

**INTERIM RESULTS**  
**FOR THE SIX MONTHS ENDED 30 JUNE 2003**
**INTERIM RESULTS**

The board of directors (the "Board") of Founder Holdings Limited (the "Company") presents the unaudited consolidated results of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 June 2003, together with the comparative figures for the corresponding period in 2002. The condensed consolidated interim financial statements have not been audited by the Company's auditors, but have been reviewed by the Company's audit committee.

**Condensed Consolidated Profit and Loss Account**

	Notes	Unaudited	
		Six months ended 2003	Six months ended 2002
		HK\$'000	HK\$'000
TURNOVER	2	620,918	658,990
Cost of sales		(502,156)	(531,871)
Gross profit		118,762	127,119
Other revenue and gains		18,929	18,571
Selling and distribution costs		(63,868)	(68,340)
Administrative expenses		(62,628)	(75,177)
Other operating expenses		(22,188)	(42,226)
LOSS FROM OPERATING ACTIVITIES	3	(10,993)	(40,053)
Finance costs	4	(437)	(3,695)
Share of profits and losses of:			
Jointly-controlled entity		(271)	668
Associates		220	(12,618)
LOSS BEFORE TAX		(11,481)	(55,698)
Tax	5	(555)	(536)
LOSS BEFORE MINORITY INTERESTS		(12,036)	(56,234)
Minority interests		6,794	1,707
NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		(5,242)	(54,527)
LOSS PER SHARE — Basic	6	(0.5) cents	(4.9) cents

**Notes**
**1. Basis of preparation and accounting policies**

The unaudited condensed consolidated interim financial statements of the Group are prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") No.25 "Interim financial reporting" issued by the Hong Kong Society of Accountants (the "HKSA"). The accounting policies and basis of presentation used in the preparation of these condensed consolidated interim financial statements are consistent with those used in the preparation of the audited financial statements of the Group for the year ended 31 December 2002, except the following new/revised SSAPs issued by the HKSA which have been adopted for the first time in the preparation of the current period's condensed consolidated interim financial statements:

- SSAP 12 (Revised) : "Income taxes"
- SSAP 35 : "Accounting for government grants and disclosure of government assistance"

SSAP 12 (Revised) principally prescribes the accounting treatment and disclosures for deferred tax. In prior years, deferred tax is provided using the income statement liability method on all significant timing differences to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt. SSAP 12 (Revised) requires the adoption of the balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit, with limited exceptions. The adoption of SSAP 12 (Revised) has had no material effect on the results for the current or prior accounting periods.

SSAP 35 prescribes the accounting treatment and disclosures for government grants and disclosures for other forms of government assistance. This SSAP has had no material impact on these condensed consolidated interim financial statements.

**2. Turnover and segment information**

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts, and the value of services rendered during the period. The Group is principally engaged in the software development and systems integration and the distribution of information products.

The following table presents revenue and results of the Group's business segments for the six months ended 30 June 2003 and 2002:

	Software development and systems integration for media business		Software development and systems integration for non-media business		Distribution of information products		Corporate		Other		Consolidated	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	(Unaudited)	(Unaudited)	(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	HK\$'000	HK\$'000
Segment revenue:												
Sales to external customers	234,109	272,528	70,362	131,633	309,962	245,695	835	100	5,650	9,034	620,918	658,990
Segment results	4,870	(1,294)	(5,286)	(4,338)	1,481	(20,128)	(8,940)	(12,730)	(3,860)	(2,246)	(11,735)	(40,736)
Interest income											742	683
Loss from operating activities											(10,993)	(40,053)
Finance costs											(437)	(3,695)
Share of profits and losses of:												
Jointly-controlled entity											(271)	668
Associates											220	(12,618)
Loss before tax											(11,481)	(55,698)
Tax											(555)	(536)
Loss before minority interests											(12,036)	(56,234)
Minority interests											6,794	1,707
Net loss from ordinary activities attributable to shareholders											(5,242)	(54,527)

**3. Loss from operating activities**

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

	Unaudited	
	Six months ended 2003	Six months ended 2002
	HK\$'000	HK\$'000
Depreciation of fixed assets	6,129	9,068
Amortisation of trademark	—	475
Loss on disposal of fixed assets	220	2,394
Provision and write-off of doubtful trade debts	5,270	20,299
Provision and write-off/(reversal and write-back) of obsolete inventories	(2,342)	11,081
Loss on disposal of a subsidiary	—	535
Gain on partial disposal of a subsidiary	(3,496)	—
Gain on deemed partial disposal of an associate	—	(3,685)
Interest income	(742)	(683)

