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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive directors

Mr Cheung Shuen Lung (*Chairman*)

Professor Xiao Jian Guo (*Deputy Chairman*)

Professor Wei Xin

Mr Zhang Zhao Dong

Independent non-executive directors

Dr Hu Hung Lick, Henry

Mr Li Fat Chung

COMPANY SECRETARY

Ms Tang Yuk Bo, Yvonne

AUDIT COMMITTEE

Dr Hu Hung Lick, Henry

Mr Li Fat Chung

AUDITORS

Ernst & Young

Certified Public Accountants

SOLICITORS

Norton Rose

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited

Fortis Bank Asia HK

REGISTERED OFFICE

Cedar House

41 Cedar Avenue

Hamilton HM12

Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Unit 1408, 14th Floor

Cable TV Tower

9 Hoi Shing Road

Tsuen Wan

New Territories

Hong Kong

SHARE REGISTRARS AND TRANSFER OFFICE

Principal registrars

Butterfield Fund Services (Bermuda) Limited

Rosebank Centre

14 Bermudiana Road

Hamilton

Bermuda

Hong Kong branch share registrars and transfer office

Computershare Hong Kong Investor Services Limited

Suite 1712-1716

17th Floor, Hopewell Centre

183 Queen's Road East

Hong Kong

LISTING INFORMATION

Main board of The Stock Exchange of Hong Kong Limited

Ordinary shares (Stock Code: 0418)

INVESTOR RELATIONS

For further information about the Company, please contact:

Public Relations Department

Unit 1408, 14th Floor

Cable TV Tower

9 Hoi Shing Road

Tsuen Wan

New Territories

Hong Kong

Telephone: (852) 2611 4124

Facsimile: (852) 2413 3218

Website: <http://www.founder.com.hk>

Email: ir@founder.com.hk

FINANCIAL HIGHLIGHTS

YEAR	2002	2001	2000	1999	1998
Turnover (HK\$' million)	1,442	1,670	2,088	1,583	2,164
Total assets (HK\$' million)	812	1,096	1,484	1,159	1,163
Total liabilities (HK\$' million)	488	688	716	601	491
Net assets (HK\$' million)	324	408	768	558	672
Net asset value per share (HK\$)	0.29	0.36	0.68	0.50	0.84
Working capital ratio	1.40	1.37	1.84	1.71	2.02
Long term debt to equity ratio	0.007	0.008	0.005	0.008	0.011
Total number of staff	1,968	2,520	2,673	2,400	2,900
(As at the end of the year)					

MANAGEMENT DISCUSSION AND ANALYSIS

OVERALL PERFORMANCE

The Group's audited consolidated loss after tax and minority interests for the year was narrowed by 28.5% to HK\$274.5 million (2001: HK\$384.0 million). If the impairment of goodwill of HK\$189.1 million (2001: HK\$30.3 million) was excluded, the Group's loss was in fact reduced from HK\$353.7 million to HK\$85.4 million. The Group recorded a drop in turnover during the year by 14% to HK\$1,442.0 million (2001: HK\$1,669.9 million). For the two years under review, gross profit percentage improved to 17.9% (2001: 5.2%). The implementation of various cost control measures and restructuring exercises since the last quarter of 2001 resulted in significant reduction of selling and distribution costs and administrative expenses by 11% and 29% respectively if compared to 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 year increased by 18% to HK\$573.9 million (2001: HK\$487.2 million) while its contribution to loss from operating activities for the year recorded a profit of HK\$6.1 million (2001: loss of HK\$41.0 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 had extended to the first half of 2002. The situation however was slightly improved in the second half of 2002, thus led to the increase in turnover of this sector. During the year, we have strengthened the promotion campaign of our network publishing total solutions, Founder Apabi e-Book Solutions (which include Apabi Maker, Apabi Writer, Apabi Rights Server, Apabi Retail Server and Apabi Reader), through nationwide seminars and exhibitions to promote its application in e-Library. Up to date, over two hundred publishers have used our Apabi Solutions to produce e-books and over two hundred libraries have used our Apabi Solutions to manage their e-libraries. The Group has continued to devote to our research and development activities for our traditional digital publishing and commercial printing business and has introduced to the market a number of new/up-graded products using the frontier technologies. Through our efforts in the past few years, we have also established our leading position in the Chinese broadcasting control system, news production management system and digital storage and search 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 year increased by 24% to HK\$302.1 million (2001: HK\$243.8 million) while its loss from operating activities for the year was narrowed substantially by 95% to HK\$8.4 million (2001: HK\$172.1 million).

MANAGEMENT DISCUSSION AND ANALYSIS

The increase in turnover in 2002 was mainly attributable to the completion of contracts brought forward from previous years. In 2002, market competition in the systems integration business for the banking and securities industries in the PRC was still severe, thus resulted in drop in profitability for new contracts. 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. In 2002 we have further streamlined our operational team and reduced its headcount by nearly 30%. All our efforts have resulted in the substantial reduction in operating expenses by 44% and the improvement in the performance of our non-media business in the year under review.

Our restructuring exercise helps us to establish a stable management team and has improved our operational efficiency to face the keen market competition. We are confident 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 year decreased by 43% to HK\$514.6 million (2001: HK\$895.8 million) as the corporate demand for information products was still low. Its loss from operating activities for the year was substantially narrowed by 73% to HK\$20.7 million (2001: HK\$77.3 million).

During the first half of 2002, substantial restructuring and re-engineering was carried out which temporarily adversely affected the performance of our distribution business of information products. Great efforts were made by the management to clear up excessive inventories accumulated from last year and to chase up settlement from overdue debtors. Comprehensive inventory and credit control systems have been implemented during the year of 2002, 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 efficiency.

