

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2004

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 2004, together with the comparative figures for the corresponding period in 2003. 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 For the six months ended 30 June	
		2004 HK\$'000	2003 HK\$'000
TURNOVER			
Cost of sales	2	874,912	620,918
		(751,224)	(502,156)
Gross profit		123,688	118,762
Other revenue and gains		27,443	18,929
Selling and distribution costs		(81,222)	(63,868)
Administrative expenses		(60,823)	(62,628)
Other operating expenses, net		(13,094)	(22,188)
LOSS FROM OPERATING ACTIVITIES	3	(4,008)	(10,993)
Finance costs	4	(165)	(437)
Share of profits and losses of:			
Jointly-controlled entity		(17)	(271)
Associates		4,207	220
PROFIT/(LOSS) BEFORE TAX		17	(11,481)
Tax	5	(1,707)	(555)
LOSS BEFORE MINORITY INTERESTS		(1,690)	(12,036)
Minority interests		767	6,794
NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		(923)	(5,242)
LOSS PER SHARE — Basic	6	(0.1) cents	(0.5) cents

Notes:

1. Basis of preparation and accounting policies

The unaudited condensed consolidated interim financial statements of the Group are prepared in accordance with Statement of Standard Accounting Practice 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 software development, 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 2004 and 2003.

	Software development and systems integration for media sector		Software development and systems integration for non-media sector		Distribution of information products		Corporate		Others		Eliminations		Consolidated	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Segment revenue:														
Sales to external customers	282,562	234,109	86,678	70,362	498,738	309,962	—	—	6,934	6,485	—	—	874,912	620,918
Intersegment sales	2,215	—	—	—	4,918	—	—	—	—	—	(7,133)	—	—	—
Total	284,777	234,109	86,678	70,362	503,656	309,962	—	—	6,934	6,485	(7,133)	—	874,912	620,918
Segment results	12,640	4,870	(10,694)	(5,286)	2,945	1,481	(9,084)	(9,936)	(884)	(2,864)	—	—	(5,077)	(11,735)
Interest income													1,869	742
Loss from operating activities													(4,008)	(10,993)
Finance costs													(165)	(437)
Share of profits and losses of:														
Jointly-controlled entity													(17)	(271)
Associates													4,207	220
Profit/(loss) before tax													17	(11,481)
Tax													(1,707)	(555)
Loss before minority interests													(1,690)	(12,036)
Minority interests													767	6,794
Net loss from ordinary activities attributable to shareholders													(923)	(5,242)

3. Loss from operating activities

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

	Unaudited For the six months ended 30 June	
	2004 HK\$'000	2003 HK\$'000
Depreciation of fixed assets	6,952	6,129
Amortisation of goodwill	784	—
Loss on disposal of fixed assets	301	220
Provision and write-off/(reversal and write-back) of doubtful trade debts and other receivables	(6,053)	5,079
Provision and write-off/(reversal and write-back) of obsolete inventories	40	(2,342)
Loss/(gain) on partial disposal of a subsidiary	762	(3,496)
Gain on disposal of a jointly-controlled entity	(4,348)	—
Interest income	(1,069)	(742)

4. Finance costs

	Unaudited For the six months ended 30 June	
	2004 HK\$'000	2003 HK\$'000
Interest on bank loans and overdrafts	165	437

5. Tax

	Unaudited For the six months ended 30 June	
	2004 HK\$'000	2003 HK\$'000
Group:		
Current — Hong Kong	3	8
Current — Elsewhere	161	209
	164	217
Share of tax attributable to:		
Jointly-controlled entity	—	4
Associates	1,543	334
	1,543	338
Total tax charge for the period	1,707	555

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.

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.

Beijing Founder Order Computer System Co., Ltd. ("Founder Order") is exempted from profits tax of the People's Republic of China (the "PRC") 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. ("PRC Century") 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. EC-Founder Co., Ltd. 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. At present, the standard tax rate applicable to Founder Order, PRC Century and EC-Founder Co., Ltd. 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.

6. 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\$923,000 (2003: HK\$5,242,000), and the weighted average of approximately 1,123,800,000 (2003: 1,123,800,000) 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.

INTERIM DIVIDEND

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2004 (2003: 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 2004 decreased by 82% to approximately HK\$0.9 million (2003: HK\$5.2 million). The Group recorded an increase in turnover during this interim period by 41% to approximately HK\$874.9 million (2003: HK\$620.9 million). For the two semi-annual periods under review, gross profit percentage dropped from 19.1% in 2003 to 14.1% in 2004 as a result of the increase in sales of the distribution business of information products which had a much lower gross profit percentage if compared to the business of software development and systems integration. The increase in sales in the first half of the current year led to the increase in the selling and distribution costs by 27%. On the other hand, our cost control measures further reduced our administrative expenses by 3% if compared to the corresponding period in 2003.

Basic loss per share for this interim period was HK0.1 cents (2003: HK0.5 cents).

Operating Review

(A) Software development and systems integration for media sector

The turnover of the software development and systems integration business in the media sector for the period increased by 21% to approximately HK\$282.6 million (2003: HK\$234.1 million) while its segmental profit increased by 160% to approximately HK\$12.6 million (2003: HK\$4.9 million).

