



# FOUNDER HOLDINGS LIMITED

## 方正控股有限公司\*

(Incorporated in Bermuda with limited liability)  
(Formerly listed under the name of Founder (Hong Kong) Limited)

### ANNOUNCEMENT OF RESULTS FOR THE YEAR ENDED 31 DECEMBER 1999

#### RESULTS

The board of directors (the "Board") of Founder Holdings Limited announces the audited results of Founder (Hong Kong) Limited and its subsidiaries (together the "Group") for the year ended 31 December 1999 as follows:

|   | Notes | Year Ended 31 December |                  |
|---|-------|------------------------|------------------|
|   |       | 1999<br>HK\$'000       | 1998<br>HK\$'000 |
| Turnover  | 2     | 1,583,073              | 2,164,248        |
| Cost of sales   |       | (1,382,910)            | (1,938,032)      |
| Gross profit  |       | 200,163                | 226,216          |
| Other revenue   |       | 6,019                  | 11,673           |
| Selling expenses  |       | (132,792)              | (150,035)        |
| Administrative expenses   |       | (171,088)              | (161,391)        |
| Other operating expenses  |       | (120,803)              | (75,955)         |
| LOSS FROM OPERATING ACTIVITIES                                    |       | (218,501)              | (149,492)        |
| Finance costs   |       | (9,552)                | (12,893)         |
| Share of profits less losses of jointly-controlled entities       |       | 5,602                  | (3,265)          |
| LOSS BEFORE TAX   |       | (222,451)              | (165,650)        |
| Tax   | 3     | (879)                  | (46)             |
| LOSS BEFORE MINORITY INTERESTS                                    |       | (223,330)              | (165,696)        |
| Minority interests  |       | 259                    | —                |
| NET LOSS FROM ORDINARY ACTIVITIES<br>ATTRIBUTABLE TO SHAREHOLDERS |       | (223,071)              | (165,696)        |
| Dividends   |       | N/A                    | N/A              |
| LOSS PER SHARE  | 4     | (23.4) cents           | (20.8) cents     |
| — Basic   |       | (23.4) cents           | (20.8) cents     |
| — Diluted   |       | N/A                    | N/A              |

Notes:—

#### 1. Basis of presentation

Due to the adoption of the revised Hong Kong Statements of Standard Accounting Practice No. 1 during the current year, the presentation of the profit and loss account has been revised to comply with the new requirements. Accordingly, certain comparative amounts have been reclassified to conform with the current year's presentation.

#### 2. Turnover

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

#### 3. Taxation

No provision for Hong Kong profits tax has been made as there were no assessable profits for the year.

Beijing Founder Electronics Company Limited, a wholly owned subsidiary of the Group incorporated in the People's Republic of China (the "PRC"), is subject to PRC profits tax at 50% of its standard tax rate for the three fiscal years commencing 1 January 1998 and ending 31 December 2000. Beijing Founder Order Computer System Company Limited, a wholly owned PRC subsidiary of the Group, is exempted from PRC profits tax for the three fiscal years commencing in 1999 and ending on 31 December 2001 and, thereafter, will be taxable at 50% of its standard tax rate in the fourth to sixth years, inclusive. At present, the standard tax rate applicable to the PRC subsidiaries is 15%. No provision for PRC profits tax has been made as the relevant PRC subsidiaries either under the tax free period or did not have any assessable profits for 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. (1998: Nil)

#### 4. Loss per share

The calculation of basic loss per share is based on the net loss attributable to shareholders for the year of HK\$223,071,000 (1998: HK\$165,696,000) and the weighted average number of 951,275,000 (1998: 797,152,000) ordinary shares in issue during the year.

Diluted loss per share for the years ended 31 December 1999 and 1998 has not been calculated as the impact of the outstanding share options was anti-dilutive.

#### DIVIDENDS

The Board has resolved not to recommend the payment of any dividend for the year ended 31 December 1999 (1998: Nil)

#### REVIEW OF OPERATIONS

##### Electronic Publishing and Multi-Media Systems

During the period under review, the Electronic Publishing and Multi-Media Systems business remained the principal contributor to the Group's revenue, accounting for approximately 68% of total gross profit. Turnover was approximately HK\$633,000,000, an increase of 6% from the previous year. The gross profit for the year was HK\$136,000,000 representing a decrease of 12% over 1998. The Group re-aligned its sales strategy so as to focus on premium customers, providing services and products to meet their specific needs. In addition, the Group streamlined its organisational structure, closed and down-graded certain departments and branches that were not operating satisfactorily and posed strict control on costs to maintain its competitiveness. During the year, the Group re-evaluated most of its products, which were being improved. The Electronic Publishing and Multi-Media Systems business is now expected to grow substantially.