(C) Provision of software solutions and services

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

EC-Founder was still facing fierce competition in the PRC market for its software business in 2002. The turnover of its software business in 2002 decreased slightly if compared to last year. The company's brand name has been well recognised by the market since the initial launch of its information security products in 2001. Through sales agent network of EC-Founder, the clients of its information security products have reached nationally in the PRC. In 2002 it has also completed the project of "Key Client Service System" for China Construction Bank and a number of geographic information system projects for major oil and petroleum companies, telecommunication service providers, and the government forest management bureau in the PRC.

MANAGEMENT DISCUSSION AND ANALYSIS

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 adopted a new share option scheme in compliance with Chapter 17 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") at the last annual general meeting held on 24 May 2002.

Following the streamlining of the workforce of the Group in the first quarter of the year, the number of employees of the Group fell by 22% from 2,520 as at 31 December 2001 to 1,968 as at 31 December 2002.

FINANCIAL REVIEW

Liquidity, financial resources and capital commitments

As at 31 December 2002, the Group recorded total assets of HK\$812.1 million which were financed by liabilities of HK\$471.9 million, minority interests of HK\$15.7 million and shareholders' equity of HK\$324.5 million. The Group's net asset value per share as at 31 December 2002 amounted to HK\$0.29 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\$242.1 million as at 31 December 2002. After deducting total borrowings of HK\$33.2 million, the Group recorded an improved net cash balance of HK\$208.9 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 31 December 2002, the Group's gearing ratio, measured on the basis of total borrowings as a percentage of total shareholders' equity, was 0.10 (31 December 2001: 0.44) while the Group's working capital ratio was 1.40 (31 December 2001: 1.37).

As at 31 December 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.

MANAGEMENT DISCUSSION AND ANALYSIS

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 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

As at 31 December 2002, the major contracts in hand for the software development and systems integration business amounted to approximately HK\$241 million (31 December 2001: approximately HK\$321 million), which are all expected to be completed within one year time.

Material acquisitions and disposals of subsidiaries and associates

During the current year 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 Market of the Kuala Lumpur Stock Exchange. 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 partial disposal amounting to approximately HK\$3.7 million.

As announced on 10 December 2001, the Group had 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 was therefore terminated on 3 July 2002.

Charges on assets

At 31 December 2002, all the Group's land and buildings and investment properties in Hong Kong and fixed deposits in total of HK\$25.7 million were pledged to certain banks in Hong Kong to secure banking facilities granted.

Contingent liabilities

At 31 December 2002, 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\$85 million and HK\$112 million, respectively.

At 31 December 2002, the Group had contingent liabilities in relation to bills discounted with recourse amounting to approximately HK\$2 million.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr Cheung Shuen Lung, aged 47, is the Chairman and President of the Company and an executive director of Peking University Founder Group Corporation and EC-Founder (Holdings) Company Limited. He is a research fellow of the Enterprise Research Institute at Peking University and one of the founders of the Group. He has extensive experience in the information technology industry.

Professor Xiao Jian Guo, aged 46, is the Deputy Chairman of the Company and the Chairman of Beijing Founder Electronics Co., Ltd. and Beijing Founder Century Information System Co., Ltd. He is also the Vice-Chairman of Peking University Founder Group Corporation. He is a professor and a supervisor of PhD students of Peking University. He graduated from the Department of Computer Science at the College of Dalian Ocean Communication with a bachelor degree in 1982 and obtained a master degree in Computer Science at Peking University.

Professor Wei Xin, aged 47, is an executive director of the Company and EC-Founder (Holdings) Company Limited. He is also the Chairman of Peking University Founder Group Corporation, and the Chairman and President of Shanghai Founder Yanzhong Science & Technology Group Co., Ltd. Professor Wei obtained a master degree from the College of Economics at Peking University. He is also the Executive Dean of College of Education at Peking University.

Mr Zhang Zhao Dong, aged 53, is an executive director of the Company and the Chairman of EC-Founder (Holdings) Company Limited. He is also the Vice-Chairman and President of Peking University Founder Group Corporation. Mr Zhang graduated from the Department of Geophysics at Peking University in 1977 and is a research fellow at Peking University.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr Hu Hung Lick, Henry, G.B.S., O.B.E., PhD, J.P., aged 83, has been practicing as barrister for over 48 years and is currently the President of Shue Yan College in Hong Kong, and a member of the China International Economic and Trade Arbitration Commission. Dr Hu is also an adviser to the China Research Committee of Juvenile Delinquency.

Mr Li Fat Chung, aged 42, is a partner of Chan, Li, Law & Co., Certified Public Accountants, in Hong Kong. He is a fellow member of the Association of Chartered Certified Accountants in the United Kingdom, the Hong Kong Society of Accountants and the Taxation Institute of Hong Kong. Mr Li received a master degree in Business Administration from University of Warwick, England.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Ms Kwok Leung Chu, aged 38, is the Vice-President of the Company and the General Manager, Administration Department of Founder (Hong Kong) Limited. She obtained a master degree in Business Administration from Murdoch University, Australia in 2001. She is currently responsible for the administration function of Founder (Hong Kong) Limited and Beijing Founder Order Computer System Co., Ltd.

Mr Fung Man Yin, Sammy, aged 43, is the Group Financial Controller of the Company. He is a fellow member of the Institute of Chartered Accountants in England and Wales and an associate member of the Hong Kong Society of Accountants. He is also a Certified Public Accountant in Hong Kong. Mr Fung holds a bachelor degree in Economics and Accounting from University of Newcastle Upon Tyne, England and worked with several international accounting firms in England and Hong Kong over 10 years. Before joining the Group in October 2000, he was the Group Financial Controller of a listed company in Hong Kong over 8 years.

Mr Guan Xiang Hong, aged 36, is the President of Founder International Inc and a senior engineer certified by the Ministry of International Trade and Industry of Japan. He graduated from the Electrical Engineering Department at Peking University and has extensive experience in the factory automation and electronic publishing industry in Japan. He is mainly responsible for the Group's operations in Japan and South Korea.