In the past few years, tremendous effort and resources were put into the restructuring of our media business. Last year our media business already resumed to profit-making. In the first half of the current year, the performance of this business segment was further improved. Besides our traditional graphic arts and e-publishing software solutions for the needs of newspaper and publishing houses, our network publishing total solutions, Founder Apabi e-Book Solutions, are well applied to e-library and e-books. The launch of new product, Founder EasiPrint Digital Printing System, in last December was well received by the market. We expect that this new printing system will be another milestone in printing technology for digital printing and will contribute to the growth of our media business in the near future.

(B) Software development and systems integration for non-media sector

The turnover of the software development and systems integration business in the non-media sector for the period increased by 23% to approximately HK\$86.7 million (2003: HK\$70.4 million) while its segment results recorded a loss of approximately HK\$10.7 million (2003: HK\$5.3 million).

Market competition in the systems integration business for the banking and security industries in the PRC was still severe during the period under review. Profit margins were narrowed down. We have further restructured our operational team and business units, and have tightened the control over operating expenses. Since the second quarter of the current year, increasing number of systems integration contracts have been granted to us. Up to the end of August 2004, the year-to-date total value of contracts granted to us already exceeded the total value for last year. We expect the performance of this sector would improve in the second half of the year.

(C) Distribution of information products

The turnover of the distribution business of information products for the period increased by 61% to approximately HK\$498.7 million (2003: HK\$310.0 million) while its segmental profit increased by 99% to approximately HK\$2.9 million (2003: HK\$1.5 million). The significant improvement in the performance of the distribution business was mainly attributable to:

- increase in product range and suppliers;
- expansion of distribution network; and
- tight control on operating costs, trade receivables and inventories.

Besides the headquarters in Beijing, the Group has established 12 branch offices/representative offices in Shanghai, Guangzhou, Chengdu, Shenyang, Shenzhen, Jinan, Nanjing, Wuhan, Hangzhou, Xian, Guiyang and Xizang Zizhiqu. In June 2004, our subsidiary, PRC Century, was ranked the 6th place among the top 500 information product distributors in the PRC.

Prospects

In the first half of the year, besides the non-media business was still loss-making, the other businesses of the Group either resumed to profit-making or narrowed down their losses. Since we have already further restructured the loss-making business units of the Group, the management is confident that the performance of the Group for the whole year of 2004 will further improve if compared to last year.

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 had granted 90 million share options to the eligible directors and employees of the Group during the current period.

In the first half of the current year, there was no significant change in the workforce of the Group. The number of employees of the Group remained at approximately 2,070 as at 30 June 2004 (31 December 2003: 2,080).

Financial Review

Liquidity, financial resources and capital commitments

As at 30 June 2004, the Group recorded total assets of HK\$957.1 million which were financed by liabilities of HK\$529.3 million, minority interests of HK\$86.0 million and equity of HK\$341.8 million. The Group's net asset value per share as at 30 June 2004 amounted to HK\$0.3 (31 December 2003: HK\$0.3) per share.

The Group had a total cash and bank balance of HK\$242.5 million as at 30 June 2004. After deducting total borrowings of HK\$4.9 million, the Group recorded a net cash balance of HK\$237.6 million as at 30 June 2004 as compared to HK\$318.2 million as at 31 December 2003. The Group's borrowings, which are subject to little seasonality, consist of mainly short term revolving trust receipt loans. As at 30 June 2004, the Group's gearing ratio, measured on the basis of total borrowings as a percentage of total shareholders' equity, was 0.01 (31 December 2003: 0.02) while the Group's working capital ratio maintained at 1.53 (31 December 2003: 1.53).

As at 30 June 2004, 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, Renminbi and United States dollars.

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 2004, the major contracts in hand for the software development and systems integration business amounted to approximately HK\$179 million (31 December 2003: approximately HK\$162 million), which are all expected to be completed within one year time.

Material acquisitions and disposals of subsidiaries and associates

On 31 March 2004, Beijing Founder Electronics Co., Ltd., a wholly-owned subsidiary of the Company, entered into a conditional sale and purchase agreement for the disposal of its entire equity interest in its 30% owned jointly-controlled entity, Beijing PeCan Information System Inc.. A profit of approximately HK\$4.3 million was recorded for the disposal.

As part of its restructuring exercise, Founder International Inc. partially disposed of its equity interest in Power Print Inc., thus reducing its interest from 75.1% to 33.4% in May 2004. A loss of approximately HK\$0.8 million was resulted from the partial disposal.

Charges on assets

As at 30 June 2004, all the Group's land and buildings and investment properties in Hong Kong of approximately HK\$31.4 million and bank deposits of approximately HK\$48.3 million were pledged to certain banks to secure banking facilities granted.

Contingent liabilities

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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 complied with the Code of Best Practice (the "Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (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 of the Group for the six months ended 30 June 2004 now reported have been reviewed by the audit committee.

DETAILED RESULTS ANNOUNCEMENT

A detailed results announcement of the Group for the six months ended 30 June 2004 containing all the information required by paragraphs 46(1) to 46(6) of Appendix 16 of the Listing Rules will be subsequently published on the website of The Stock Exchange of Hong Kong Limited in the due course.

By Order of the Board
Founder Holdings Limited
Cheung Shuen Lung
Chairman

Hong Kong, 10 September 2004

As at the date of this announcement, the executive directors of the Company are Mr Cheung Shuen Lung, Professor Xiao Jian Guo, Professor Wei Xin and Mr Zhang Zhao Dong. The independent non-executive directors of the Company are Dr Hu Hung Lick, Henry and Mr Li Fat Chung.

* For identification purpose only