



FOUNDER HOLDINGS LIMITED

方正控股有限公司*

(Incorporated in Bermuda with limited liability)

Website: www.founder.com.hk www.irasia.com/listco/hk/founder

FINAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2001

AUDITED RESULTS

The Board of Directors (the "Board") of Founder Holdings Limited announces the audited consolidated results of Founder Holdings Limited and its subsidiaries (together the "Group") for the year ended 31 December 2001 as follows:

	Notes	Year ended 31 December	
		2001 HK\$'000	2000 HK\$'000
TURNOVER	2	1,669,883	2,087,853
Cost of sales		<u>(1,583,284)</u>	<u>(1,653,433)</u>
Gross profit		86,599	434,420
Other revenue and gains		39,143	193,608
Selling and distribution costs		(196,154)	(178,078)
Administrative expenses		(186,397)	(186,843)
Other operating expenses		(96,247)	(69,368)
PROFIT/(LOSS) FROM OPERATING ACTIVITIES	3	(353,056)	193,739
Finance costs		(12,104)	(9,065)
Share of profits and losses of:			
Jointly-controlled entity		1,371	1,445
Associates		(27,962)	(6,499)
PROFIT/(LOSS) BEFORE TAX		(391,751)	179,620
Tax	4	(1,539)	(1,315)
PROFIT/(LOSS) BEFORE MINORITY INTERESTS		(393,290)	178,305
Minority interests		9,324	2,701
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		(383,966)	181,006
EARNINGS/(LOSS) PER SHARE	6		
— Basic		(34.2) cents	16.2 cents
— Diluted		N/A	15.9 cents

Notes:

1. Adoption of new and revised Statements of Standard Accounting Practice ("SSAPs")

During the year, the Group has adopted, for the first time, the following revised/new SSAPs issued by the Hong Kong Society of Accountants.

- SSAP 9 (Revised): "Events after the balance sheet date"
- SSAP 14 (Revised): "Leases"
- SSAP 18 (Revised): "Revenue"
- SSAP 26: "Segment reporting"
- SSAP 28: "Provisions, contingent liabilities and contingent assets"
- SSAP 29: "Intangible assets"
- SSAP 30: "Business combinations"
- SSAP 31: "Impairment of assets"
- SSAP 32: "Consolidated financial statements and accounting for investments in subsidiaries"
- Interpretation 12: "Business combinations — subsequent adjustment of fair values and goodwill initially reported"
- Interpretation 13: "Goodwill — continuing requirements for goodwill and negative goodwill previously eliminated against/credited to reserves"

Among these SSAPs and Interpretations, the adoption of SSAP 30, SSAP 31 and Interpretation 13 have significant impact on the financial statements. The Group has adopted the transitional provision of SSAP30 which permits goodwill in respect of acquisitions occurred prior to 1 January 2001, to remain eliminated against consolidated reserves. Due to the adoption of SSAP31 and Interpretation 13, the Group has recognised loss on impairment of goodwill previously eliminated against reserves of approximately HK\$30,295,000 during the current year.

* For identification purposes only.

2. Turnover and segment information

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

An analysis of the Group's turnover and contribution to profit/(loss) from operating activities by business segments and geographical segments for the year ended 31 December 2001 is as follows:

	Year ended 31 December 2001		Year ended 31 December 2000	
	Turnover HK\$'000	Contribution to loss from operating activities HK\$'000	Turnover HK\$'000	Contribution to profit from operating activities HK\$'000
By business segments:				
Software development and systems integration				
— Media sector	530,111	(53,682)	645,971	109,211
— Non-media sector	243,793	(172,106)	586,189	115,679
	773,904	(225,788)	1,232,160	224,890
Distribution of information products	895,776	(77,324)	855,461	(16,363)
Corporate and others	203	(53,103)	232	(21,607)
	1,669,883	(356,215)	2,087,853	186,920
Interest income		3,159		6,819
		(353,056)		193,739
By geographical segments:				
The People's Republic of China (the "PRC"):				
Hong Kong	249,089	(7,994)	194,397	(13,338)
Elsewhere	1,333,766	(266,832)	1,829,998	187,259
	1,582,855	(274,826)	2,024,395	173,921
Other countries	86,825	(25,127)	63,226	41,425
Corporate and others	203	(53,103)	232	(21,607)
	1,669,883	(353,056)	2,087,853	193,739