Mr See Chiu Yeung, aged 37, is the President Assistant and the Asian Pacific Regional Business General Manager of Founder (Hong Kong) Limited. He graduated from the Faculty of Electronic Engineering at Morrison Hill Technical Institute, Hong Kong in 1989 and obtained a master degree in Business Administration from Murdoch University, Australia in 2001. He has extensive experience in electronic publishing industry and is currently responsible for strategic planning and business development of the local and overseas business of Founder (Hong Kong) Limited.

Mr Teh Hon Seng, aged 39, graduated with a bachelor degree in Applied Science from University Sains Malaysia and has extensive experience in the computer and electronic publishing industry. He joined the Group in 1995 and is currently the Managing Director of PUC Founder (MSC) Berhad. He is responsible for the Group's operations in South East Asia.

REPORT OF THE DIRECTORS

The directors present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2002.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the principal subsidiaries are set out in note 16 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

RESULTS AND DIVIDENDS

The Group's loss for the year ended 31 December 2002 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 17 to 69 of the Annual Report.

The directors do not recommend the payment of any dividend in respect of the year.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited financial statements and reclassified as appropriate, is set out on page 71 of the Annual Report. This summary does not form part of the audited financial statements.

FIXED ASSETS AND INVESTMENT PROPERTIES

Details of movements in the fixed assets and investment properties of the Group during the year are set out in note 13 to the financial statements. Further details of the Group's investment properties are set out on page 70 of the Annual Report.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws or the laws of Bermuda which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

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 year.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 31 to the financial statements.

REPORT OF THE DIRECTORS

DISTRIBUTABLE RESERVES

As at 31 December 2002, the Company's reserves available for distribution amounted to approximately HK\$153,842,000. In addition, the Company's share premium account, in the amount of approximately HK\$27,660,000, may be distributed in the form of fully paid bonus shares.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for less than 30% of the total sales for the year. Purchases from the Group's five largest suppliers accounted for 48% (2001: 37%) of the total purchases for the year and purchases from the largest supplier included therein amounted to 21% (2001: 9%).

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or suppliers.

DIRECTORS

The directors of the Company during the year were:

Executive directors:

Cheung Shuen Lung

Xiao Jian Guo

Wei Xin

Zhang Zhao Dong

Wang Xuan (resigned on 26 July 2002)

Lei Hon Sang (resigned on 6 September 2002)

Lo Siu Yu (resigned on 13 September 2002)

Independent non-executive directors:

Hu Hung Lick, Henry

Li Fat Chung

In accordance with the bye-laws of the Company, Zhang Zhao Dong and Li Fat Chung will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 8 to 9 of the Annual Report.

REPORT OF THE DIRECTORS

DIRECTORS' SERVICE CONTRACTS

Zhang Zhao Dong has entered into a service contract with the Company for a term of five years commencing on 31 March 2000. This service contract is subject to termination by either the director concerned or the Company giving to the other not less than one year's written notice.

Apart from the foregoing, no director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in note 36 to the financial statements, no director had a material interest in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

DIRECTORS' INTERESTS IN SHARES

At 31 December 2002, the interests of the directors in the share capital of EC-Founder (Holdings) Company Limited ("EC-Founder"), the Company's associated corporation, as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), were as follows:

Name of director	Number of ordinary shares held and nature of interest
	Personal
Cheung Shuen Lung	36,890,100
Xiao Jian Guo	8,703,300
Wei Xin	3,956,000
Zhang Zhao Dong	3,956,000
	<hr/>
	53,505,400

The interests of the directors in the share options of the Company are separately disclosed in note 30 to the financial statements.

In addition to the above, Cheung Shuen Lung has non-beneficial personal equity interests in certain subsidiaries held for the benefit of the Company solely for the purpose of complying with the minimum company membership requirements.

Save as disclosed above and as disclosed below under the heading "Directors' rights to acquire shares," none of the directors or their associates had any personal, family, corporate or other interests in the equity or debt securities of the Company or any of its associated corporations as defined in the SDI Ordinance.

REPORT OF THE DIRECTORS

DIRECTORS' RIGHTS TO ACQUIRE SHARES

EC-Founder has granted options to acquire its ordinary shares pursuant to its share option scheme in favour of certain directors of the Company, the details of which are as follows:

Name of director	Number of share options			Exercise period of share options	Exercise price of share options HK\$
	At 1 January 2002	Lapsed during the year	At 31 December 2002		
Cheung Shuen Lung	2,000,000	—	2,000,000	18.5.2001 to 17.5.2011	0.45
Wei Xin	2,000,000	—	2,000,000	18.5.2001 to 17.5.2011	0.45
Lei Hon Sang (Note)	2,000,000	(2,000,000)	—	18.5.2001 to 17.5.2011	0.45
	<u>6,000,000</u>	<u>(2,000,000)</u>	<u>4,000,000</u>		

Note: Lei Hon Sang resigned as a director of the Company and of EC-Founder during the year.

Apart from as disclosed above and in the share option scheme disclosures in note 30 to the financial statements, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

SHARE OPTION SCHEMES

Due to the adoption of Statement of Standard Accounting Practice No. 34 "Employee benefits" during the year, most of the detailed disclosures relating to the Company's and the subsidiary's share option schemes have been moved to note 30 to the financial statements.

REPORT OF THE DIRECTORS

SUBSTANTIAL SHAREHOLDERS

At 31 December 2002, the following interest of 10% or more of the issued share capital of the Company was recorded in the register of interests required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance:

Name of shareholder	Number of shares held	Percentage of the Company's issued share capital
Peking University Founder Group Corporation ("Peking Founder")	367,179,610	32.67%

Save as disclosed above, no person had registered an interest in the issued share capital of the Company that was required to be recorded pursuant to Section 16(1) of the SDI Ordinance.

CONNECTED TRANSACTION

During the year, Peking Founder received rental of approximately HK\$12,868,000 from the Group. The independent non-executive directors of the Company have reviewed the connected transaction and have confirmed to the board of directors that, in their opinion, such transaction was: (i) conducted in the ordinary course of the Group's business; (ii) paid in accordance with the terms of the agreements governing the transaction; and (iii) fair and reasonable so far as the shareholders of the Company are concerned.

