FOUNDER HOLDINGS LIMITED
方正控股有限公司*

(Incorporated in Bermuda with limited liability)
(Stock Code : 0418)

Websites: http://www.founder.com.hk http://www.irasia.com/listco/hk/founder

INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 JUNE 2005

The board of directors (the "Board") of Founder Holdings Limited (the "Company") is pleased to announce the unaudited consolidated results and financial position of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 June 2005, together with the comparative figures for the corresponding period in 2004. The condensed consolidated interim financial statements have not been audited, but have been reviewed by the Company's audit committee.

CONDENSED CONSOLIDATED INCOME STATEMENT

		For the six months ended 30 June	
	Notes	**2005**	2004
		(Unaudited)	*(Unaudited)*
		HK$'000	*HK$'000*
			(Restated)
REVENUE	*3*	**1,131,791**	874,912
Cost of sales		**(1,008,677)**	(751,224)
Gross profit		**123,114**	123,688
Other income and gains	*4*	**55,591**	27,443
Selling and distribution costs		**(82,556)**	(81,222)
Administrative expenses		**(61,338)**	(60,823)
Other operating expenses, net		**(23,640)**	(12,310)
Finance costs	*5*	**(490)**	(165)
Share of profits and losses of:			
Associates		**6,572**	2,664
Jointly-controlled entity		**—**	(17)
PROFIT/(LOSS) BEFORE TAX	*6*	**17,253**	(742)
Tax	*7*	**(956)**	(164)
PROFIT/(LOSS) FOR THE PERIOD		**16,297**	(906)
ATTRIBUTABLE TO:			
Equity holders of the parent		**12,312**	(284)
Minority interests		**3,985**	(622)
		16,297	(906)
EARNINGS/(LOSS) PER SHARE — Basic	*8*	**1.10 cents**	(0.03 cents)

CONDENSED CONSOLIDATED BALANCE SHEET

		30 June	31 December
	Notes	**2005**	2004
		(Unaudited)	*(Audited)*
		HK$'000	*HK$'000*
NON-CURRENT ASSETS			
Fixed assets:			
Property, plant and equipment		**55,489**	66,887
Investment properties		**19,150**	15,710
Goodwill		**7,055**	7,055
Interests in associates		**44,954**	38,633
Deferred tax assets		**2,366**	2,366
Total non-current assets		**129,014**	130,651
CURRENT ASSETS			
Inventories		**164,793**	162,094
Systems integration contracts		**30,630**	55,826
Trade and bills receivables	*9*	**383,265**	329,543
Prepayments, deposits and other receivables		**74,058**	83,179
Available-for-sale financial assets		**2,003**	1,742
Pledged deposits		**59,558**	61,849
Cash and cash equivalents		**206,287**	261,612
Total current assets		**920,594**	955,845
CURRENT LIABILITIES			
Trade and bills payables	*10*	**366,701**	358,522
Tax payable		**498**	700
Other payables and accruals		**255,565**	301,951
Interest-bearing bank borrowings		**7,784**	15,932
Total current liabilities		**630,548**	677,105
NET CURRENT ASSETS		**290,046**	278,740
		419,060	409,391
CAPITAL AND RESERVES			
Equity attributable to equity holders of the parent:			
Share capital		**112,380**	112,380
Other reserves		**944,978**	1,013,905
Accumulated losses		**(730,374)**	(810,690)
		326,984	315,595
Minority interests		**92,076**	93,796
		419,060	409,391

Notes:

1. ACCOUNTING POLICIES

The condensed consolidated interim financial statements are prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting". The accounting policies and basis of preparation adopted in the preparation of the interim financial statements are the same as those used in the annual financial statements for the year ended 31 December 2004, except in relation to the following new and revised Hong Kong Financial Reporting Standards ("HKFRSs", which also include HKASs and Interpretations) that affect the Group and are adopted for the first time for the current period's financial statements:

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 11	Construction Contracts
HKAS 12	Income Taxes
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 20	Accounting for Government Grants and Disclosure of Government Assistance
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings Per Share
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 40	Investment Property
HKFRS 2	Share-based Payment
HK(SIC)-Int 21	Income Taxes — Recovery of Revalued Non-depreciable Assets
HK-Int 4	Leases — Determination of the Length of Lease Term in respect of Hong Kong Land Leases