**4. Finance costs**

	Unaudited	
	Six months ended 2003	Six months ended 2002
	HK\$'000	HK\$'000
Interest on bank loans and overdrafts	437	3,695

**5. Tax**

	Unaudited	
	Six months ended 2003	Six months ended 2002
	HK\$'000	HK\$'000
Group:		
Hong Kong	8	—
Overseas	209	415
	217	415

Share of tax attributable to:

	Unaudited	
	Six months ended 2003	Six months ended 2002
	HK\$'000	HK\$'000
Jointly-controlled entity	4	—
Associates	334	121
	338	121

Tax charge for the period

Hong Kong profits tax has been provided at the rate of 17.5% (2002: 16%) on the estimated assessable profits arising in Hong Kong during the period.

Beijing Founder Electronics Co., Ltd., a wholly-owned subsidiary of the Group in the People's Republic of China (the "PRC"), is subject to PRC profits tax at a rate of 10% on its assessable profits for the three fiscal years which commenced in 2001 and ending on 31 December 2003. Beijing Founder Order Computer System Co., Ltd., a wholly-owned PRC subsidiary of the Group, is exempted from PRC profits tax for the three fiscal years which commenced in 1999 and ended on 31 December 2001 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., 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 the PRC subsidiaries is 15%. No provision for PRC profits tax has been made for the period as the relevant 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.

Taxes on overseas profits 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.

No recognition of the potential deferred tax assets relating to tax losses and other deductible temporary differences has been made as the recoverability of the potential deferred tax assets is uncertain.

**6. Loss per share**

The calculation of basic loss per share for the six months ended 30 June 2003 is based on the unaudited net loss from ordinary activities attributable to shareholders for the period of approximately HK\$5,242,000 (2002: HK\$54,527,000) and the weighted average of approximately 1,123,800,000 (2002: 1,123,800,000) ordinary shares in issue during the period.

Diluted loss per share for the six months ended 30 June 2003 and 2002 have not been calculated as the impact of the outstanding share options was anti-dilutive.

**INTERIM DIVIDEND**

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2003 (2002: Nil).

**MANAGEMENT DISCUSSION AND ANALYSIS**
**Overall Performance**

The Group's unaudited consolidated loss after tax and minority interests for the six months ended 30 June 2003 was substantially narrowed by approximately 90% to HK\$5.2 million (2002: loss of HK\$54.5 million). The Group recorded a drop in turnover during this interim period by approximately 6% to HK\$620.9 million (2002: HK\$659.0 million). For the two semi-annual periods under review, gross profit percentage maintained at around 19%. Our cost control measures implemented in the first half of 2003 further reduced our selling and distribution costs and administrative expenses by approximately 7% and 17% respectively if compared to the corresponding period in 2002.

Basic loss per share for this interim period was HK0.5 cents (2002: HK4.9 cents).

**Operating Review And Prospects**

During the first half of 2003, the outbreak of SARS brought an unprecedented negative impact on the business environment of Mainland China, especially in Beijing where our major operating subsidiaries are situated. Our normal business activities in the second quarter of 2003 were temporary disturbed. Despite the harsh business environment, we achieved a satisfactory improvement in our performance in the current period under review.

**(A) Software development and systems integration**
**Media sector**

The turnover of the software development and systems integration business in the media sector for the period decreased by 14% to HK\$234.1 million (2002: HK\$272.5 million) while its contribution to loss from operating activities for the period recorded a profit of HK\$4.9 million (2002: loss of HK\$1.3 million).

We have continued to strengthen the promotion campaign of our network publishing total solutions, Founder Apabi e-Book Solutions and to devote more research and development resources for our traditional digital publishing and commercial printing business. To capture the business opportunities from the computerization campaign of the PRC government, we have also allocated internal resources to explore the e-Government business.

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

The turnover of the software development and systems integration business in the non-media sector for the period decreased by 47% to HK\$70.4 million (2002: HK\$131.6 million) while its loss from operating activities for the period increased by 22% to HK\$5.3 million (2002: HK\$4.3 million).