POST BALANCE SHEET EVENT

Details of the significant post balance sheet event of the Group are set out in note 37 to the financial statements.

CODE OF BEST PRACTICE

In the opinion of the directors, the Company has 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 throughout the accounting year covered by the Annual Report, 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 Company's bye-laws.

REPORT OF THE DIRECTORS

AUDIT COMMITTEE

The Company has an audit committee which was established 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 the two independent non-executive directors of the Company.

AUDITORS

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

Cheung Shuen Lung

Chairman

Hong Kong

24 April 2003

REPORT OF THE AUDITORS



To the members

Founder Holdings Limited

(Incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 17 to 69 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2002 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young

Certified Public Accountants

Hong Kong

24 April 2003

CONSOLIDATED PROFIT AND LOSS ACCOUNT

Year ended 31 December 2002

		2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
	<i>Notes</i>		
TURNOVER	5	1,442,015	1,669,883
Cost of sales		(1,184,551)	(1,583,284)
Gross profit		257,464	86,599
Other revenue and gains	5	44,752	39,143
Selling and distribution costs		(174,160)	(196,154)
Administrative expenses		(132,674)	(186,397)
Other operating expenses		(63,579)	(65,952)
Impairment of goodwill		(189,070)	(30,295)
LOSS FROM OPERATING ACTIVITIES	6	(257,267)	(353,056)
Finance costs	7	(4,607)	(12,104)
Share of profits and losses of:			
Jointly-controlled entity		1,896	1,371
Associates		(18,485)	(27,962)
LOSS BEFORE TAX		(278,463)	(391,751)
Tax	10	(1,187)	(1,539)
LOSS BEFORE MINORITY INTERESTS		(279,650)	(393,290)
Minority interests		5,157	9,324
NET LOSS FROM ORDINARY ACTIVITIES			
ATTRIBUTABLE TO SHAREHOLDERS	11	(274,493)	(383,966)
LOSS PER SHARE — BASIC	12	24.4 cents	34.2 cents

CONSOLIDATED BALANCE SHEET

31 December 2002

	Notes	2002 HK\$'000	2001 HK\$'000
NON-CURRENT ASSETS			
Fixed assets	13	74,580	103,082
Intangible asset	14	—	3,991
Interest in a jointly-controlled entity	17	8,588	6,834
Interests in associates	18	71,127	81,273
		<u>154,295</u>	<u>195,180</u>
CURRENT ASSETS			
Inventories	19	153,449	303,366
Trade and bills receivables	20	196,302	231,061
Prepayments, deposits and other receivables	21	61,362	54,192
Short term investments	22	4,546	5,754
Pledged deposits	23	25,729	42,759
Cash and cash equivalents	24	216,383	263,647
		<u>657,771</u>	<u>900,779</u>
CURRENT LIABILITIES			
Trade and bills payables	25	199,294	112,213
Tax payable		794	92
Other payables and accruals	26	238,666	368,528
Interest-bearing bank and other borrowings	27	30,946	177,801
		<u>469,700</u>	<u>658,634</u>
NET CURRENT ASSETS		<u>188,071</u>	<u>242,145</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		342,366	437,325
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	27	2,236	3,139
		<u>340,130</u>	<u>434,186</u>
MINORITY INTERESTS		<u>15,713</u>	<u>25,850</u>
		<u>324,417</u>	<u>408,336</u>
CAPITAL AND RESERVES			
Issued capital	29	112,380	112,380
Reserves	31	212,037	295,956
		<u>324,417</u>	<u>408,336</u>

Cheung Shuen Lung
Director

Xiao Jian Guo
Director

CONSOLIDATED SUMMARY STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2002

		2002	2001
	Notes	HK\$'000	HK\$'000
Total equity at 1 January		408,336	768,445
Exchange differences on translation of the financial statements of foreign entities	31	1,462	(7,254)
Share of general reserve of an associate	31	<u>42</u>	<u>—</u>
Net gains/(losses) not recognised in the consolidated profit and loss account		<u>1,504</u>	<u>(7,254)</u>
Net loss from ordinary activities attributable to shareholders	31	(274,493)	(383,966)
Impairment of goodwill of subsidiaries remaining eliminated against contributed surplus	31	189,070	30,295
Impairment of goodwill of an associate remaining eliminated against contributed surplus	31	<u>—</u>	<u>816</u>
Total equity at 31 December		<u>324,417</u>	<u>408,336</u>

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2002

	Notes	2002 HK\$'000	2001 HK\$'000 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		(278,463)	(391,751)
Adjustments for:			
Finance costs	7	4,607	12,104
Share of profits and losses of a jointly- controlled entity and associates		16,589	26,591
Interest income	5	(1,582)	(3,159)
Gain on deemed partial disposal of an associate	5	(3,685)	—
Gain on deemed partial disposal of a subsidiary	5	—	(2,074)
Loss on disposal of subsidiaries	6	560	55
Loss on disposal of fixed assets	6	3,446	1,395
Depreciation	6	22,263	23,191
Amortisation of trademark	6	922	959
Write-off of deferred development costs	6	—	1,215
Revaluation deficit of land and buildings	6	1,125	2,790
Revaluation deficit of investment properties	6	1,750	2,250
Impairment of a long term investment	6	—	1,647
Impairment of goodwill	6	189,070	30,295
Unrealised gains on revaluation of short term investments	6	(7)	(52)
Operating loss before working capital changes		(43,405)	(294,544)
Decrease in inventories		149,917	79,498
Decrease in trade and bills receivables		30,765	114,810
Decrease/(increase) in prepayments		(20,046)	59,712
Decrease in deposits and other receivables		11,787	51,889
Decrease/(increase) in short term investments		534	(5,702)
Increase/(decrease) in trade and bills payables		88,695	(175,300)
Increase/(decrease) in accruals		(6,492)	39,033
Increase/(decrease) in other payables		398	(19,656)
Increase/(decrease) in trading receipts in advance		(121,821)	114,325
Exchange differences		1,377	(3,835)
Cash generated/(utilised) from operations		91,709	(39,770)
Interest received		1,582	3,159
Interest paid		(4,607)	(12,104)
Overseas taxes refunded/(paid)		247	(2,384)
Net cash inflow/(outflow) from operating activities		88,931	(51,099)