3. Profit/(loss) from operating activities

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

	Year ended 31 December	
	2001 HK\$'000	2000 HK\$'000
Depreciation	23,191	18,675
Impairment of goodwill	30,295	—
Provisions and write off of obsolete stock	83,931	8,125
Provisions and write off of doubtful debts	22,085	8,939
Loss on disposal of branch operations	—	8,249
Loss on disposal of a jointly-controlled entity	—	3,398
Loss/(gain) on disposal of subsidiaries	55	(79,116)
Gain on deemed partial disposal of a subsidiary	(2,074)	(62,680)
Gain on partial disposal of a subsidiary	—	(3,452)

4. Tax

	Year ended 31 December	
	2001 HK\$'000	2000 HK\$'000
Group:		
Outside Hong Kong	974	1,033
Share of tax attributable to associates	565	282
Tax charge for the year	1,539	1,315

No Hong Kong profits tax has been provided as no assessable profits are arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the applicable rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

There was no significant unprovided deferred tax in respect of the year (2000: Nil).

5. Transfer to reserves

A transfer of approximately HK\$2,074,000 from retained earnings to capital reserve was made during the year as a result of the increase in the share of non-distributable reserve of a subsidiary.

A transfer of approximately HK\$133,000 from retained earnings to general reserve was made during the year in accordance with the regulations of Taiwan.

6. Earnings/(loss) per share

The calculation of basic earnings/(loss) per share is based on the net loss attributable to shareholders for the year ended 31 December 2001 of approximately HK\$383,966,000 (2000: profit of approximately HK\$181,006,000) and the weighted average of approximately 1,123,800,000 (2000: approximately 1,116,405,000) ordinary shares in issue during the year.

Diluted loss per share for the year ended 31 December 2001 has not been calculated as the impact of the outstanding share options was anti-dilutive.

The calculation of diluted earnings per share for the year ended 31 December 2000 is based on the net profit attributable to shareholders for the year of approximately HK\$181,006,000 and the weighted average of approximately 1,116,405,000 ordinary shares in issue during that year, as used in the calculation of the basic earnings per share, and the weighted average of approximately 23,986,000 ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options during that year.

DIVIDEND

No interim dividend was paid during the year and previous year. The Board does not recommend the payment of any final dividend for the year (2000: Nil).

OPERATING REVIEW AND PROSPECTS

Operating results for the year

(A) Software development and systems integration

Media sector

The Group recorded a decrease of 18% in turnover of the software development and systems integration business in the media sector in 2001 as compared to previous year. The Group also recorded a loss contribution of HK\$54 million in this sector in 2001 as compared to previous year's loss contribution of HK\$36 million before taking account of previous year's gains on disposal of subsidiaries of HK\$82 million and gain on deemed disposal of a subsidiary of HK\$63 million. The holding-up or decreasing capital expenditure for new systems and/or up-grading demands by our customers as a result of the slowdown of the overall global economy in 2001 led to the drop in turnover and the setback of the performance of this sector.

With the support of our strong research and development team, the Group has continued to introduce a number of new products to its customers in 2001. Our new products include Founder Fei-hong Yellow-page Typesetting System (方正飛鴻號簿排版系統), Founder Victory Editorial System for Magazine (方正文采四溢期刊生產系統), Founder Tian-jiao Internet Audio & Video Integrated Solution (方正天驕互聯網視音頻整體解決方案), Founder Tian-yi News Management System for Radio and Television Stations (方正天翼新聞業務管理系統) and various management systems for publishing companies. In April 2001 the Group has also launched its network publishing solutions, Founder Apabi eBook Solutions, which has been well received by many renowned PRC publishers such as Peking University Press (北京大學出版社), Tsinghua University Press (清華大學出版社) and Fudan University Press (復旦大學出版社).

