director	Number of ordinary shares held, capacity and nature of interest			Total	Percentage of the Company's issued share capital
	Directly beneficially owned	Through controlled corporation	As trustee (Note 1)		
Mr Yung Chih Shin, Richard (Note 2)	–	87,680,000	–	87,680,000	7.97%
Mr Cheung Shuen Lung	36,890,100	–	60,671,600	97,561,700	8.86%
Mr Zhang Zhao Dong	3,956,000	–	60,671,600	64,627,600	5.87%
Professor Wei Xin	3,956,000	–	60,671,600	64,627,600	5.87%
Professor Zou Wei	–	–	60,671,600	60,671,600	5.51%

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

Long positions in ordinary shares of the Company *(Continued)*

Notes:

1. These shares were held by F2 Consultant Limited as nominee on behalf of these directors who are acting in their capacity as the trustees of a discretionary trust for the employees of Founder Data Corporation International Limited ("FDC") and its subsidiaries. FDC is incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of the Company.
2. Mr Yung Chih Shin, Richard is interested in these shares through Ricwinco Investment Limited ("Ricwinco"), a company which is beneficially owned by Mr Yung Chih Shin, Richard.

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

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

Save as disclosed above and under the heading "Share option schemes" below, none of the directors had registered an interest or short position in the shares and underlying shares of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save as disclosed under the headings "Directors' interests and short positions in shares and underlying shares" above and "Share option schemes" below, at no time during the period were rights to acquire benefits by means of the acquisition of shares in the Company granted to any director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

SHARE OPTION SCHEMES

On 24 May 2002, the Company adopted a share option scheme (the "2002 Scheme") in compliance with Chapter 17 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("the Listing Rules").

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

SHARE OPTION SCHEMES (Continued)

The following share options were outstanding under the 1991 Scheme, the 2001 Scheme and the 2002 Scheme at 1 January 2004 and at the end of the period:

Name or category of participant	Number of outstanding share options as at 1 January 2004 and as at 30 June 2004	Date of grant of share options*	Exercise period of share options	Exercise price of share of options** HK\$
1991 Scheme				
<i>Directors</i>				
Mr Yung Richard, Jr.	2,700,000	18.5.2001	15.12.2001 to 14.12.2006	0.450
	<hr/>			
Total under the 1991 Scheme	<u>2,700,000</u>			
2001 Scheme				
<i>Directors</i>				
Mr Cheung Shuen Lung	2,000,000	18.5.2001	18.5.2001 to 17.5.2011	0.450
Professor Wei Xin	2,000,000	18.5.2001	18.5.2001 to 17.5.2011	0.450
Professor Zou Wei	2,000,000	18.5.2001	18.5.2001 to 17.5.2011	0.450
	<hr/>			
Subtotal	<u>6,000,000</u>			
<i>Other employees</i>				
In aggregate	1,900,000	18.5.2001	18.5.2001 to 17.5.2011	0.450
	<hr/>			
Subtotal	<u>1,900,000</u>			
Total under the 2001 Scheme	<u>7,900,000</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\$
	At 1 January 2004	Granted during the period	At 30 June 2004			
2002 Scheme						
<i>Directors</i>						
Mr Zhang Zhao Dong	–	8,000,000	8,000,000	6.2.2004	7.2.2004 to 5.2.2014	0.381
Mr Cheung Shuen Lung	–	8,000,000	8,000,000	6.2.2004	7.2.2004 to 5.2.2014	0.381
Professor Wei Xin	–	8,000,000	8,000,000	6.2.2004	7.2.2004 to 5.2.2014	0.381
Professor Zou Wei	–	8,000,000	8,000,000	6.2.2004	7.2.2004 to 5.2.2014	0.381
Subtotal	–	32,000,000	32,000,000			
<i>Other employees</i>						
In aggregate	–	38,000,000	38,000,000	2.1.2004	3.1.2004 to 31.12.2013	0.340
Subtotal	–	38,000,000	38,000,000			
Total under the 2002 Scheme	–	70,000,000	70,000,000			

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

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

The Directors do not consider it appropriate to disclose a theoretical value of the share options granted during the period because a number of factors crucial for the valuation cannot be determined. Accordingly, any valuation of the share options based on various speculative assumptions would not be meaningful, but would be misleading to the shareholders of the Company.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTEREST IN SHARES AND UNDERLYING SHARES

As at 30 June 2004, the following companies or corporations had interests of 5% or more of the issued share capital of the Company which were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions

Name of shareholder	Notes	Capacity	Number of ordinary shares held	Percentage of the Company's issued share capital
Peking Founder	1	Through a controlled corporation	603,690,000	54.85%
FHL		Beneficial owner	603,690,000	54.85%
Peking University Education Foundation		Beneficiary of a trust	2,330,000	0.21%
Peking University Education Foundation		Beneficial owner	93,240,000*	8.47%
Yahoo! Inc.		Beneficial owner	93,240,000	8.47%
Yahoo! Inc.	2	Through a controlled corporation	60,000,000	5.45%
Yahoo! Holdings (Hong Kong) Limited		Beneficial owner	60,000,000*	5.45%
Ricwinco	3	Beneficial owner	87,680,000	7.97%
F2 Consultant Limited	4	Owned as Nominee	60,671,600	5.51%
HSBC International Trustee Limited	5	Through a controlled corporation	60,500,000	5.50%
Sun Hung Kai Properties Limited	5	Through a controlled corporation	60,500,000	5.50%
Sunco Resources Limited	5	Through a controlled corporation	60,500,000	5.50%
SUNeVision Holdings Ltd.	5	Through a controlled corporation	60,500,000	5.50%
Hugh Profit Investments Ltd.	5	Through a controlled corporation	60,500,000	5.50%
Well Drive Holdings Limited		Beneficial owner	60,500,000	5.50%

* *Derivative interests*

Notes:

1. Peking Founder is deemed to be interested in 603,690,000 shares of the Company under the SFO by virtue of its interest in FHL.
2. Yahoo! Inc. is deemed to be interested in 60,000,000 shares of the Company under the SFO by virtue of its interest in Yahoo! Holdings (Hong Kong) Limited.
3. Mr Yung Chih Shin, Richard is interested in these shares through Ricwinco.
4. F2 Consultant Limited holds the shares of the Company as nominee on behalf of the directors of FDC who are acting in their capacity as the trustees of a discretionary trust for the employees of FDC and its subsidiaries.
5. Each of HSBC International Trustee Limited, Sun Hung Kai Properties Limited, Sunco Resources Limited, SUNeVision Holdings Ltd. and Hugh Profit Investments Ltd. is deemed to be interested in 60,500,000 shares of the Company under the SFO by virtue of its, direct or indirect, interests in Well Drive Holdings Limited.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTEREST IN SHARES AND UNDERLYING SHARES (Continued)

Short positions

Name of shareholder	Capacity	Number of ordinary shares held	Percentage of the Company's issued share capital
Peking Founder	Beneficial owner	60,000,000*	5.45%

* *Derivative interests*

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

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

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the six months ended 30 June 2004.

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, for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises two independent non-executive directors of the Company. These unaudited condensed consolidated interim financial statements for the six months ended 30 June 2004 of the Group now reported have been reviewed by the audit committee.

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

Hong Kong
10 September 2004