The adoption of HKASs 1, 2, 7, 8, 10, 11, 12, 16, 18, 19, 20, 21, 23, 24, 27, 28, 32, 33, 37, 39 and HK-Int 4 has had no material impact on the accounting policies of the Group and the method of computation in the Group's condensed consolidated financial statements. In summary,

(a) HKAS 1 has affected certain presentations in the condensed consolidated balance sheet, condensed consolidated income statement and condensed consolidated statement of changes in equity, including the followings:

- investment properties, which were previously included in fixed assets, are now presented separately on the face of the condensed consolidated balance sheet;
- taxes of jointly-controlled entity and associates attributable to the Group, which were previously included in the tax charge on the condensed consolidated income statement, are now included in the share of profits and losses of jointly-controlled entity and associates, respectively; and
- minority interests are now included in the equity section of the condensed consolidated balance sheet.

(b) HKAS 24 has affected the identification of related parties and some other related-party disclosures.

The impact of adopting the other HKFRSs is summarised as follows:

(a) HKAS 17 — Leases

In prior periods, leasehold land and buildings held for own use were stated at cost or valuation less accumulated depreciation and any impairment losses.

Upon the adoption of HKAS 17, the Group's leasehold interest in land and buildings should be separated into leasehold land and leasehold buildings. The leasehold land should be classified as an operating lease, because the title of the land is not expected to pass to the Group by the end of the lease term, and should be reclassified from fixed assets to prepaid land premiums/land lease payments, while leasehold buildings continue to be classified as part of property, plant and equipment. Prepaid land premiums/land lease payments under operating leases are initially stated at cost and subsequently amortised on the straight-line basis over the lease term. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as finance lease in property, plant and equipment.

In the opinion of the directors, the leasehold land and buildings of the Group cannot be allocated reliably between the land and buildings elements, therefore, the entire lease payments are included in the cost of land and buildings and are amortised over the shorter of the lease terms and useful lives.

Save as disclosed above, this change in accounting policy has had no effect on the interim financial statements.

(b) HKAS 40 — Investment Property

In prior periods, changes in the fair values of investment properties were dealt with as movements in the investment property revaluation reserve. If the total of this reserve was insufficient to cover a deficit on a portfolio basis, the excess of the deficit was charged to the income statement. Any subsequent revaluation surplus was credited to the income statement to the extent of the deficit previously charged.

Upon the adoption of HKAS 40, gains or losses arising from changes in the fair values of investment properties are recognised in the income statement in the year in which they arise. Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year of the retirement or disposal.

The adoption of HKAS 40 has had no material effect on the interim financial statements because the Group's investment properties had a net revaluation deficit position as at 30 June 2005, 31 December 2004 and 2003 and the changes in valuation of the Group's investment properties during the six months ended 30 June 2005 and 2004 and the year ended 31 December 2004 would be recognised in the income statement irrespective of whether the old policy or the new policy is applied.

(c) HKFRS 2 — Share-based Payment

In prior periods, no recognition and measurement of share-based transactions in which employees (including directors) were granted share options over shares in the Company was required until such options were exercised by employees, at which time the share capital and share premium were credited with the proceeds received.

Upon the adoption of HKFRS 2, when employees (including directors) render services as consideration for equity instruments ("equity-settled transactions"), the cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which the instruments are granted. The fair value is determined by an external valuer using a binominal model. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company, if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the "vesting date"). The cumulative expense recognised for equity-settled transactions at each balance sheet date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

The adoption of this accounting policy did not have any impact to the interim financial statements as all outstanding options as at 30 June 2005 and 2004 and 31 December 2004 were either (i) granted to employees on or before 7 November 2002; or (ii) granted after 7 November 2002 but were vested already before the effective date of this HKFRS, under which the new recognition and measurement policies are not applied.

(d) HK(SIC)-Int 21 — Income Taxes — Recovery of Revalued Non-depreciable Assets

In prior periods, deferred tax arising on the revaluation of investment properties was recognised based on the tax rate that would be applicable upon the sale of the investment properties.

