



# FOUNDER HOLDINGS LIMITED

## 方正控股有限公司\*

(Incorporated in Bermuda with limited liability)

### INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2001

#### RESULTS

The board of directors (the "Board") of Founder Holdings Limited (the "Company") hereby announces the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2001, together with the comparative figures for the corresponding period of last year as follows:

#### CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Notes	Unaudited	
		Six months ended 30 June 2001	2000
		HK\$'000	HK\$'000
TURNOVER	2	909,727	883,116
Cost of sales		(793,351)	(661,719)
Gross profit		116,376	221,397
Other income		25,708	6,368
Selling and distribution costs		(112,535)	(67,354)
Administrative expenses		(95,099)	(82,461)
Other operating expenses		(42,482)	(21,683)
PROFIT/(LOSS) FROM OPERATING ACTIVITIES	3	(108,032)	56,267
Finance costs	4	(5,792)	(5,001)
Share of profits and losses of:			
Jointly-controlled entities		93	(66)
Associates		(7,938)	(618)
PROFIT/(LOSS) BEFORE TAX		(121,669)	50,582
Tax	5	(662)	(2)
PROFIT/(LOSS) BEFORE MINORITY INTERESTS		(122,331)	50,580
Minority interests		2,504	407
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		(119,827)	50,987
TRANSFERS TO RESERVES	6	1,980	—
EARNINGS/(LOSS) PER SHARE	7		
— Basic		(10.7) cents	4.6 cents
— Diluted		N/A	4.5 cents

#### Notes:

##### 1. Basis of preparation and accounting policies

These unaudited condensed consolidated interim financial statements have not been audited by the Company's auditors but have been reviewed by the Company's audit committee.

These unaudited condensed consolidated interim financial statements have been prepared in accordance with Statement of Standard Accounting Practice ("SSAP") 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants except that the comparative figures of the condensed consolidated cash flow statement have not been presented in the interim financial statements as the Company has taken advantage of the transitional provisions set out in Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The accounting policies used in the preparation of these unaudited condensed consolidated interim financial statements are consistent with those used in the Company's annual financial statements for the year ended 31 December 2000, except that certain of the accounting policies have been changed after the adoption of the recently issued SSAP 30 "Business Combinations" which is effective for the accounting periods commencing on or after 1 January 2001. SSAP 30 prescribes the treatment of business combinations, including how to determine the date of acquisition, the fair value of the assets and liabilities acquired, and the treatment of goodwill on acquisitions. According to the transitional provisions as set out in SSAP 30, the Group has elected not to restate goodwill previously eliminated against reserves. Therefore, goodwill arising on acquisitions prior to 1 January 2001 is held in reserves and will be charged to the profit and loss account at the time of disposal of the relevant subsidiaries, or at such time as the goodwill is determined to be impaired. Any goodwill arising on acquisitions after 1 January 2001 will be capitalised and amortised over its estimated useful life. Any negative goodwill arising on acquisitions after 1 January 2001 will be presented as a deduction from assets and will be released to the profit and loss account based on an analysis of the circumstances from which the balance resulted.

##### 2. Segmental information

The Group is principally engaged in software development and systems integration, and distribution of information products.

An analysis of the Group's turnover and contribution to loss from operating activities by principal activity and geographical area of operations for the six months ended 30 June 2001 is as follows:

	Unaudited		Unaudited	
	Six months ended 30 June 2001	Contribution to loss from operating activities	Six months ended 30 June 2000	Contribution to profit from operating activities
	Turnover	HK\$'000	Turnover	HK\$'000
By activity:				
Software development and systems integration				
— Media sector	319,276	5,118	262,181	4,616
— Non-media sector	151,668	(74,449)	278,490	59,935
	470,944	(69,331)	540,671	64,551
Distribution of information products	438,783	(28,814)	342,445	2,210
Unallocated corporate and other expenses	—	(9,887)	—	(10,494)
	909,727	(108,032)	883,116	56,267
By geographical area:				
The People's Republic of China (the "PRC"):				
Hong Kong	159,522	1,861	54,127	(1,006)
Elsewhere	703,349	(98,145)	800,295	72,311
Other countries	46,856	(1,861)	28,694	(4,544)
Unallocated corporate and other expenses	—	(9,887)	—	(10,494)
	909,727	(108,032)	883,116	56,267

