

FINAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2004

AUDITED RESULTS

The Board of Directors (the “Board”) of Founder Holdings Limited (the “Company”) announces the audited consolidated results of the Company and its subsidiaries (collectively the “Group”) for the year ended 31 December 2004 together with the comparative figures as follows:

	<i>Notes</i>	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
TURNOVER	2	2,013,831	1,553,796
Cost of sales		<u>(1,737,534)</u>	<u>(1,276,880)</u>
Gross profit		276,297	276,916
Other revenue and gains		62,434	61,851
Selling and distribution costs		(192,039)	(161,552)
Administrative expenses		(138,947)	(128,564)
Other operating expenses, net		(32,018)	(35,704)
Impairment of fixed assets		–	(3,777)
Impairment of goodwill		–	(2,528)
Gain/(loss) on disposal of subsidiaries		<u>3,255</u>	<u>(13,260)</u>
LOSS FROM OPERATING ACTIVITIES	3	(21,018)	(6,618)
Finance costs	4	(875)	(2,071)
Share of profits and losses of:			
Jointly-controlled entity		(17)	1,028
Associates		<u>3,350</u>	<u>3,836</u>
LOSS BEFORE TAX		(18,560)	(3,825)
Tax	5	<u>(7,232)</u>	<u>(3,790)</u>
LOSS BEFORE MINORITY INTERESTS		(25,792)	(7,615)
Minority interests		<u>(1,391)</u>	<u>14,830</u>
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		<u><u>(27,183)</u></u>	<u><u>7,215</u></u>
EARNINGS/(LOSS) PER SHARE — BASIC	6	<u><u>(2.4 cents)</u></u>	<u><u>0.6 cents</u></u>

Notes:

1. IMPACT OF RECENTLY ISSUED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

The Hong Kong Institute of Certified Public Accountants has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards (“HKASs”), herein collectively referred to as the new HKFRSs, which are generally effective for accounting periods beginning on or after 1 January 2005. The Group has resolved to early adopt the following new HKFRSs in the financial statements for the year ended 31 December 2004:

- HKFRS 3 “Business combinations”
- HKAS 36 “Impairment of assets”
- HKAS 38 “Intangible assets”

The major effects on the Group’s accounting policies and amounts disclosed in these financial statements are summarised as follows:

HKFRS 3 prescribes the accounting for business combinations. The early adoption of HKFRS 3 requires the early adoption of HKAS 36 and HKAS 38. The early adoption of HKFRS 3, HKAS 36 and HKAS 38 has resulted in a change in the accounting policy for goodwill.

Prior to the adoption:

- goodwill arising on acquisitions after 1 January 2001 was recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life subject to a maximum 20 years;
- goodwill arising on acquisitions before 1 January 2001 was eliminated against consolidated reserves in the year of acquisition;
- goodwill was assessed for impairment at each balance sheet date;
- impairment loss of goodwill was charged to the consolidated profit and loss account; and
- on disposal of subsidiaries, the gain or loss on disposal was calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remained unamortised and any relevant reserves, as appropriate. Any attributable goodwill previously eliminated against consolidated reserves at the time of acquisition was written back and included in the calculation of the gain or loss on disposal.

Upon adoption:

- the Group ceased the amortisation of goodwill from 1 January 2004;
- the accumulated amortisation of goodwill arising on acquisitions of subsidiaries as at 1 January 2004 has been eliminated with a corresponding decrease in the respective cost of goodwill at that date;
- from the year ended 31 December 2004 onwards, goodwill is tested annually for impairment, as well as when there are indications of impairment;
- upon impairment of goodwill previously eliminated against consolidated reserves, the impairment loss is not charged to the consolidated profit and loss account; and

- on disposal of subsidiaries, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate. Any attributable goodwill previously eliminated against consolidated reserves at the time of acquisition is not recognised in the consolidated profit and loss account upon disposal.

HKFRS 3 is prospectively applied and the effect of its adoption on these financial statements in respect of the year ended 31 December 2004 is summarised below:

- the accumulated amortisation of goodwill arising on acquisition of subsidiaries as at 1 January 2004 of approximately HK\$784,000 has been eliminated with a corresponding decrease in the cost of goodwill as at that date; and
- the impairment loss of goodwill remaining eliminated against consolidated contributed surplus of approximately HK\$65,395,000 was transferred to consolidated accumulated losses as a movement in reserves and was not charged to the consolidated profit and loss account.

The Group has already commenced an assessment of the impact of other new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

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 year.

(a) Business segments

The following table presents revenue and profit/(loss) for the Group's business segments.

