



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 2002

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 2002, together with the comparative figures for the corresponding period in 2001. 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.

Consolidated turnover of the Group amounted to HK\$659.0 million for the six months ended 30 June 2002, representing a decrease of 28% as compared with the corresponding six months ended 30 June 2001 (HK\$909.7 million). Consolidated loss attributable to shareholders amounted to HK\$54.5 million for the six months ended 30 June 2002, compared with a loss of HK\$119.8 million for the corresponding six months ended 30 June 2001. Basic loss per share for this interim period was HK4.9 cents (2001: basic loss per share of HK10.7 cents).

INTERIM DIVIDEND

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2002 (2001: Nil).

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Notes	Unaudited Six months ended 30 June	
		2002 HK\$'000	2001 HK\$'000
TURNOVER	2	658,990	909,727
Cost of sales		(531,871)	(793,351)
Gross profit		127,119	116,376
Other revenue and gains		18,571	25,708
Selling and distribution costs		(68,340)	(112,535)
Administrative expenses		(75,177)	(95,099)
Other operating expenses		(42,226)	(42,482)
LOSS FROM OPERATING ACTIVITIES	3	(40,053)	(108,032)
Finance costs	4	(3,695)	(5,792)
Share of profits and losses of:			
Jointly-controlled entity		668	93
Associates		(12,618)	(7,938)
LOSS BEFORE TAX		(55,698)	(121,669)
Tax	5	(536)	(662)
LOSS BEFORE MINORITY INTERESTS		(56,234)	(122,331)
Minority interests		1,707	2,504
NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		(54,527)	(119,827)
TRANSFER TO RESERVES	6	3,685	1,980
LOSS PER SHARE	7		
— Basic		(4.9) cents	(10.7) cents

Notes

1. Basis of preparation and accounting policies

The unaudited condensed consolidated interim financial statements of the Group had been 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") and Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). The accounting policies 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 2001, except that the Group has adopted the following new or revised SSAPs issued by the HKSA which are effective for accounting periods commencing on or after 1 January 2002 and the accounting policy as disclosed below under the heading "Change in accounting policy in 2002":

SSAP 1 (Revised)	:	"Presentation of financial statements"
SSAP 11 (Revised)	:	"Foreign currency translation"
SSAP 15 (Revised)	:	"Cash flow statements"
SSAP 33	:	"Discontinuing operations"
SSAP 34	:	"Employee benefits"

These SSAPs prescribe new accounting measurement and disclosure practices. The adoption of these SSAPs during the current period does not have any significant impact on the Group's losses or shareholders' equity, except that the presentation of certain items and balances in the unaudited condensed consolidated interim financial statements has been revised to comply with these new requirements.

Change in accounting policy in 2002

In prior years, cost of inventories was determined on the first-in, first-out basis. Upon a review of the nature of the Group's business, the Board determined during the period that it would be more appropriate for the Group to adopt the weighted average costing method to determine the cost of inventories. The Board estimates that the change in accounting policy has no significant impact on the current period's and prior year's inventory values of the Group and, as such, a prior year adjustment as required by SSAP 2 "Net profit or loss for the period, fundamental errors and changes in accounting policies" has not been incorporated in the condensed consolidated interim financial statements.

2. Turnover and segment information

Turnover represents the invoiced value of goods sold, after allowance 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.

(a) Business segments

The following table presents revenue and results of the Group's business segments for the six months ended 30 June 2002 and 2001:

	Software development and systems integration for media business		Software development and systems integration for non-media business		Distribution of information products		Corporate and others		Consolidated	
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
	(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	281,562	319,276	131,633	151,668	245,695	438,783	100	—	658,990	909,727
Segment results	(3,540)	3,491	(4,338)	(74,661)	(20,128)	(28,814)	(12,730)	(9,887)	(40,736)	(109,871)
Interest income									683	1,839
Loss from operating activities									(40,053)	(108,032)
Finance costs									(3,695)	(5,792)
Share of profits and losses of:										
Jointly-controlled entity									668	93
Associates									(12,618)	(7,938)
Loss before tax									(55,698)	(121,669)
Tax									(536)	(662)
Loss before minority interests									(56,234)	(122,331)
Minority interests									1,707	2,504
Net loss from ordinary activities attributable to shareholders									(54,527)	(119,827)

(b) Geographical segments

The following table presents revenue and results of the Group's geographical segments for the six months ended 30 June 2002 and 2001:

	Hong Kong		Elsewhere in the PRC		Overseas		Corporate and others		Eliminations		Consolidated	
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
	(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	73,679	159,522	544,754	703,349	40,457	46,856	100	—	—	—	658,990	909,727
Intersegment sales	98,507	194,145	—	—	—	—	—	—	(98,507)	(194,145)	—	—
	172,186	353,667	544,754	703,349	40,457	46,856	100	—	(98,507)	(194,145)	658,990	909,727
Segment results	7,858	697	(28,213)	(98,765)	(7,651)	(1,916)	(12,730)	(9,887)	—	—	(40,736)	(109,871)

3. Loss from operating activities

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

	Unaudited Six months ended 30 June 2002 HK\$'000	2001 HK\$'000
Depreciation of fixed assets		9,068
Amortisation of trademark		475
Loss on disposal of fixed assets		2,394
Loss on disposal of a subsidiary		535
Provision for diminution in value of a long term investment		—
Gain on deemed disposal of an associate		1,647
Gain on deemed disposal of a subsidiary		(3,685)
		—
		(1,916)

4. Finance costs

	Unaudited Six months ended 30 June 2002 HK\$'000	2001 HK\$'000
Interest on bank loans and overdrafts	3,695	5,792

5. Tax

	Unaudited Six months ended 30 June 2002 HK\$'000	2001 HK\$'000
Group:		
Outside Hong Kong	415	318
Share of tax attributable to associates	121	344
Tax charge for the period	536	662

No Hong Kong profits tax has been provided as no assessable profits are arising in Hong Kong during the period (2001: Nil).

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 (2001: Nil).

6. Transfer to reserves

The reserve movement for the six months ended 30 June 2002 was represented by the movement of capital reserve which arose from the increase in non-distributable reserve of an associate. The reserve movement for the six months ended 30 June 2001 was mainly represented by the movement of capital reserve which arose from the increase in non-distributable reserve of a subsidiary.

7. Loss per share

The calculation of basic loss per share for the six months ended 30 June 2002 is based on the unaudited net loss attributable to shareholders for the period of approximately HK\$54,527,000 (2001: approximately HK\$119,827,000) and the weighted average of approximately 1,123,800,000 (2001: approximately 1,123,800,000) ordinary shares in issue during the period.

The diluted loss per share for the six months ended 30 June 2002 and 2001 have not been calculated as the impact of the outstanding share options was anti-dilutive.

MANAGEMENT DISCUSSION AND ANALYSIS

Overall Performance

The Group's unaudited consolidated loss after tax and minority interests for the period was narrowed by 54% to HK\$54.5 million (2001: loss of HK\$119.8 million). The Group recorded a drop in turnover during the period by 28% to HK\$659.0 million (2001: HK\$909.7 million). For the two semi-annual periods under review, gross profit percentage improved to 19.3% (2001: 12.8%). The implementation of cost control measures since the last quarter of 2001 resulted in reduction of selling and distribution costs and administrative expenses by 39% and 21% respectively if compared with the corresponding period in 2001.

Operating Review And Prospects

(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 12% to HK\$281.6 million (2001: HK\$319.3 million) while its contribution to loss from operating activities for the period recorded a loss of HK\$3.5 million (2001: profit of HK\$3.5 million).

The situation of holding-up or decreasing capital expenditure for new systems and/or up-grading demands by our customers as a result of the slowdown of the overall global economy in 2001 has extended to the first half of 2002, thus led to the drop in turnover and the setback of the performance of this sector. During the period, the Group has continued to introduce a number of new products to its customers and has established a nationwide agency network in the PRC for the distribution of our publishing software and related peripheral products. We have strengthened the promotion campaign of our network publishing solutions, Founder Apabi eBook Solutions, through nationwide seminars and exhibitions to promote its application in eLibrary. Through our efforts in the past few years, we have also established our leading position in the Chinese broadcasting control system and have expanded our customer base on news management system for television stations in the PRC.

Non-media sector

The turnover of the software development and systems integration business in the non-media sector for the period decreased by 13% to HK\$131.6 million (2001: HK\$151.7 million) while its loss from operating activities for the period was narrowed substantially by 94% to HK\$4.3 million (2001: HK\$74.7 million).

During the first half of 2002, market competition in the systems integration business for the banking and security industries in the PRC was still severe, thus resulted in drop in profitability. Since the last quarter of 2001, we have started to restructure the management and operation of our non-media business. We have tightened the control over contract management and implemented a number of cost control programs. We have streamlined our operational team and reduced its headcount by nearly 60%. All our efforts have resulted in the substantial reduction in operating expenses and the improvement in the performance of our non-media business in the period under review.

Since the second quarter of 2002, we have seen a slow recovery of the market in light of the increasing volume of contracts offered by customers for bidding. We expect that our performance will further improve in the near future.