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2002

	Notes	2002 HK\$'000	2001 HK\$'000 (Restated)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of fixed assets	13	(10,200)	(26,627)
Proceeds from disposal of fixed assets		10,829	2,318
Purchase of trademark		—	(4,950)
Additional investments in associates		—	(1,242)
Decrease/(increase) in amounts due from associates		(1,352)	8,236
Decrease in amounts due to associates		(669)	(3,063)
Disposal of subsidiaries	32(b)	(4,317)	—
Decrease/(increase) in pledged deposits		17,030	(750)
Net cash inflow/(outflow) from investing activities		11,321	(26,078)
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans		83,893	136,620
Repayment of bank loans		(194,019)	(142,077)
Increase/(decrease) in trust receipt loans		(37,460)	25,291
Capital contributions by minority shareholders		—	11,162
Net cash inflow/(outflow) from financing activities		(147,586)	30,996
NET DECREASE IN CASH AND CASH EQUIVALENTS		(47,334)	(46,181)
Cash and cash equivalents at beginning of year		263,460	315,360
Effect of foreign exchange rate changes, net		257	(5,719)
CASH AND CASH EQUIVALENTS AT END OF YEAR		216,383	263,460
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	24	195,153	261,159
Non-pledged time deposits with original maturity of less than three months when acquired	24	21,230	2,488
Bank overdrafts	27	—	(187)
		216,383	263,460

BALANCE SHEET

31 December 2002

	Notes	2002 HK\$'000	2001 HK\$'000
NON-CURRENT ASSETS			
Interests in subsidiaries	16	219,374	225,532
Interests in an associate	18	74,449	165,082
		<u>293,823</u>	<u>390,614</u>
CURRENT ASSETS			
Other receivables	21	91	178
Cash and cash equivalents	24	82	57
		<u>173</u>	<u>235</u>
CURRENT LIABILITIES			
Accruals	26	114	320
NET CURRENT ASSETS/(LIABILITIES)			
		<u>59</u>	<u>(85)</u>
		<u>293,882</u>	<u>390,529</u>
CAPITAL AND RESERVES			
Issued capital	29	112,380	112,380
Reserves	31	181,502	278,149
		<u>293,882</u>	<u>390,529</u>

Cheung Shuen Lung
Director

Xiao Jian Guo
Director

NOTES TO FINANCIAL STATEMENTS

31 December 2002

1. CORPORATE INFORMATION

The head office and principal place of business of Founder Holdings Limited is located at Unit 1408, 14th Floor, Cable TV Tower, 9 Hoi Shing Road, Tsuen Wan, New Territories, Hong Kong.

During the year, the Group was involved in the following principal activities:

- software development and systems integration
- distribution of information products

2. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPs")

The following new and revised SSAPs are effective for the first time for the current year's financial statements:

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

These SSAPs prescribe new accounting measurement and disclosure practices. The major effects on the Group's accounting policies and on the amounts disclosed in these financial statements are summarised as follows:

SSAP 1 prescribes the basis for the presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. The principal impact of the revision of this SSAP is that a consolidated summary statement of changes in equity is now presented on page 19 of the financial statements in place of the consolidated statement of recognised gains and losses that was previously required.

SSAP 11 prescribes the basis for the translation of foreign currency transactions and financial statements. The principal impact of the revision of this SSAP on the consolidated financial statements is that the profit and loss accounts of overseas subsidiaries, jointly-controlled entities and associates are now translated to Hong Kong dollars at the weighted average exchange rates for the year, whereas previously they were translated at the exchange rates ruling at the balance sheet date. The adoption of the revised SSAP 11 has had no material effect on the financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2002

2. **IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE (“SSAPs”)**

(continued)

SSAP 15 prescribes the revised format for the cash flow statement. The principal impact of the revision of this SSAP is that the consolidated cash flow statement now presents cash flows under three headings, cash flows from operating, investing and financing activities, rather than the five headings previously required. In addition, cash flows from overseas subsidiaries arising during the year are now translated to Hong Kong dollars at the exchange rates at the dates of the transactions, or at an approximation thereto, whereas previously they were translated at the exchange rates at the balance sheet date. Further details of these changes are included in the accounting policy for “Foreign currencies” in note 3 to the financial statements.

SSAP 34 prescribes the recognition and measurement criteria to apply to employee benefits, together with the required disclosures in respect thereof. The adoption of this SSAP has resulted in no change to the previously adopted accounting treatments for employee benefits. Disclosures are now required in respect of the Group’s share option schemes, as detailed in note 30 to the financial statements. These share option scheme disclosures are similar to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) disclosures previously included in the Report of the Directors, which are now required to be included in the notes to the financial statements as a consequence of the SSAP.

3. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of investment properties, land and buildings and equity investments, as further explained below.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2002. The results of subsidiaries established, acquired or disposed of during the year are consolidated from or to their effective dates of establishment, acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company’s subsidiaries.

NOTES TO FINANCIAL STATEMENTS

31 December 2002

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Subsidiaries

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

Jointly-controlled entities

A joint venture company is a company set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture company operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the venturers, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture company's operations and any distributions of surplus assets are shared by the venturers in proportion to their respective capital contributions.

A jointly-controlled entity is a joint venture company which is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's share of the post-acquisition results and reserves of jointly-controlled entities is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in jointly-controlled entities are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. Goodwill arising from the acquisition of jointly-controlled entities, which was not previously eliminated against consolidated reserves is included as part of the Group's interests in jointly-controlled entities.