##### Systems Integration

For systems integration, the turnover and gross profit for 1999 were HK\$283,000,000 and HK\$49,000,000 respectively, representing an increase of about 32% and 3% as compared to 1998. The substantial growth was mainly due to the acquisition from Mexican Gold Limited by the Group of its systems integration solutions for the PRC finance and banking industry. The acquired business offers services and/or products including systems for electronic cash, voucher management, automatic cash management, customer self-servicing system and computer telephone integration.

##### Hardware Dealership Business

During 1999, the Group's turnover was HK\$634,000,000, which is 50% lower than the previous year's turnover. The main reason of decrease in turnover was the Group's distribution strategy was reviewed and resulted in a reduction in the number of products handled; the Group also took a more cautious approach in selecting products for distribution. In addition, the Group implemented a sales strategy to minimise stock levels and inventory turnover. During the first half of the year, part of the slow-moving and obsolete stocks were sold at a discount to purchase costs. In the second half of year, the situation was improved and the gross profit margin has improved. However, the overall gross profit margin for the year can only be maintained at last year's overall rate of 2%.

##### Conclusion on turnover and gross profit

Though the Group's overall turnover for the year fell by 27%, the gross profit margin increased from 10% in 1998 to 13% in 1999. The major reasons for increase were the increase in gross profit margin for the systems integration business, which emerges in place of hardware business as a major contributor to overall gross profit.

##### Total Net Expenses

During the period under review, the total net expenses amounted to approximately HK\$428,000,000 (1998: HK\$389,000,000), representing an increase of 10% compared with 1998. The Group reduced its workforce by approximately 500 employees to 2,400 employees, which represented approximately a 17% reduction; operational administrative expenses were also reduced accordingly. During the year, the Group reviewed the status of fixed assets and reduced the useful lives from an average of five years to three years, which results in an increase of depreciation charge accordingly. The Group also strengthened the management and appraisal of accounts receivable; provisions were made for accounts receivable and doubtful debts. On the other hand, the property market in Hong Kong suffers further devaluation in 1999 and the Group has made the corresponding adjustment in the accounts and finally, other professional fees also increased during the year as a result of the corporate activities taken place during the year. All these adjustments which related to non-operational expenses amount to an increase of approximately HK\$80 million as compared to 1998. Details of the increase in costs for the above mentioned items which adversely affected the Group's profitability are given in the notes to financial statements of the annual report.

Though there was a record of loss during the financial year, the Group can maintain very healthy cash balances. As at the end of 1999, there was a record of balance over approximately HK\$346,000,000 cash and bank balances, after deducting short term bank loans and overdraft of HK\$173,000,000, there was a record of HK\$173,000,000 cash on hand.

##### Reforms on the operation and management of the Group

During 1999, the Group implemented a series of innovative plans in order to address operational difficulties. These included:

- (1) A major restructuring and reduction in the size of the Board of Directors in order to facilitate decision making and enhance operational efficiency;
- (2) Hiring management professionals to improve the Group's operational and management standards. In April 1999, Mr. Lee Hon Sang joined the Group as Senior Vice-President, and also as President of Beijing Founder Electronics Co., Ltd., the flagship company of the Group. Mr Lee is mainly responsible for the overall business operations of the Beijing Founder Electronics Company Limited. He implemented a large-scale restructuring and streamlining, and closed unsatisfactory departments and branches. These moves produced positive results within months, significantly enhancing the Company's competitive edge and profit-making capabilities.
- (3) Acquisition of the system integration business for finance and banking industry improved the Group's competitiveness and its market share.
- (4) The Group strengthened the management of Founder R&D, and accelerated the pace of upgrading existing products and launching new ones.

##### PROSPECTS

The reform measures are expected to improve the Group's overall competitive edge. The Board is confident that the effects of the measures have started to make a significant contribution to the Group's performance from early 2000.

For the electronic publishing and multi-media systems products, the Group has launched the Founder Internet Content Publish Server ("ICS"), designed for press publishers, internet content providers and industries and business enterprises, is an universal application tool for the setting up of website and distribution of information. Its promising prospect is evidenced by the fact that the software can be promoted to internet content providers in addition to press publishers and other news agencies. It can also be used by companies in general for the setting up of intranet and internet websites.

In addition, the Group's RIP series products will be developed into a management system with output process control capabilities. In addition to type-set interpretation and output, the system will feature task-bill generation and control, colour management and external printer load adjustment. The system works on a browser/server structure, which can immensely improve production efficiency of printer enterprises. This latest RIP product from Founder will be available by the end of 2000.