Upon the adoption of HK(SIC)-Int 21, deferred tax arising on the revaluation of the Group's investment properties is determined depending on whether the properties will be recovered through use or through sale. The Group has determined that its investment properties will be recovered through use, and accordingly the profits tax rate has been applied to the calculation of deferred tax.

The adoption of HK(SIC)-Int 21 has had no material effect on the interim financial statements.

2. SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES

As disclosed in the audited consolidated financial statements of the Company for the year ended 31 December 2004, the Group had elected to early adopt the following HKFRSs:

- HKFRS 3 "Business Combinations"
- HKAS 36 "Impairment of Assets"
- HKAS 38 "Intangible Assets"

The results for the six months ended 30 June 2004 have been restated in accordance with the new HKFRSs.

(a) Effect on equity as at 30 June 2004

	Retained earnings *(Unaudited)* *HK$'000*
Amortisation of goodwill — increase in equity	639

(b) Effect on loss after tax for the six months ended 30 June 2004

	Equity holders of the parent *(Unaudited)* *HK$'000*	Minority interests *(Unaudited)* *HK$'000*	Total *(Unaudited)* *HK$'000*
Amortisation of goodwill — decrease in other operating expenses, net	639	145	784
Decrease in loss per share — Basic			0.06 cents

3. SEGMENT INFORMATION

The Group's operating businesses are structured and managed separately according to the nature of their operations and the products they provide. Each of the Group's business segments represents a strategic business unit that offers products which are subject to risks and returns that are different from those of the other business segments. The following table presents revenue and results for the Group's primary segments for the six months ended 30 June 2005 and 2004.

	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	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004
	(Unaudited)	*(Unaudited)*	***(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*	***HK$'000***	*HK$'000 (Restated)*
Revenue:														
External sales	**227,539**	282,562	**89,713**	86,678	**810,053**	498,738	**—**	—	**4,486**	6,934	**—**	—	**1,131,791**	874,912
Intersegment sales	**—**	2,215	**—**	—	**7,152**	4,918	**—**	—	**—**	—	**(7,152)**	(7,133)	**—**	—
Total	**227,539**	284,777	**89,713**	86,678	**817,205**	503,656	**—**	—	**4,486**	6,934	**(7,152)**	(7,133)	**1,131,791**	874,912
Segments results	**(10,373)**	12,640	**(4,721)**	(10,694)	**4,783**	2,945	**(5,306)**	(8,300)	**621**	(884)			**(14,996)**	(4,293)
Interest income and unallocated gains													**26,167**	1,069
Finance costs													**(490)**	(165)
Share of profits and losses of:														
Associates													**6,572**	2,664
Jointly-controlled entity													**—**	(17)
Profit/(loss) before tax													**17,253**	(742)
Tax													**(956)**	(164)
Profit/(loss) for the period													**16,297**	(906)

4. OTHER INCOME AND GAINS

	For the six months ended 30 June **2005** ***(Unaudited)*** ***HK$'000***	2004 *(Unaudited)* *HK$'000*
Interest income	**975**	1,069
Gross rental income	**717**	1,079
Government grants	**8,683**	10,899
Gain on disposal of subsidiaries	**25,192**	—
Gain on deemed partial disposal of subsidiaries	**10,652**	—
Gain on disposal of a jointly-controlled entity	**—**	4,348
Revaluation surplus on:		
Investment properties	**3,440**	1,262
Land and buildings	**2,709**	1,806
Others	**3,223**	6,980
	55,591	27,443

5. FINANCE COSTS

	For the six months ended 30 June **2005** ***(Unaudited)*** ***HK$'000***	2004 *(Unaudited)* *HK$'000*
Interest on bank loans and overdrafts	**490**	165

6. PROFIT/(LOSS) BEFORE TAX

Profit/(loss) before tax was determined after charging/(crediting) the following:

	For the six months ended 30 June **2005** ***(Unaudited)*** ***HK$'000***	2004 *(Unaudited)* *HK$'000*
Depreciation	**6,966**	6,952
Loss/(gain) on disposal of fixed assets	**(17)**	301
Provision and write-off/(reversal and write-back) of doubtful trade debts and other receivables	**5,118**	(6,053)
Provision and write-off of obsolete inventories	**4,101**	40
Loss on partial disposal of a subsidiary	**—**	762