##### 3. Profit/(loss) from operating activities

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

	Unaudited	
	Six months ended 30 June 2001	2000
	HK\$'000	HK\$'000
Depreciation of fixed assets	9,902	8,439
Loss on disposal of fixed assets	303	297
Loss on disposal of branch operations	—	8,249
Loss on disposal of a jointly-controlled entity	—	3,398
Provision for diminution in value of a long term investment	1,647	—
Gain on deemed disposal of a subsidiary	(1,916)	—

##### 4. Finance costs

	Unaudited	
	Six months ended 30 June 2001	2000
	HK\$'000	HK\$'000
Interest on bank loans and overdrafts	5,792	5,001

##### 5. Tax

	Unaudited	
	Six months ended 30 June 2001	2000
	HK\$'000	HK\$'000
Group:		
Outside Hong Kong	318	2
Share of tax attributable to associates	344	—
Tax charge for the period	662	2

No Hong Kong profits tax has been provided as no assessable profits are arising in Hong Kong during the period.

Beijing Founder Electronics Company Limited, a wholly owned PRC subsidiary of the Group, is subject to PRC profits tax at 10% for the three fiscal years commenced on 1 January 2001 and ending on 31 December 2003. Beijing Founder Order Computer System Company Limited ("Founder Order"), a wholly owned PRC subsidiary of the Group, is exempted from PRC profits tax for the three fiscal years commenced 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 Founder Order is 15%. No provision for PRC profits tax has been made as the relevant PRC subsidiaries have incurred losses during the period.

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 period (2000: Nil).

##### 6. Transfers to reserves

The reserve movement was mainly represented by the movement of capital reserve which arose from the increase in non-distributable reserve of a subsidiary.

##### 7. Earnings/(loss) per share

The calculation of basic loss per share for the six months ended 30 June 2001 is based on the unaudited net loss attributable to shareholders for the period of approximately HK\$119,827,000 (Six months ended 30 June 2000: profit of approximately HK\$50,987,000) and the weighted average of approximately 1,123,800,000 (Six months ended 30 June 2000: approximately 1,108,928,000) ordinary shares in issue during the period.

The diluted loss per share for the six months ended 30 June 2001 is not shown as the impact of the outstanding share options was anti-dilutive.

The calculation of diluted earnings per share for the six months ended 30 June 2000 is based on the unaudited net profit attributable to shareholders for the period of approximately HK\$50,987,000 and the weighted average number of approximately 1,108,928,000 ordinary shares in issue during the period, as used in the calculation of the basic earnings per share, and the weighted average of approximately 13,403,000 ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options outstanding during the period.

##### 8. Dividends

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2001 (2000: Nil).

#### MANAGEMENT DISCUSSION AND ANALYSIS

#### OPERATING REVIEW AND PROSPECTS

##### Operating results for the period

An analysis of turnover and gross profit for each of the principal activities of the Group for the six months ended 30 June 2001 is as follows:

	Six months ended 30 June		% of change
	2001	2000	
	HK\$' million	HK\$' million	
<b>Turnover</b>			
Software development and systems integration			
— Media sector	319	262	+22%
— Non-media sector	152	279	-46%
	471	541	-13%
Distribution of information products	439	342	+28%
	910	883	+3%
<b>Gross profit</b>			
Software development and systems integration			
— Media sector	93	70	+33%
— Non-media sector	17	129	-87%
	110	199	-45%
Distribution of information products	6	22	-73%
	116	221	-48%

##### (A) Software development and systems integration

###### Media sector

In the first half of 2001, the Group recorded an increase of 22% in turnover of the software development and systems integration business in the media sector as compared to last year's corresponding period. The gross profit margin of this sector has slightly improved to 29% from last period's 27%.

With the support of our strong research and development team, the Group has introduced a number of new products to its customers during the six months ended 30 June 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 a number of management systems for publishing companies. In April 2001 the Group has also launched its network publishing solutions, Founder Apabi eBook Solutions (方正阿帕比網絡出版解決方案), which have 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), Fudan University Press (復旦大學出版社) and Post-secondary School Press (高校出版社).

In February 2001 our self-developed Founder GB18030 Font Library (方正GB18030字庫) and Founder Font Super Library (方正超大字庫) received a state-level recognition granted by State News and Publishing Bureau (國家新聞出版署), State Language Committee (國家語文委員會) and China National Printing Font Committee (全國印刷字體工作委員會). This is the first time for a font library 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.