Since sales and marketing activities were disturbed due to the outbreak of SARS in the second quarter of this year, turnover in the first half of the year was lower than expected. Market competition in the systems integration business for the banking and security industries in the PRC was still severe during the period under review. We have further streamlined our operational team and tightened the control over operating expenses, thus improving our operational efficiency to face the keen market competition.

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

Our substantial restructuring and reengineering exercise in the first half of 2002 laid a solid foundation for the future development of our distribution business of information products. The turnover of the distribution business of information products for the period increased by 26% to HK\$310.0 million (2002: HK\$245.7 million) while its contribution to loss for the period recorded a profit of HK\$1.5 million (2002: loss of HK\$20.1 million). This year we have planned to expand our distribution network by establishing offices in a number of cities in the PRC.

### **(C) Provision of software solutions and services**

Our major associate, EC-Founder (Holdings) Company Limited ("EC-Founder"), positions itself as a software solution and service provider in the PRC. During the period under review, EC-Founder was still facing fierce competition for its software business. Although the turnover of its software business decreased by 33% in the current period, its gross profit margin improved by approximately 6% as a result of tight cost control.

## **Employees**

The Group has developed its human resources policies and procedures based on performance and merit. The Group ensures that the pay levels of its employees are competitive and employees are rewarded on a performance-related basis within the general framework of the Group's salary and bonus systems. The Group provides on-the-job training to its employees in addition to retirement benefit schemes and medical insurance.

The Group operates share option schemes for the purpose of providing incentives and rewards to eligible directors and employees of the Group who contribute to the success of the Group's operations. The Company has not granted any share options during the current period.

Following the streamlining of the workforce of the Group in the first quarter of the current period, the number of employees of the Group fell by 6% from approximately 1,970 as at 31 December 2002 to approximately 1,860 as at 30 June 2003.

## **Financial Review**

### **Liquidity, financial resources and capital commitments**

As at 30 June 2003, the Group recorded total assets of HK\$792.6 million which were financed by liabilities of HK\$463.1 million, minority interests of HK\$9.4 million and equity of HK\$320.1 million. The Group's net asset value per share as at 30 June 2003 amounted to HK\$0.28 per share as compared to HK\$0.29 per share as at 31 December 2002.

The Group had a total cash and bank balance of HK\$177.3 million as at 30 June 2003. After deducting total borrowings of HK\$23.9 million, the Group recorded a net cash balance of HK\$153.4 million as at 30 June 2003. The Group's borrowings, which are subject to little seasonality, consist of mainly short term bank loans and revolving trust receipt loans. As at 30 June 2003, the Group's gearing ratio, measured on the basis of total borrowings as a percentage of total shareholders' equity, was 0.07 (31 December 2002: 0.10) while the Group's working capital ratio was 1.39 (31 December 2002: 1.40).

As at 30 June 2003, the Group did not have any material capital expenditure commitments.

### **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 Renminbi.

### **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 while the sales of the Group are mainly denominated in Renminbi and United States dollars. As the exchange rates of United States dollars against Hong Kong dollars and Renminbi 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.

### **Contracts**

As at 30 June 2003, the major contracts in hand for the software development and systems integration business of the Group amounted to approximately HK\$218 million (31 December 2002: HK\$241 million), which are all expected to be completed within one year time.

### **Material acquisitions and disposals of subsidiaries and associates**

On 19 March 2003, Founder (Hong Kong) Limited, a wholly-owned subsidiary of the Company, entered into a conditional sale and purchase agreement for the disposal of the Group's distribution business of information products to EC-Founder. Upon the completion of the disposal on 1 July 2003, EC-Founder became an approximately 54.85% owned subsidiary of the Company.

### **Charges on assets**

As at 30 June 2003, all the Group's land and buildings and investment properties in Hong Kong and fixed deposits in total of approximately HK\$58 million were pledged to certain banks in Hong Kong and the PRC to secure banking facilities granted.

### **Contingent liabilities**

The Group did not have any significant contingent liabilities as at 30 June 2003.

## **DETAILED RESULTS ANNOUNCEMENT**

A detailed results announcement containing all the information required by paragraphs 46(1) to 46(6) of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited will be subsequently published on the website of The Stock Exchange of Hong Kong Limited in the due course.

By Order of the Board  
**Cheung Shuen Lung**  
Chairman

Hong Kong, 19 September 2003

\* For identification purpose only