7. TAX

	For the six months ended 30 June **2005** ***(Unaudited)*** ***HK$'000***	2004 *(Unaudited)* *HK$'000* *(Restated)*
Current — Hong Kong profits tax	**—**	3
Current — Overseas profits tax	**340**	161
Current — The People's Republic of China (the "PRC") corporate income tax	**616**	—
Total tax charge for the period	**956**	164

No provision for Hong Kong profits tax has been made as the relevant Hong Kong subsidiaries did not generate any assessable profits arising in Hong Kong during the period. Hong Kong profits tax has been provided at a rate of 17.5% on the estimated assessable profits arising in Hong Kong during prior 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 Century Information System Co., Ltd. ("PRC Century"), a 54.85% owned PRC subsidiary of the Group, is exempted from PRC corporate income 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 PRC Century is 15%.

The PRC corporate income tax provision in respect of operations in the PRC is calculated at the applicable tax rates on the estimated assessable profits for the period based on existing legislation, interpretations and practices in respect thereof. No provision for PRC corporate income tax had been provided in prior period as the relevant PRC subsidiaries were either under their tax exemption periods or had sufficient tax losses brought forward to offset against the assessable profits arising during prior period.

Share of tax attributable to associates amounting to approximately HK$1,232,000 (2004: HK$1,543,000) is included in "Share of profits and losses of associates" on the face of the condensed consolidated income statement.

8. EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings/(loss) per share for the period is based on the unaudited profit attributable to equity holders of the parent of approximately HK$12,312,000 (2004 (Restated): loss of HK$284,000), and the weighted average number of approximately 1,123,800,000 (2004: 1,123,800,000) ordinary shares in issue during the period.

Diluted earnings/(loss) per share for the six months ended 30 June 2005 and 2004 have not been disclosed as the impact of the outstanding share options was anti-dilutive.

9. TRADE AND BILLS RECEIVABLES

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally for a period of one month, extending up to six months for major customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management.

An aged analysis of the trade and bills receivables, net of provision for impairment, as at the balance sheet date is as follows:

	30 June 2005 ***(Unaudited)*** ***HK$'000***	31 December 2004 *(Audited)* *HK$'000*
Within 6 months	**332,069**	298,256
7 — 12 months	**44,376**	21,906
13 — 24 months	**6,002**	8,914
Over 24 months	**818**	467
	383,265	329,543

A provision is made when there is objective evidence that the Group will not be able to collect the amounts due according to the original terms of the receivables.

Included in the Group's trade and bills receivables are amounts due from the associates and related companies of the Group of approximately HK$1,768,000 (2004: HK$1,980,000) and HK$2,968,000 (2004: HK$1,094,000), respectively, which are repayable on similar credit terms to those offered to the major customers of the Group.

10. TRADE AND BILLS PAYABLES

An aged analysis of the trade and bills payables as at the balance sheet date is as follows:

	30 June 2005 ***(Unaudited)*** ***HK$'000***	31 December 2004 *(Audited)* *HK$'000*
Within 6 months	**360,054**	349,429
7 — 12 months	**3,148**	6,716
13 — 24 months	**1,143**	1,469
Over 24 months	**2,356**	908
	366,701	358,522

INTERIM DIVIDEND

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2005 (2004: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Overall Performance

The Group reported an unaudited consolidated profit after tax and minority interests for the six months ended 30 June 2005 of approximately HK$12.3 million (2004 (Restated): loss of HK$0.3 million). The Group's turnover for this interim period increased by 29.4% to approximately HK$1,131.8 million (2004: HK$874.9 million). For the two semi-annual periods under review, gross profit percentage dropped from 14.1% in 2004 to 10.9% in 2005 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. Despite the significant increase in sales in the first half of the current year, the selling and distribution costs and the administrative expenses were more or less maintained at prior period's level. The increase in the other operating expenses was mainly due to an exceptional write-back of other receivables in prior period.

Basic earnings per share for this interim period was HK1.1 cents (2004 (Restated): basic loss per share of HK0.03 cents).