In February 2001 our self-developed Founder GB18030 Char-set Font and Founder Super-set Font (with 56,000 Chinese characters) received a state-level recognition granted by the State News and Publishing Bureau, the State Language Committee and the China National Printing Font Committee. This is the first time for a font product in the PRC to have a state-level recognition after the promulgation of the latest Nation-wide Chinese Character Standard for Computer Usage, GB18030-2000.

In January 2002 we have streamlined our operating team and have tightened our cost control measures in order to enhance our competitiveness and productivity. Coupled with the on-going introduction of new products to the market, we are confident that we can improve our performance in this sector and maintain our market leader position in Chinese electronic publishing systems.

Non-media sector

The Group recorded a substantial loss from our software development and systems integration business in the non-media sector for the year ended 31 December 2001. The substantial loss of this sector was principally attributable to the following reasons:

1. Unexpected slow down in sales orders especially from the banking sector, thus resulting in the drop in turnover by 58% if compared to the previous year;
2. Drop in gross margin as a result of severe market competition;
3. Delay in the completion of certain sales contracts, thus leading to the profit of a number of sales contracts not be realised in 2001 as scheduled ;
4. Over-expansion of our operational team, thus resulting in the surge in operating expenses; and
5. Restructuring costs such as severance payments and compensation pay.

In the last quarter of 2001, we started to restructure the management and operation of our non-media business. We have tightened the control over contract management and implemented a number of cost control measures. We have streamlined our operational team and reduced headcount by nearly 50% in order to reduce our operating expenses. In view of the sizable contracts in progress and the implementation of our restructuring program in the last few months, we believe that we can improve our performance in the coming year.

(B) Distribution of information products

The economy uncertainties have slowed down the corporate demand for information products in 2001. To boom our sales to digest our inventories and to face keen market competition, we suffered from price cut and drop in profitability. The turnover of our distribution business of information products recorded a moderate growth of 5% in 2001 as compared to previous year. However, the drop in gross profit led to the increase in loss contribution from HK\$16 million in previous year to HK\$77 million in 2001.

In mid of 2001, we have implemented an ERP system to monitor our inventories and trade debtors more effectively, thus improving the efficiency of our distribution business. We have achieved great progress on the sales of our own-brand scanner since its introduction to the market in the summer of 2000. At present, our scanner is named as one of the top

three best sellers of scanners in the PRC in terms of market share. In late 2001 we adopted various measures such as staff reduction to enhance our competitiveness. The management is of the view that continuous working capital support and further market penetration in terms of business volume and market share are required to strengthen our distribution business. Accordingly, a heads of agreement for the establishment of a joint venture company for our distribution business was signed in December 2001.

(C) Provision of e-commerce services

The provision of e-commerce services is carried out through our associated company, EC-Founder (Holdings) Company Limited ("EC-Founder"). EC-Founder positions itself as a software solutions and service provider on the following areas: (a) network security products and solutions, (b) geographic information system, (c) e-finance and (d) enterprise/government information solutions.

EC-Founder has successfully developed and patented its network security product, FireGate Firewall (方御防火牆) in March 2001 which was the first firewall product in China to pass the stringent tests of the PRC Public Security Ministry (國家公安部), the PLA (軍隊) and the National Security Bureau (國家保密局). In the same month EC-Founder has also launched its self-developed geographic information system, Founder Mirage (方正智繪) which is being used by the China Industrial and Commercial Bank in the PRC. In April 2001 EC-Founder was granted contracts from the China Construction Bank for the development of a business-to-business clearing platform which was substantially completed in late 2001.