Associates

An associate is a company, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

NOTES TO FINANCIAL STATEMENTS

31 December 2002

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Associates *(continued)*

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. Goodwill arising from the acquisition of associates, which was not previously eliminated against consolidated reserves is included as part of the Group's interests in associates.

The results of associates are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in associates are treated as non-current assets and are stated at cost less any impairment losses.

Goodwill

Goodwill arising on the acquisition of subsidiaries, associates and jointly-controlled entities represents the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life. In the case of associates and jointly-controlled entities, any unamortised goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

SSAP 30 "Business combinations" was adopted as at 1 January 2001. Prior to that date, goodwill arising on acquisitions was eliminated against consolidated reserves in the year of acquisition. On the adoption of SSAP 30, the Group applied the transitional provision of SSAP 30 that permitted such goodwill to remain eliminated against consolidated reserves. Goodwill on acquisitions from 1 January 2001 is treated according to the goodwill accounting policy above.

On disposal of subsidiaries, associates or jointly-controlled entities, 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 written back and included in the calculation of the gain or loss on disposal.

The carrying amount of goodwill, including goodwill remaining eliminated against consolidated reserves, is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

NOTES TO FINANCIAL STATEMENTS

31 December 2002

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party, or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated at the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the profit and loss account for the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Fixed assets and depreciation

Fixed assets, other than investment properties, are stated at cost or valuation less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

NOTES TO FINANCIAL STATEMENTS

31 December 2002

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Fixed assets and depreciation *(continued)*

Changes in the values of land and buildings, other than investment properties, are dealt with as movements in the land and buildings revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged. On disposal of a revalued asset, the relevant portion of the revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

Depreciation is calculated on the straight-line basis to write off the cost or valuation of each asset over its estimated useful life, after taking into account its estimated residual value. The principal annual rates used for this purpose are as follows:

Land and buildings	Over the lease terms
Leasehold improvements	20% or over the lease terms, whichever is shorter
Furniture, fixtures and equipment	10% — 33 $\frac{1}{3}$ %
Motor vehicles	20% — 30%

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are intended to be held on a long term basis for their investment potential. Such properties are not depreciated and are stated at their open market values on the basis of annual professional valuations performed at the end of each financial year.

Changes in the values of investment properties are dealt with as movements in the investment property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on a portfolio basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged.

On disposal of an investment property, the relevant portion of the investment property revaluation reserve realised in respect of previous valuations is released to the profit and loss account.

NOTES TO FINANCIAL STATEMENTS

31 December 2002

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Intangible assets

Trademark

Purchased trademark is stated at cost less accumulated amortisation and any impairment losses, and is amortised on the straight-line basis over its estimated useful life of five years.

Research and development costs

All research costs are charged to the profit and loss account as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the projects are clearly defined; the expenditure is separately identifiable and can be measured reliably; there is reasonable certainty that the projects are technically feasible; and the products have commercial value. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are stated at cost less accumulated amortisation and any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products not exceeding three years, commencing from the date when the products are put into commercial production.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets and rentals receivable under the operating leases are credited to the profit and loss account on the straight-line basis over the lease terms. When the Group is the lessee, rentals payable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

Long term investments

Long term investments are non-trading investments in unlisted equity securities intended to be held on a long term basis. Long term investments are stated at the balance sheet at cost less any impairment losses deemed necessary by the directors.

Short term investments

Short term investments are investments in equity securities held for trading purposes and are stated at their fair values on the basis of their quoted market prices at the balance sheet date, on an individual investment basis. The gains or losses arising from changes in the fair value of a security are credited or charged to the profit and loss account in the period in which they arise.

NOTES TO FINANCIAL STATEMENTS

31 December 2002

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

In prior years, the cost of inventories was determined on the first-in, first-out basis. Upon a review of the nature of the Group's business, the directors determined that it would be more appropriate for the Group to adopt the weighted average costing method to determine the cost of inventories. The directors considered that the change in accounting policy has had no significant impact on the current and prior years' inventory values of the Group and, accordingly, 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 necessary.

Government subsidies

Subsidies from governments are recognised at their fair value when received or there is reasonable assurance that they will be received, and all attached conditions are complied with. When the subsidy relates to an expense item, it is recognised as income over the periods necessary to match the subsidy, on a systematic basis, with the costs which it is intended to compensate. Where the subsidy relates to an asset, the fair value of the subsidy is deducted in arriving at the carrying amount of the related asset, or, as appropriate, is initially recorded as deferred income in the balance sheet, and thereafter recognised as income over the useful life of the relevant asset.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheet, cash and cash equivalents comprise cash on hand and at banks, including short term deposits, and assets similar in nature to cash, which are not restricted as to use.

Deferred tax

Deferred tax is provided, using the liability method, on all significant timing differences to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

NOTES TO FINANCIAL STATEMENTS

31 December 2002

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) from the rendering of services, when the transactions have been completed in accordance with the terms of the relevant contracts;
- (c) from the disposal of fixed assets, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group has no further substantial acts and/or continuing involvement to complete under the contracts;
- (d) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable; and
- (e) rental income, on a time proportion basis over the lease terms.

Employee benefits

Paid leave carried forward

The Group provides paid annual leave to its employees under their employment contracts on a calendar year basis. Under certain circumstances, such leave which remains untaken as at the balance sheet date is permitted to be carried forward and utilised by the respective employees in the following year. An accrual is made at the balance sheet date for the expected future cost of such paid leave earned during the year by the employees and carried forward.

Prior to the adoption of SSAP 34 during the year, as explained in note 2 to the financial statements, the Group did not accrue for paid annual leave carried forward at the balance sheet date. This change in accounting policy has had no material effect on the financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2002

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Employee benefits *(continued)*

Retirement benefits schemes

The Group operates defined contribution retirement benefits scheme under the Mandatory Provident Fund Schemes Ordinance for all those employees who are eligible to participate in the scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the scheme. The assets of the scheme are held separately from those of the Group in independently administered funds.