(B) Distribution of information products

The turnover of the distribution business of information products for the period decreased by 44% to HK\$245.7 million (2001: HK\$438.8 million) as the corporate demand for information products was still low. Its loss from operating activities for the period was narrowed by 30% to HK\$20.1 million (2001: HK\$28.8 million).

In the first half of 2002, great efforts were made by the management to clear up excessive inventories accumulated from last year and to chase up settlement from overdue debtors, thus resulted in the substantial improvement in inventories and trade receivables in term of reduction in amount and improvement in aging. Logistic process was also strengthened to reduce costs and to enhance our efficiency.

(C) Provision of e-commerce services

Our associate, EC-Founder (Holdings) Company Limited ("EC-Founder"), positions itself as a software solution and service provider on the following business sectors: (a) information security, (b) geographic information system, (c) e-finance and (d) enterprise/government information.

The turnover of the software business of EC-Founder was almost doubled in the period under review if compared with last corresponding period as its products and company's brand name have been well recognised by the market since last year's initial launch of its products. During the first half of 2002, EC-Founder has completed exhibition shows in more than 50 cities in the PRC to promote its information security products. It has also completed the project of "Key Client Service System" for China Construction Bank and a number of geographic information system projects for a large clientele such as oil and petroleum, telecommunication service provider, and government forest management bureau.

During the period, EC-Founder has disposed of its loss making business in relation to the manufacture and distribution of semi-conductors. If the loss of this discontinued business of approximately HK\$20 million was not accounted for, the net loss of EC-Founder relating to its continuing business for the period in fact narrowed by 42% to approximately HK\$13 million if compared with the corresponding period in 2001.

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.

Share options may be granted to the directors and employees of the Group to subscribe for shares in the Company in accordance with the terms and conditions of the share option scheme approved by the shareholders of the Company at the annual general meeting held on 24 May 2002.

Following the streamlining of the workforce of the Group in the first quarter of the current year, the number of employees of the Group fell by 21% from 2,520 as at 31 December 2001 to 1,987 as at 30 June 2002.

Financial Review

Liquidity, financial resources and capital commitments

As at 30 June 2002, the Group recorded total assets of HK\$930.2 million which were financed by liabilities of HK\$574.0 million and equity of HK\$356.2 million. The Group's net asset value per share as at 30 June 2002 amounted to HK\$0.32 per share as compared to HK\$0.36 per share as at 31 December 2001.

The Group had a total cash and bank balance of HK\$220.0 million as at 30 June 2002. After deducting bank borrowings of HK\$63.4 million, the Group recorded a net cash balance of HK\$156.6 million as compared to HK\$125.5 million as at 31 December 2001. 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 2002, the Group's gearing ratio, measured on the basis of total borrowings as a percentage of total shareholders' equity, was 0.18 (31 December 2001: 0.44) while the Group's working capital ratio was 1.38 (31 December 2001:1.37).

As at 30 June 2002, 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 and Renminbi. Surplus cash is generally placed in short term deposits denominated in Hong Kong dollars.

Exposure to fluctuations in exchange rates and related hedges

Most of the Group's borrowings are denominated in Hong Kong dollars, Renminbi and United States dollars while the sales of the Group are mainly denominated in Hong Kong dollars and Renminbi. 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 2002, the major contracts in hand for the software development and systems integration business amounted to approximately HK\$321 million, which are all expected to be completed within one year's time.

Material acquisitions and disposals of subsidiaries and associates

During the current period under review, the Group had not acquired any subsidiaries and associates. On 8 April 2002, the shares of the Group's 49% associate, PUC Founder (MSC) Berhad, were listed on the Malaysian Exchange of Securities of Dealing and Automated Quotation Berhad. Two million new ordinary shares were offered to the public and were oversubscribed by 5.5 times. The Group's interest in the share capital of PUC Founder (MSC) Berhad after the initial public offer was diluted to 35.9% and the Group recorded a gain on the deemed disposal amounting to HK\$3.7 million.

As announced on 10 December 2001, the Group has entered into a heads of agreement in relation to the establishment of a joint venture company in the PRC to engage in the business of systems integration and the development and distribution of computer-related hardware and software. Since none of the pre-conditions of the agreement was satisfied on or before the prescribed time, the agreement has therefore been terminated on 3 July 2002.

Charges on assets

At 30 June 2002, all the Group's land and buildings and investment properties in Hong Kong and fixed deposits in total of HK\$69.1 million were pledged to certain banks in Hong Kong to secure banking facilities granted.

Contingent liabilities

At 30 June 2002, the Group did not have any significant contingent liabilities.

DETAILED RESULTS ANNOUNCEMENT

A detailed results announcement 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
Cheung Shuen Lung
Chairman

Hong Kong, 24 September 2002

* For identification purpose only