Employees

The total number of employees of the Group as at 31 December 2001 was 2,520 (2000: 2,673), out of which 2,278 (2000: 2,492) employees were stationed in the PRC. The following are the numbers of employees as at 31 December 2001 categorised according to their functions:

Sales and marketing	605
After-sales services	264
Research and development	935
Accounting and finance	218
Administration and management	424
Others	74
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	2,520

Salaries and annual bonuses are determined according to positions and performance of employees. The Group provides on-the-job training to its employees in addition to retirement benefits schemes and medical insurance. To enable its employees to participate in the growth of the Group, the Company has adopted a share option scheme under which the directors of the Company may, at their discretion, grant options to directors and employees of the Company and its subsidiaries to subscribe for shares of the Company.

The Group has encountered no problems with the recruitment or training of its employees. None of the companies in the Group has experienced any labour disputes in the past and the directors of the Company consider that the Group has excellent employment relations.

Contracts on hand

As at 31 December 2001, the major contracts on hand for the software development and systems integration business amounted to approximately HK\$444 million, out of which approximately HK\$388 million was not yet completed.

FINANCIAL REVIEW

Liquidity and financial resources

As at 31 December 2001, the Group recorded total assets of approximately HK\$1,096 million which were financed by liabilities of approximately HK\$688 million and equity of approximately HK\$408 million. The Group's net asset value per share as at 31 December 2001 was HK\$0.36 per share as compared to HK\$0.68 per share as at 31 December 2000.

The Group had a total cash and bank balance of approximately HK\$306 million as at 31 December 2001. After deducting bank loans and overdrafts of approximately of HK\$181 million, the Group recorded a net cash balance of approximately HK\$125 million as compared to HK\$196 million as at 31 December 2000. As at 31 December 2001, the Group had a working capital ratio of 1.37 (2000: 1.84) and a current liabilities to equity ratio of 1.61 (2000: 0.89) with equity being defined as the total of capital and reserves.

Charges on assets

At 31 December 2001 all the land and buildings in Hong Kong and certain investment properties of the Group and fixed deposits of approximately HK\$42.8 million were pledged to banks to secure banking facilities granted.

Treasury policies

The Group adopts conservative treasury policies and controls tightly over its cash and risk management. Cash is generally placed in short term deposits denominated in Hong Kong dollars.

Contingent liabilities

At 31 December 2001 the Company had contingent liabilities in relation to guarantees given to banks in connection with facilities granted to certain subsidiaries amounting to approximately HK\$59 million.

PUBLICATION OF ANNUAL RESULTS ON THE STOCK EXCHANGE'S WEBSITE

A detailed results announcement containing all the information required by paragraphs 45(1) to 45(3) of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") will be subsequently published on the Stock Exchange's website in due course.

By Order of the Board
Wang Xuan
Chairman

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the annual general meeting of Founder Holdings Limited (the "Company") will be held at Unit 1408, 9 Hoi Shing Road, Tsuen Wan, New Territories, Hong Kong on 24 May 2002 at 11:00 a.m., for the following purposes:

1. To receive and consider the audited financial statements and the directors' and auditors' reports of the Company for the year ended 31 December 2001.
2. To re-elect the retiring directors and to fix the remuneration of directors.
3. To re-appoint auditors and to authorize the board of directors to fix their remuneration.

ORDINARY RESOLUTIONS

As special business, to consider and, if thought fit, pass with or without amendments, the following resolutions as ordinary resolutions of the Company:

4. **"THAT:—**
 - (A) subject to paragraph (B) of this Resolution no. 4 below, the exercise by the directors of the Company during the Relevant Period (as defined in paragraph (C) of this Resolution no. 4 below) of all the powers of the Company to purchase Shares (as defined in paragraph (C) of this Resolution no. 4 below) on The Stock Exchange of Hong Kong Limited ("Stock Exchange") or on any other stock exchange on which the Shares may be listed and which is recognized for this purpose by the Securities and Futures Commission of Hong Kong and the Stock Exchange, subject to and in accordance with all applicable laws, including the Hong Kong Code on Share Repurchases and the Rules Governing the Listing of Securities on the Stock Exchange or of any other stock exchange (as amended from time to time), be and is hereby generally and unconditionally approved;
 - (B) the aggregate nominal amount of Shares which may be purchased or agreed conditionally or unconditionally to be purchased pursuant to the approval in paragraph (A) of this Resolution no. 4 above shall not exceed 10 per cent. of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing of this Resolution no. 4, and the said approval be limited accordingly; and
 - (C) for the purposes of this Resolution no. 4:—
 - (i) "Relevant Period" means the period from (and including) the passing of this Resolution no. 4 until whichever is the earliest of:—
 - (a) the conclusion of the next annual general meeting of the Company;
 - (b) the expiration of the period within which the next annual general meeting of the Company is required by the bye-laws of the Company or any applicable law to be held; or
 - (c) the revocation or variation of this Resolution no. 4 by an ordinary resolution of the shareholders of the Company in general meeting; and
 - (ii) "Shares" means shares of all classes in the capital of the Company and warrants and other securities which carry a right to subscribe or purchase shares in the Company."
5. **"THAT:—**
 - (A) subject to paragraph (B) of this Resolution no. 5 below, the exercise by the directors of the Company during the Relevant Period (as defined in paragraph (C) of this Resolution no. 5 below) of all the powers of the Company to allot, issue, grant, distribute and otherwise deal with additional Shares (as defined in paragraph (C) of this Resolution no. 5 below) and to make, issue or grant offers, agreements, options, warrants and other securities which might require Shares to be allotted, issued, granted, or distributed or otherwise dealt with during or after the end of the Relevant Period, be and is hereby generally and unconditionally approved;
 - (B) the aggregate nominal amount of share capital allotted, issued, granted, distributed or otherwise dealt with or agreed conditionally or unconditionally to be allotted, issued, granted, distributed or otherwise dealt with (whether pursuant to an option, conversion or otherwise) by the directors of the Company pursuant to the approval in paragraph (A) of this Resolution no. 5 above, otherwise than pursuant to:—
 - (i) a Rights Issue (as defined in paragraph (C) of this Resolution no. 5 below);
 - (ii) the grant of options under the share option scheme of the Company or the exercise of any of the subscription rights attaching to any options that have been or may be granted thereunder;
 - (iii) the exercise of rights of subscription or conversion under the terms of any warrant issued by the Company or any securities which are convertible into Shares; or
 - (iv) any scrip dividend scheme or similar arrangement providing for allotment of Shares in lieu of the whole or part of any dividend on Shares in accordance with the bye-laws of the Company, shall not exceed the aggregate of:
 - (a) 20 per cent. of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing this Resolution no. 5; and
 - (b) (if the directors of the Company are so authorised by a separate resolution of the shareholders of the Company) the aggregate nominal amount of the share capital of the Company purchased by the Company subsequent to the passing of this Resolution no. 5 (up to a maximum equivalent to 10 per cent. of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing this Resolution no. 5),and the said approval shall be limited accordingly; and
 - (C) for the purposes of this Resolution no. 5:—
 - (i) "Relevant Period" means the period from the passing of this Resolution until whichever is the earliest of:—
 - (a) the conclusion of the next annual general meeting of the Company;
 - (b) the expiration of the period within which the next annual general meeting of the Company is required by the bye-laws of the Company or any applicable law to be held; and
 - (c) the revocation or variation of this Resolution no. 5 by an ordinary resolution of the shareholders of the Company in general meeting;
 - (ii) "Shares" means shares of all classes in the capital of the Company and warrants and other securities which carry a right to subscribe or purchase shares in the Company; and