Operating Review and Prospects

(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 decreased by 19.5% to approximately HK$227.5 million (2004: HK$282.6 million) while its segmental results recorded a loss of approximately HK$10.4 million (2004: profit of HK$12.6 million).

In the first half of the current year, this business segment recorded a loss because the Group has allocated more resources for new product development and market exploration. Based on our prize-award technology, Founder Apabi Digital Right Management System, a series of new products, such as e-Library, e-Book and e-Government Document, has been developed. Our e-Library System has been applied to more than 1000 e-libraries. Over 400 publishing houses have cooperated with us for the production of e-books using our digital network publishing total solutions, Founder Apabi e-Book Solutions. As at 31 July 2005, we have produced over 165,000 e-books which are being offered to the retail market through more than 20 portals. In addition, we have worked with four manufacturing partners for the development of e-book readers. Besides our traditional graphic arts and e-publishing software solutions for the needs of newspaper and publishing houses, our new product, Founder EasiPrint Digital Printing System, was also well received by the market. More and more partners have joined our franchising digital printing shops. Recently, we have established a subsidiary in Belgium to capture the European market for our graphic arts and e-publishing software solutions. Although we are still in the investing stage of the above new businesses and products, we are confident that the costs incurred now will bring us a fruitful return in the coming 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 3.5% to approximately HK$89.7 million (2004: HK$86.7 million) while its segment results recorded a loss of approximately HK$4.7 million (2004: HK$10.7 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 further narrowed down. As resulted from further restructuring of our operational team and business units and control of operating expenses, the loss of this business sector narrowed down by 56% if compared to last year's corresponding period. The management will closely monitor the performance of this business sector and will take all necessary actions to minimise its loss.

(C) Distribution of information products

The turnover of the distribution business of information products for the period increased by 62.4% to approximately HK$810.1 million (2004: HK$498.7 million) while its segmental profit increased by 62.4% to approximately HK$4.8 million (2004: HK$2.9 million). Despite having achieved an encouraging growth in the sales of information products, the Group is facing with severe competition and declining profit margin. More and more working capital is required to substantiate the continuous growth of our distribution business.

The significant 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 channel; and
3. tight control on operating costs, trade receivables and inventories.

Besides the headquarters in Beijing, the Group has established 14 branch offices/representative offices in various major cities of the PRC. In June 2005, our subsidiary, Beijing Founder Century Information System Co., Ltd., was ranked the 5th (2004: 6th) place among the top 200 information product distributors in the PRC by Computer Partner World (電腦商報) of the PRC. In addition, it was ranked the 6th and 7th places by China Information World (中國計算機報) in 2005 among the PRC's top 100 largest and top 100 dominant information products distributors respectively.

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 not granted any share options during the current period.

In the first half of the current year, the moderate increase in the headcount for the Group's media and distribution businesses in the PRC was totally offset by the decrease in the headcount for the Group's non-media business and the disposal of the Group's media business in Japan in June 2005. At 30 June 2005, the number of employees of the Group was approximately 1,830 (31 December 2004: 2,020).

Financial Review

Liquidity, financial resources and capital commitments

At 30 June 2005, the Group recorded total assets of HK$1,049.6 million which were financed by liabilities of HK$630.5 million, minority interests of HK$92.1 million and equity of HK$327.0 million. The Group's net asset value per share as at 30 June 2005 amounted to HK$0.29 (31 December 2004: HK$0.28).

The Group had a total cash and bank balance of HK$265.9 million as at 30 June 2005. After deducting total borrowings of HK$7.8 million, the Group recorded a net cash balance of HK$258.1 million as at 30 June 2005 as compared to HK$307.6 million as at 31 December 2004. The Group's borrowings, which are subject to little seasonality, consist of mainly short term revolving trust receipt loans. As at 30 June 2005, the Group's gearing ratio, measured on the basis of total borrowings as a percentage of total shareholders' equity, was 0.02 (31 December 2004: 0.05) while the Group's working capital ratio was 1.46 (31 December 2004: 1.41).