When an employee leaves the Mandatory Provident Fund Exempted Occupational Retirement Schemes Ordinance retirement benefits scheme prior to his/her interest in the Group's employer contributions vesting fully, the ongoing contributions payable by the Group will be reduced by the relevant amount of forfeited employer contributions. In respect of the Mandatory Provident Fund retirement benefits scheme, the Group's employer mandatory contributions vest fully with the employees when contributed into the scheme except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the scheme.

The employees of the Group's subsidiaries which operate in the Mainland of the People's Republic of China (the "Mainland China" or the "PRC") are required to participate in a central pension scheme operated by the local municipal government. The assets of the scheme are held separately from those of the Group in an independently administered fund. Contributions are made based on a percentage of the participating employees' salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the central pension scheme.

Share option schemes

The Group operates share option schemes for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under the share option schemes is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company or the subsidiary as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company or the subsidiary in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

NOTES TO FINANCIAL STATEMENTS

31 December 2002

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies

Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable exchange rates ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of overseas subsidiaries, jointly-controlled entities and associates are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries, jointly-controlled entities and associates are translated into Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated to Hong Kong dollars at the exchange rates at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

Prior to the adoption of the revised SSAPs 11 and 15 during the year, as explained in note 2 to the financial statements, the profit and loss accounts of overseas subsidiaries, jointly-controlled entities and associates and the cash flows of overseas subsidiaries were translated to Hong Kong dollars at the exchange rates ruling at the balance sheet date. The adoption of the revised SSAP 11 has had no material effect on the financial statements, while the adoption of the revised SSAP 15 has resulted in changes to the layout of the consolidated cash flow statement, further details of which are included in note 32(a) to the financial statements, but no material effect on the amounts of the cash flows for prior years previously reported.

NOTES TO FINANCIAL STATEMENTS

31 December 2002

4. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business which offers products and services which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:

- (a) the software development and systems integration for media business segment provides electronic publishing and broadcasting systems to media companies;
- (b) the software development and systems integration for non-media business segment provides banking and information systems to banks and financial institutions;
- (c) the distribution of information products segment relates to the distribution of computer hardware;
- (d) the corporate segment comprises corporate income and expense items; and
- (e) the "other" segment comprises principally the Group's printing services and publishing of newspaper and magazine business.

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

NOTES TO FINANCIAL STATEMENTS

31 December 2002

4. SEGMENT INFORMATION (continued)

(a) Business segments

The following tables present revenue, profit/(loss) and certain assets, liabilities and expenditure information for the Group's business segments.

Group	Software development and systems integration for media business		Software development and systems integration for non-media business		Distribution of information products		Corporate		Other		Consolidated	
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
	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	<u>573,941</u>	<u>487,177</u>	<u>302,083</u>	<u>243,793</u>	<u>514,574</u>	<u>895,776</u>	<u>—</u>	<u>—</u>	<u>51,417</u>	<u>43,137</u>	<u>1,442,015</u>	<u>1,669,883</u>
Segment results	<u>6,114</u>	<u>(40,973)</u>	<u>(8,407)</u>	<u>(172,106)</u>	<u>(20,741)</u>	<u>(77,324)</u>	<u>(26,766)</u>	<u>(23,011)</u>	<u>(19,979)</u>	<u>(12,506)</u>	<u>(69,779)</u>	<u>(325,920)</u>
Interest income											1,582	3,159
Impairment of goodwill											<u>(189,070)</u>	<u>(30,295)</u>
Loss from operating activities											<u>(257,267)</u>	<u>(353,056)</u>
Finance costs											<u>(4,607)</u>	<u>(12,104)</u>
Share of profits and losses of:												
Jointly-controlled entity											1,896	1,371
Associates											<u>(18,485)</u>	<u>(27,962)</u>
Loss before tax											<u>(278,463)</u>	<u>(391,751)</u>
Tax											<u>(1,187)</u>	<u>(1,539)</u>
Loss before minority interests											<u>(279,650)</u>	<u>(393,290)</u>
Minority interests											<u>5,157</u>	<u>9,324</u>
Net loss from ordinary activities attributable to shareholders											<u>(274,493)</u>	<u>(383,966)</u>

NOTES TO FINANCIAL STATEMENTS

31 December 2002

4. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

Group	Software development and systems integration for media business		Software development and systems integration for non-media business		Distribution of information products		Other		Eliminations		Consolidated	
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
	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 assets	443,608	755,542	70,541	256,087	215,184	213,290	7,842	38,925	(89,557)	(290,025)	647,618	973,819
Interests in associates	16,883	6,808	—	—	—	—	—	—	—	—	71,127	81,273
Interest in a jointly-controlled entity	8,588	6,834	—	—	—	—	—	—	—	—	8,588	6,834
Unallocated assets	—	—	—	—	—	—	—	—	—	—	84,733	34,033
Total assets	<u>469,079</u>	<u>769,184</u>	<u>70,541</u>	<u>256,087</u>	<u>215,184</u>	<u>213,290</u>	<u>7,842</u>	<u>38,925</u>	<u>(89,557)</u>	<u>(290,025)</u>	<u>812,066</u>	<u>1,095,959</u>
Segment liabilities	300,123	283,145	102,708	270,216	218,587	239,504	14,377	14,644	(166,249)	(325,089)	469,546	482,420
Unallocated liabilities	—	—	—	—	—	—	—	—	—	—	2,390	179,353
Total liabilities	<u>300,123</u>	<u>283,145</u>	<u>102,708</u>	<u>270,216</u>	<u>218,587</u>	<u>239,504</u>	<u>14,377</u>	<u>14,644</u>	<u>(166,249)</u>	<u>(325,089)</u>	<u>471,936</u>	<u>661,773</u>
Other segment information:												
Amortisation	—	—	—	—	—	—	922	959			922	959
Depreciation	11,730	15,822	5,015	5,120	3,426	908	2,092	1,341			22,263	23,191
Impairment losses recognised in the profit and loss account	—	—	—	—	—	—	—	1,647			189,070	31,942
Capital expenditure	<u>3,027</u>	<u>15,023</u>	<u>1,027</u>	<u>8,102</u>	<u>4,752</u>	<u>2,667</u>	<u>1,394</u>	<u>835</u>			<u>10,200</u>	<u>26,627</u>

NOTES TO FINANCIAL STATEMENTS

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4. SEGMENT INFORMATION (continued)

(b) Geographical segments

The following table presents revenue and certain assets and expenditure information for the Group's geographical segments.