 - (iii) "Rights Issue" means an offer of Shares open for a period fixed by the directors of the Company to holders of Shares on the register of members (and, if appropriate, to the holders of warrants and other securities which carry a right to subscribe or purchase shares in the Company on the relevant register) on a fixed record date in proportion to their then holdings of such Shares (and, if appropriate, such warrants and other securities), (subject to such exclusions or other arrangements as the directors of the Company may deem necessary or expedient in relation to fractional entitlements or having regard to any legal or practical restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any jurisdiction or territory applicable to the Company)."
6. **"THAT** subject to the passing of Resolutions nos. 4 and 5 set out in this Notice, the exercise by the directors of the Company of the powers referred to in paragraph (A) of Resolution no. 5 in respect of the share capital of the Company referred to in sub-paragraph (b) of paragraph (B) of Resolution no. 5, be and is hereby approved and authorised."
7. **"THAT** subject to and conditional upon the Stock Exchange granting approval for the listing of and permission to deal in the shares which may fall to be issued by the Company pursuant to the exercise of options granted under the New Holdings Share Option Scheme (as defined in the circular to be despatched to the shareholders of the Company) and the New Holdings Share Option Scheme (the rules of which are set out in the printed document marked "A" produced to this meeting and for the purpose of identification signed by the Chairman) be and is hereby approved and adopted in replacement of the existing share option scheme adopted by the Company on 30 March 2000 (the "Existing Holdings Share Option Scheme") and that the board of directors of the Company be and is hereby authorised to do all such acts and to take all such steps and actions and to execute all such documents on behalf of the Company as may be necessary or expedient in order to give effect to the New Holdings Share Option Scheme, including without limitation, to issue and allot shares in the capital of the Company on terms therein mentioned."
8. **"THAT** subject to and conditional upon the passing of Resolution no. 7 set out in this Notice and the New Holdings Share Option Scheme taking effect in accordance with its terms, the Existing Holdings Share Option Scheme be hereby terminated."
9. **"THAT** subject to and condition upon the shareholders of Founder International Inc., being a subsidiary of the Company, ("Subsidiary") having approved the New Subsidiary Share Option Scheme (as defined in the circular to be despatched to the shareholders of the Company) and further conditional upon the Stock Exchange granting approval of the same, the New Subsidiary Share Option Scheme (the rules of which are set out in the printed document marked "B" produced to this meeting and for the purpose of identification signed by the Chairman) be and is hereby approved and adopted in replacement of the existing share option scheme adopted by the Subsidiary on 6 December 2000 (the "Existing Subsidiary Share Option Scheme") and that the directors of the Subsidiary be and are hereby authorised to do all such acts and to take all such steps and actions and to execute all such documents on behalf of the Subsidiary as may be necessary or expedient in order to implement the same, including without limitation, to issue and allot shares in the capital of the Subsidiary on terms therein mentioned."
10. **"THAT** subject to and conditional upon the passing of Resolution no. 9 set out in this Notice and the New Subsidiary Share Option Scheme taking effect in accordance with its terms, the Existing Subsidiary Share Option Scheme be hereby terminated."

By Order of the Board
Founder Holdings Limited
Tang Yuk Bo, Yvonne
Company Secretary

Hong Kong, 23 April 2002

Notes:

1. Any member entitled to attend and vote at the annual general meeting is entitled to appoint another person as his proxy to attend and on a poll, vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to attend on the same occasion. A proxy need not be a shareholder of the Company.
2. Where there are joint holders of any share, any one of such joint holders may vote at the annual general meeting, either in person or by proxy, in respect of such share as if he were solely entitled thereto but if more than one of such joint holders is present at the annual general meeting, then one of the said persons so present whose name stands first on the register of members in respect of such share shall alone be entitled to vote in respect thereof.
3. To be valid, the instrument appointing a proxy, together with a power of attorney or other authority, if any, under which it is signed (or a notarially certified copy of such power or authority) must be deposited at the Company's principal place of business in Hong Kong at Unit 1408, 14th Floor, Cable TV Tower, 9 Hoi Shing Road, Tsuen Wan, New Territories, Hong Kong not less than 48 hours before the time appointed for holding the meeting or adjourned meeting (as the case may be). Delivery of an instrument appointing a proxy shall not preclude a member from attending and voting in person at the meeting or at any adjourned meeting.