	Software development and systems integration for media business		Software development and systems integration for non-media business		Distribution of information products		Corporate		Others		Eliminations		Consolidated	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	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	630,621	571,947	183,335	175,798	1,187,216	756,799	-	-	12,659	49,252	-	-	2,013,831	1,553,796
Intersegment sales	5,226	-	-	1,078	13,537	13,448	-	-	-	-	(18,763)	(14,526)	-	-
Total	635,847	571,947	183,335	176,876	1,200,753	770,247	-	-	12,659	49,252	(18,763)	(14,526)	2,013,831	1,553,796
Segment results	25,030	23,936	(39,451)	2,509	7,432	6,930	(19,792)	(18,962)	552	(4,018)			(26,229)	10,395
Interest income													1,956	2,552
Impairment of fixed assets													-	(3,777)
Impairment of goodwill													-	(2,528)
Gain/(loss) on disposal of subsidiaries													3,255	(13,260)
Loss from operating activities													(21,018)	(6,618)
Finance costs													(875)	(2,071)
Share of profits and losses of:														
Jointly-controlled entity													(17)	1,028
Associates													3,350	3,836
Loss before tax													(18,560)	(3,825)
Tax													(7,232)	(3,790)
Loss before minority interests													(25,792)	(7,615)
Minority interests													(1,391)	14,830
Net profit/(loss) from ordinary activities attributable to shareholders													(27,183)	7,215

(b) *Geographical segments*

The following table presents revenue for the Group's geographical segments.

	Hong Kong		Mainland China		Overseas		Eliminations		Consolidated	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	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	210,378	172,084	1,686,214	1,235,026	117,239	146,686	-	-	2,013,831	1,553,796
Intersegment sales	231,142	177,289	6,072	-	-	-	(237,214)	(177,289)	-	-
Total	<u>441,520</u>	<u>349,373</u>	<u>1,692,286</u>	<u>1,235,026</u>	<u>117,239</u>	<u>146,686</u>	<u>(237,214)</u>	<u>(177,289)</u>	<u>2,013,831</u>	<u>1,533,796</u>

3. **LOSS FROM OPERATING ACTIVITIES**

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

	2004	2003
	HK\$'000	HK\$'000
Amortisation of goodwill	-	784
Depreciation	20,692	17,110
Loss on disposal of fixed assets	777	210
Write off of fixed assets	2,383	-
Loss/(gain) on partial disposal of a subsidiary	765	(3,496)
Gain on disposal of a jointly-controlled entity	(4,329)	-
Gain on deemed partial disposal of a subsidiary	(6,503)	-
	<u>765</u>	<u>(3,496)</u>

4. **FINANCE COSTS**

	2004	2003
	HK\$'000	HK\$'000
Interest on bank loans and overdrafts	875	2,050
Interest on finance leases	-	21
	<u>875</u>	<u>2,071</u>

5. **TAX**

	2004	2003
	HK\$'000	HK\$'000
Group:		
Current – Hong Kong	5	8
Current – Elsewhere	299	710
Deferred	5,553	1,715
	<u>5,857</u>	<u>2,433</u>
Share of tax attributable to:		
Jointly-controlled entity	-	98
Associates	1,375	1,259
	<u>1,375</u>	<u>1,357</u>
Total tax charge for the year	<u>7,232</u>	<u>3,790</u>

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 year.

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 provision for profits tax of the People's Republic of China (the "PRC") has been made for the year 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 year.

Beijing Founder Order Computer System Co., Ltd. ("Founder Order") 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. ("PRC Century") is exempted from PRC profits tax for the three fiscal years which commenced in 2002 and ended on 31 December 2004 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 and PRC Century is 15%.

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 2004 of approximately HK\$27,183,000 (2003: net profit of approximately HK\$7,215,000), and the weighted average of approximately 1,123,800,000 (2003: 1,123,800,000) ordinary shares in issue during the year.

Diluted earnings/(loss) per share for the years ended 31 December 2004 and 2003 have not been calculated as the impact of the outstanding share options was anti-dilutive.

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 (2003: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Overall Performance

The Group's audited consolidated loss after tax and minority interests for the year ended 31 December 2004 amounted to HK\$27,183,000 (2003: profit of HK\$7,215,000). The Group recorded a satisfactory increase in turnover during the year by approximately 30% to HK\$2,013.8 million (2003: HK\$1,553.8 million). For the two years under review, gross profit percentage dropped from 17.8% in 2003 to 13.7% 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 software development and systems integration business. The increase in sales in the current year led to the increase in the selling and distribution costs and administrative expenses by approximately 19% and 8% respectively.

Basic loss per share for the year was HK2.4 cents (2003: profit of HK0.6 cents).

Operating Review And Prospects

In 2004, the Group had implemented a series of actions to restructure its operations. Loss making or low profit margin businesses have been scaled down or terminated. Resources were re-allocated in order to enhance the Group's competitiveness and productivity. More effort and resources were devoted to new product development and new market exploration. The management foresees that the Group's restructuring exercise will continue in the coming year.

(A) Software development and systems integration for media sector

The turnover of the software development and systems integration business for the media sector for the current year increased moderately by 10% to HK\$630.6 million (2003: HK\$571.9 million) while its segment results recorded an encouraging profit of HK\$25.0 million (2003: HK\$23.9 million).

In the past few years, tremendous effort and resources were put into the restructuring of the media business. In 2003, the media business already resumed to profit-making. In the current year under review, the performance of this business segment was further improved. Besides the traditional graphic arts and e-publishing software solutions for the needs of newspaper and publishing houses, the network publishing total solutions, Founder Apabi e-Book Solutions, are well applied to e-library and e-books. More resources have been devoted to the development of the e-book business. In addition, the new product, Founder EasiPrint Digital Printing System, was well received by the market since its launch in December 2003. The management expects that this new printing system will be another milestone in printing technology for digital printing and will contribute to the growth of the media business of the Group in the near future.