At 30 June 2005, 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

At 30 June 2005, the major contracts in hand for the software development and systems integration business amounted to approximately HK$154.9 million (31 December 2004: HK$229.4 million), which are all expected to be completed within one year time.

Material acquisitions and disposals of subsidiaries and associates

On 7 February 2005, Founder (Hong Kong) Limited ("Founder HK"), a wholly-owned subsidiary of the Group, entered into a conditional sale and purchase agreement with Founder Information (Hong Kong) Limited ("Founder Information"), a subsidiary of the Company's controlling shareholder Peking University Founder Group Corporation ("Peking Founder"), and Peking Founder to dispose of its entire equity interest in True Luck Group Limited ("True Luck") and to assign the loan of JPY70 million due to Founder HK by True Luck to Founder Information at a total cash consideration of JPY693,520,600. The disposal was completed in June 2005 and a gain of approximately HK$25.2 million was recorded.

On 22 July 2004, Founder International Inc. ("Founder Inc."), a then non-wholly owned subsidiary of the Group, entered into a subscription agreement (the "Subscription Agreement") with Media Champion Holdings Limited ("Media Champion"), a company wholly-owned by Mr Guan Xiang Hong, the president and an executive director of Founder Japan. Pursuant to the Subscription Agreement, Founder Inc. issued 537 new shares at JPY300,000 per share to Media Champion in June 2005. A gain of approximately HK$4.0 million was recorded for the deemed disposal.

In February 2005, an investor invested into a wholly-owned subsidiary of Founder Inc., diluting its interest in such subsidiary from 100% to 50%. A gain of approximately HK$4.1 million was recorded for the deemed disposal.

Charges on assets

At 30 June 2005, all the Group's land and buildings and investment properties in Hong Kong of approximately HK$37.6 million and fixed deposits of approximately HK$59.6 million were pledged to banks to secure banking facilities granted.

Contingent liabilities

At 30 June 2005, the Group did not have any significant contingent liabilities.

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the period.

CODE ON CORPORATE GOVERNANCE PRACTICES

In the opinion of the directors, the Company complied with the code provisions 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") (the "Code") throughout the six months ended 30 June 2005, except for deviations in respect of (i) the service term and the rotation of directors under code provisions A.4.1 and A.4.2 of the Code; and (ii) establishment of a remuneration committee under code provision B.1.1 of the Code.

(i) Under code provision A.4.1 of the Code, non-executive directors should be appointed for a specific term and be subject to re-election. Under code provision A.4.2 of the Code, all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment, and every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

None of the existing non-executive directors of the Company was appointed for a specific term when they were appointed, which constitutes a deviation from code provision A.4.1 of the Code. To comply with code provision A.4.1 of the Code, the Company has entered into service contracts with all existing non-executive directors for a fixed term of one year on 30 June 2005.

Furthermore, according to the Bye-laws of the Company, one third of the directors are subject to retirement by rotation at each annual general meeting and the Chairman or Managing Director of the Company is not subject to retirement by rotation, which constitutes a deviation from code provision A.4.2 of the Code. To comply with code provision A.4.2 of the Code, relevant amendments to the Bye-laws of the Company will be proposed for the shareholders' approval at the forthcoming general meeting.

(ii) Under code provision B.1.1 of the Code, a remuneration committee should be established with specific written terms of reference which deal clearly with its authority and duties.

To comply with code provision B.1.1 of the Code, the Company has established a remuneration committee and adopted its own terms of reference on 30 June 2005.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS (THE "MODEL CODE")

The Company has adopted the Model Code as the Company's code of conduct for dealings in securities of the Company by the directors. Based on specific enquiry of the Company's directors, the directors have complied with the required standard set out in the Model Code throughout the six months ended 30 June 2005.

AUDIT COMMITTEE

The Company has an audit committee which was established in compliance with Rule 3.21 of the Listing Rules for the purpose of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises the three independent non-executive directors of the Company. These unaudited condensed consolidated interim financial statements for the six months ended 30 June 2005 of the Group now reported have been reviewed by the audit committee.

By Order of the Board
FOUNDER HOLDINGS LIMITED
Cheung Shuen Lung
Chairman

Hong Kong
23 September 2005

As at the date of this announcement, the Board of the Company comprises the 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*