Through the on-going introduction of new products to the market, we aim to maintain our market leader position in the Chinese electronic publishing systems and expect to enjoy a steady growth in our business in the coming future.

#### **Non-media sector**

The Group recorded a substantial loss from our software development and systems integration business in the non-media sector for the six months ended 30 June 2001. The turnover of our non-media software development and systems integration business dropped by 46% as compared to last year's corresponding period. The gross profit margin of this sector dropped to 11% from last period's 46%.

The substantial loss of this sector for the current period under review was principally attributable to the following reasons:

1. Unexpected slow down in sales orders especially from the banking sector, thus resulting into the drop in turnover;
2. Delay in the completion of certain sales contracts, thus leading to the profit of certain sales contracts not be realised in the first half of 2001 as scheduled; and
3. Over-expansion of our operational team, thus resulting in the surge in operating expenses.

Since we incurred a substantial loss in the first half of 2001, the management has already started to restructure the management and operation of our non-media business. Recently we have reduced the headcount of the operational team of our non-media business by over 20% in order to reduce our operating expenses. As we have established our brand name and laid down solid business foundation, we will monitor the progress of the non-media business to be in line with the market condition and are committed to making our best effort to improve its performance in the foreseeable future.

#### **(B) Distribution of information products**

The turnover of our distribution business of information products recorded a growth of 28% in the first half of 2001 as compared to last year's corresponding period. However, the gross profit margin of our distribution business dropped to 1.4% from last period's 6.4% as a result of keen competition.

During the six months ended 30 June 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 last summer. At present, our scanner is named as one of the top three sellers of scanners in the PRC in term of market share.

#### **(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) location-based business intelligence, (c) e-finance solutions and (d) enterprise 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 packet filter firewall product (包過濾防火牆產品) in China to pass the stringent tests of the PRC Ministry of Public Security (國家公安部), the PLA (軍隊), the Ministry of State Security (國家安全部) and the State Secrecy Bureau (國家保密局). In the same month EC-Founder has also launched its self-developed location-based business intelligence product, Founder Mirage (方正智繪) which is being used by China Industrial and Commercial Bank in the PRC. In April 2001 EC-Founder was granted contracts from China Construction Bank for the development of a business-to-business clearing platform.

#### **Contracts**

As at 30 June 2001, the major contracts in hand for the software development and systems integration business amounted to approximately HK\$740 million, which are all expected to be completed within one year time.

#### **Employees**

The total number of employees of the Group as at 30 June 2001 was 2,830 (31 December 2000: 2,673). The following are the numbers of employees as at 30 June 2001 categorised according to their functions:

Sales and marketing	674
After-sales services	276
Research and development	1,054
Accounting and finance	221
Administration and management	514
Others	91
	<hr/>
	2,830
	<hr/>

Salaries and annual bonuses are determined according to positions and performance of the 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.

### **FINANCIAL REVIEW**

#### **Liquidity and financial resources**

As at 30 June 2001, the Group recorded total assets of approximately HK\$1.222 billion which were financed by liabilities of approximately HK\$578 million and equity of approximately HK\$644 million. The Group's net asset value per share as at 30 June 2001 was HK\$0.57 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\$213 million as at 30 June 2001. After deducting bank loans and overdrafts of approximately of HK\$176 million, the Group recorded a net cash balance of approximately HK\$37 million. As at 30 June 2001, the Group had a working capital ratio of 1.82 (31 December 2000: 1.84) and a long term debt to equity ratio of 0.006 (31 December 2000: 0.005) with equity being defined as the total of capital and reserves.

#### **Charges on assets**

At 30 June 2001 all the land and buildings in Hong Kong and certain investment properties of the Group and fixed deposits of approximately HK\$45 million were pledged to banks to secure banking facilities.

#### **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 30 June 2001 the Group did not have any significant contingent liabilities

### **DETAILED RESULTS ANNOUNCEMENT**

A detailed results announcement containing all the information required by paragraph 46(1) to 46(6) of Appendix 16 of the Listing Rules of the Stock Exchange will be subsequently published on the Stock Exchange's website in the due course.

By Order of the Board  
**Wang Xuan**  
Chairman

18 September 2001

\* For identification purpose only