The sales of publishing solutions to western countries also recorded a satisfactory growth in 2004. More staff and agents were employed to explore the market in the United States and Europe. A number of projects are being negotiated with potential customers. The management foresees the sales to western countries will increase significantly in the coming years.

(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 year increased by 4% to HK\$183.3 million (2003: HK\$175.8 million) while its segment results recorded a significant loss of HK\$39.5 million (2003: profit of HK\$2.5 million).

Market competition in the systems integration business for the banking and security industries in the PRC was still severe during the year under review. Turnover for the year was lower than expected and profit margins were further narrowed down. Although the management has further streamlined the operational team and tightened the control over operating expenses of this business sector, this business still recorded a significant loss in 2004. In light of the continuing loss-making position of the firewall business, the Group had already disposed of such business in December 2004. The management will closely monitor the performance of the remaining non-media business units in the coming year and will take all necessary actions to minimise the loss of this business segment.

(C) Distribution of information products

The turnover of the distribution business of information products for the year increased by 57% to HK\$1,187.2 million (2003: HK\$756.8 million) while its segmental results for the year recorded a profit of HK\$7.4 million (2003: HK\$6.9 million). The improvement in the performance of the distribution business was mainly attributable to:

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

Although the Group recorded an encouraging growth in the sales of information products in the past two years, the Group is also facing to the potential risk caused by the increase in inventories and trade receivables. In addition, more and more working capital fund is required for the further development of the distribution business.

Besides the headquarters in Beijing, the Group has established 14 branch offices/representative offices in Shanghai, Guangzhou, Chengdu, Shenyang, Shenzhen, Jinan, Nanjing, Wuhan, Hangzhou, Xian, Guiyang, Xizang Zizhiqu, Fuzhou and Harbin. In June 2004, PRC Century was ranked the 6th place (2003: 7th) among the top 100 information product distributors in the PRC.

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 year.

There was no significant change in the workforce of the Group in the current year. The number of employees of the Group as at 31 December 2004 was approximately 2,020 (31 December 2003: 2,080).

Financial Review

Liquidity, financial resources and capital commitments

At 31 December 2004, the Group recorded total assets of HK\$1,086.5 million (31 December 2003: HK\$960.7 million) which were financed by liabilities of HK\$677.1 million (31 December 2003: HK\$532.0 million), minority interests of HK\$93.8 million (31 December 2003: HK\$86.7 million) and equity of HK\$315.6 million (31 December 2003: HK\$342.0 million). The Group's net asset value per share as at 31 December 2004 amounted to HK\$0.28 (31 December 2003: HK\$0.30).

The Group had a total cash and bank balance of HK\$323.5 million as at 31 December 2004. After deducting total borrowings of HK\$15.9 million, the Group recorded a net cash balance of HK\$307.6 million as at 31 December 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 revolving trust receipt loans. As at 31 December 2004, the Group's gearing ratio, measured on the basis of total borrowings as a percentage of total shareholders' equity, was 0.05 (31 December 2003: 0.02) while the Group's working capital ratio was 1.41 (31 December 2003: 1.53).

At 31 December 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 year 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

At 31 December 2004, the major contracts in hand for the software development and systems integration business amounted to approximately HK\$229.4 million (31 December 2003: HK\$162.1 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 30% interest in Beijing PeCan Information System Inc.. The disposal was completed in June 2004 and a profit of approximately HK\$4.3 million was recorded.

As part of the restructuring exercise of the Group, 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. In addition, the Group completed the disposal of its entire equity interest in EC-Founder Co., Ltd., thus resulted into a gain on disposal of subsidiary of approximately HK\$3.3 million.

The Group did not have any material acquisitions in the year under review.

Charges on assets

At 31 December 2004, all the Group's land and buildings and investment properties in Hong Kong of approximately HK\$31.6 million and fixed deposits of approximately HK\$61.8 million were pledged to banks to secure banking facilities granted.

Contingent liabilities

At 31 December 2004, the Company had contingent liabilities in relation to guarantees given to banks and suppliers in connection with facilities granted to certain subsidiaries amounting to approximately HK\$45 million and HK\$23.4 million respectively.

At 31 December 2004, the Group did not have any significant contingent liabilities.

PUBLICATION OF DETAILED RESULTS ANNOUNCEMENT

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 will be subsequently published on the website of The Stock Exchange of Hong Kong Limited in due course.

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

Hong Kong, 22 April 2005

As at the date of this announcement, the Board of the Company comprises executive directors of Mr Cheung Shuen Lung, Professor Xiao Jian Guo, Professor Wei Xin, Mr Zhang Zhao Dong and Mr Xia Yang Jun, and the independent non-executive directors of Dr Hu Hung Lick, Henry, Mr Li Fat Chung and Ms Wong Lam Kit Yee.

* *For identification purpose only*