Furthermore, Founder's browser-based news editing system, picture management system and advertisement management system have been developed and used by major clients such as Guangzhou Daily. Being the leading product in the PRC, the system has been certified by the Association of China News Publishing Bureau. This product is expected to play a major role in the system upgrade of the Group's existing clients in 2000, furthering revenue of the Group.

Utilising its close relationship with clients in the PRC media industry, the Group will undertake system-integration business from press publishers, radio stations and TV stations for the setting up of websites. In view of its 80% market share in the news publishing industry of the PRC, the Directors believe that the Group is likely to acquire relatively more business opportunities for the setting up of websites for news medias.

In order to take full opportunity of developments in the internet, in July 1999 the Group proposed a new development strategy for E-Media. This strategy aimed at enhancing the quality of internet-application products used in publishing, and the provision of business solutions and technical expertise. The new concept created several business opportunities for the Group. These included:

- (1) A restructuring of Founder Data (see below for details)
- (2) The Group won the contract to establish and operate the official website for application of the 2008 Beijing Olympics.
- (3) A number of products were modified to support the operation of internet browsers.
- (4) The Group won the contract to establish Guangzhou Daily's Da Yang Website; the project was completed by the end of December 1999.

##### Restructuring Founder Data

To further expand its business, the Group restructured its media business in order to provide internet advertising services, business-to-business platforms and electronic business solutions through Founder Data Group. Ad Targeting Company, a joint-venture with Yahoo! was established during the year. This belongs to Founder Data Group. (After the restructuring, Ad Targeting will become a wholly-owned subsidiary of Founder Data Group.) Ad Targeting will use the Group's extensive connections with the media industry in the PRC and Yahoo's technical support to create an "advertising server", that will aim to be the leader in the internet advertising market.

Founder Data Group will also establish a business-to-business platform, specializing in news broadcasting/production, operation and services for network media. Participants can exchange news content through the internet such as information and graphics, and conduct advertising transactions with advertising media.

The Group's operations in Hong Kong and overseas also underwent a major restructuring in 1999, which resulted in several business opportunities. Several international Chinese press publishers will upgrade their systems in 2000 and have shown interest in the Group's other products. It is expected that there will also be a substantial growth in the Japanese and Korean markets. As Founder Inc. (Japan) performed satisfactorily, the Group is exploring the possibility of listing this subsidiary on Hong Kong's securities market.

The Board is confident in the Group's long-term development. The Board believes that, with its determination, the Group's business will show substantial recovery and significant improvement.

##### YEAR 2000 COMPLIANCE

Details of the Group's assessment on the Year 2000 computer problem as well as the formation and progress of the compliance project were disclosed in the interim report. The Group became Year 2000 compliant in November 1999. The Group spent approximately HK\$3 million on resolving Year 2000 problems, of which approximately HK\$1 million was spent on purchasing software; the rest was on additional administration and consultation costs. All these costs were treated as expenses in the relevant accounts during the review period.

As of the time of writing, the Group has not experienced any problems in relation to Year 2000 compliance and its operations proceeded smoothly through the millennium changeover. The Year 2000 computer problem had no significant impact on the Group or its main suppliers. Therefore, the Group did not need to use any of the contingency plans prepared for the Year 2000 issue.

##### PURCHASE, SALE OR REDEMPTION OF SHARES

There was no purchase, sale or redemption of the Company's Shares by the Company or any of its subsidiaries during the year.

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

In the opinion of the directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules of The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the accounting year covered by the annual report except that the independent non-executive directors of the Company are not appointed for specific terms but are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Company's articles of association.

To comply with paragraph 14 of the Code of Best Practice, the Company established an audit committee (the "Committee") with written terms of reference in March 1999 for the purpose of reviewing and providing supervision to the financial reporting process and internal controls of the Group. The Committee comprises two independent non-executive directors.

By Order of the Board  
**Cheung Shuen Lung**  
Executive Director and President

Hong Kong, 25 May 2000

### NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting of the Company will be held at Unit 1408, 14th Floor, Cable TV Tower, No. 9 Hoi Shing Road, Tsuen Wan, New Territories, Hong Kong on Friday, 23 June 2000 at 11:00 a.m. for the following purposes:

1. To receive and consider the audited financial statements for the year ended 31 December 1999 and the reports of the Directors and Auditors thereon.
2. To re-elect retiring Directors and fix their remuneration.
3. To re-appoint Auditors and authorise the Board of Directors to fix their remuneration.
4. As special businesses, to consider and, if thought fit, pass the following resolutions, as Ordinary Resolutions:
  - (A) "THAT the authorised share capital of the Company be increased from HK\$160,000,000 divided into 1,600,000,000 shares of HK\$0.10 each to HK\$210,000,000 divided into 2,100,000,000 shares of HK\$0.10 each by the creation of 500,000,000 new shares of HK\$0.10 each, such new shares to rank pari passu in all respects with the existing shares of the Company."
  - (B) "THAT
    - (a) subject to paragraph (b) of this Resolution, the exercise by the Directors of the Company during the relevant period (as defined herein) of all the powers of the Company to purchase shares of HK\$0.10 each in the capital of the Company ("Shares"), subject to and in accordance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and all applicable laws, be and is hereby generally and unconditionally approved;
    - (b) the aggregate nominal amount of Shares which may be purchased by the Company pursuant to paragraph (a) of this Resolution shall be no more than 10% of the aggregate nominal amount of the share capital of the Company in issue at the date of this Resolution; and
    - (c) for the purpose of this Resolution, "relevant period" means the period from the passing of this Resolution until whichever is the earlier of:
      - (i) the conclusion of the next annual general meeting of the Company;
      - (ii) the expiration of the period within which the next annual general meeting of the Company is required by any applicable law or the Company's Bye-laws to be held; and
      - (iii) the revocation or variation of this Resolution by the passing of an ordinary resolution in general meeting of the Company."
  - (C) "THAT
    - (a) subject to paragraph (c) of this Resolution, the exercise by the Directors of the Company during the relevant period (as defined herein) of all the powers of the Company to allot, issue and deal with additional shares in the capital of the Company and to make or grant offers, agreements and options (including warrants, bonds and securities convertible into shares of the Company) which would or might require the exercise of such power be and is hereby generally and unconditionally approved;
    - (b) the approval in paragraph (a) of this Resolution shall authorise the Directors of the Company during the relevant period to make or grant offers, agreements and options (including warrants, bonds and securities convertible into shares of the Company) which would or might require the exercise of such power after the end of the relevant period;

- (c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by the Directors of the Company pursuant to the approval in paragraph (a) of this Resolution, otherwise than pursuant to (i) the exercise of the conversion rights attaching to any convertible securities issued by the Company; (ii) the exercise of warrants to subscribe for shares of the Company or the exercise of options granted under any share option scheme adopted by the Company; (iii) an issue of shares of the Company in lieu of the whole or part of a dividend on shares of the Company or a bonus issue of shares of the Company in accordance with the Company's Bye-laws; or (iv) any offer of any class of securities of the Company made pro rata (apart from fractional entitlements) by the Company to holders of such class of securities (excluding for that purpose any holder who is resident in a place where such offer is not permitted under the laws of that place), shall not exceed 20% of the aggregate nominal amount of the share capital of the Company in issue as at the date of this Resolution and the said approval shall be limited accordingly; and
- (d) for the purpose of this Resolution, "relevant period" means the period from the passing of this Resolution until whichever is the earlier of:
  - (i) the conclusion of the next annual general meeting of the Company;
  - (ii) the expiration of the period within which the next annual general meeting of the Company is required by any applicable law or the Company's Bye-laws to be held; and
  - (iii) the revocation or variation of this Resolution by the passing of an ordinary resolution in general meeting of the Company."
- (D) "THAT the general mandate granted to the Directors of the Company to exercise the powers of the Company to allot, issue and deal with shares of the Company pursuant to Ordinary Resolution No. 4(C) set out in the notice of annual general meeting of the Company of which this Resolution forms part (the "Notice") be and is hereby extended by the addition thereto of an amount representing the aggregate nominal amount of the share capital of the Company repurchased by the Company under the authority granted pursuant to Ordinary Resolution No. 4(B) set out in the Notice, provided that such amount shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue as at the date of this Resolution."

By Order of the Board  
**Ho Yui Pok**  
Company Secretary

Hong Kong, 25 May 2000

Notes:

- (1) A member entitled to attend and vote at the Meeting is entitled to appoint one or more proxies to attend and, on a poll, vote instead of him/her. A proxy need not be a member of the Company. Completion and returning of an instrument appointing a proxy will not preclude a member from attending and voting in person at the Meeting.
- (2) In order to be valid, the proxy form and any power of attorney (if any) or other authority (if any) under which it is signed, or a copy of such authority certified notarially or in some other way approved by the Board, must be deposited with the Company's head office and principal place of business, Unit 1408, 14th Floor, Cable TV Tower, No. 9 Hoi Shing Road, Tsuen Wan, New Territories, Hong Kong not less than 48 hours before the time of the holding of the Meeting (or any adjourned meeting).
- (3) An explanatory statement containing the information necessary to enable the shareholders to make an informed decision as to whether or not to vote for or against Ordinary Resolution No. 4(B) above to approve the general mandate for the repurchase by the Company of its own Shares, as required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, will be sent to shareholders of the Company together with the 1999 annual report.

\* For identification purpose only.