Group	Hong Kong		Mainland China		Overseas		Eliminations		Consolidated	
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
	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	130,601	249,292	1,212,716	1,333,766	98,698	86,825	—	—	1,442,015	1,669,883
Intersegment sales	156,739	434,983	—	—	—	—	(156,739)	(434,983)	—	—
	<u>287,340</u>	<u>684,275</u>	<u>1,212,716</u>	<u>1,333,766</u>	<u>98,698</u>	<u>86,825</u>	<u>(156,739)</u>	<u>(434,983)</u>	<u>1,442,015</u>	<u>1,669,883</u>
	Hong Kong		Mainland China		Overseas		Eliminations		Consolidated	
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Other segment information:										
Segment assets			248,284	276,729	491,291	713,677	72,491	105,553	812,066	1,095,959
Capital expenditure			<u>361</u>	<u>835</u>	<u>7,917</u>	<u>18,267</u>	<u>1,922</u>	<u>7,525</u>	<u>10,200</u>	<u>26,627</u>

NOTES TO FINANCIAL STATEMENTS

31 December 2002

5. TURNOVER, REVENUE AND GAINS

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts, and the value of services rendered during the year.

An analysis of turnover, other revenue and gains is as follows:

	Group	
	2002	2001
	HK\$'000	HK\$'000
Turnover		
Software development and systems integration	876,024	730,970
Distribution of information products	514,574	895,776
Other	51,417	43,137
	1,442,015	1,669,883
Other revenue		
Rental income	1,696	1,439
Interest income	1,582	3,159
Government subsidies	20,904	21,366
Others	5,575	4,746
	29,757	30,710
Gains		
Gain on deemed partial disposal of an associate	3,685	—
Gain on deemed partial disposal of a subsidiary	—	2,074
Others	11,310	6,359
	14,995	8,433
	1,486,767	1,709,026

NOTES TO FINANCIAL STATEMENTS

31 December 2002

6. LOSS FROM OPERATING ACTIVITIES

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

		Group	
		2002	2001
	<i>Notes</i>	HK\$'000	<i>HK\$'000</i>
Amortisation of trademark*	14	922	959
Auditors' remuneration		2,500	2,300
Cost of inventories sold		1,100,486	1,371,640
Cost of services provided		10,103	15,449
Depreciation	13	22,263	23,191
Impairment of goodwill	15	189,070	30,295
Impairment of a long term investment		—	1,647
Loss on disposal of fixed assets		3,446	1,395
Loss on disposal of subsidiaries	32(b)	560	55
Operating lease rentals in respect of land and buildings		29,824	40,362
Provision and write-off of doubtful trade debts		27,548	22,085
Provision and write-off/(reversal and write-back) of obsolete inventories		(7,484)	83,931
Revaluation deficit of:			
Land and buildings		1,125	2,790
Investment properties		1,750	2,250
Research and development costs:			
Current year expenditure		28,803	29,954
Deferred expenditure written off		—	1,215
		28,803	31,169
Staff costs (including directors' remuneration — note 8):			
Wages and salaries		176,301	197,065
Pension scheme contributions		7,769	9,159
Less: Forfeited contributions**		(87)	(48)
		183,983	206,176
Exchange losses/(gains), net		452	(1,414)
Gain on deemed partial disposal of a subsidiary		—	(2,074)
Gain on deemed partial disposal of an associate		(3,685)	—
Interest income		(1,582)	(3,159)
Net rental income		(1,696)	(1,439)
Unrealised gains on revaluation of short term investments		(7)	(52)

* The amortisation of trademark for the year is included in "Cost of sales" on the face of the consolidated profit and loss account.

** At 31 December 2002, the forfeited contributions available to the Group to reduce its contributions to the pension scheme in future years were not material.

NOTES TO FINANCIAL STATEMENTS

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7. FINANCE COSTS

	Group	
	2002	2001
	HK\$'000	HK\$'000
Interest on bank loans and overdrafts	4,607	12,104

8. DIRECTORS' REMUNERATION

Directors' remuneration, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Group	
	2002	2001
	HK\$'000	HK\$'000
Fees	974	1,054
Other emoluments:		
Salaries, allowances and benefits in kind	1,602	1,346
Pension scheme contributions	40	40
	1,642	1,386
	2,616	2,440

Fees include HK\$264,000 (2001: HK\$264,000) payable to the independent non-executive directors. There were no other emoluments payable to the independent non-executive directors during the year (2001: Nil).

The remuneration of the above directors fell within the following band:

	Number of directors	
	2002	2001
Nil — HK\$1,000,000	9	9

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

NOTES TO FINANCIAL STATEMENTS

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9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two (2001: two) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining three (2001: three) non-director, highest paid employees are as follows:

	Group	
	2002	2001
	HK\$'000	HK\$'000
Salaries, allowances and benefits in kind	2,897	2,743
Pension scheme contributions	71	67
	2,968	2,810

The remuneration of the above non-director, highest paid employees fell within the following bands:

	Number of employees	
	2002	2001
Nil — HK\$1,000,000	2	2
HK\$1,500,001 — HK\$2,000,000	1	1
	3	3

10. TAX

	Group	
	2002	2001
	HK\$'000	HK\$'000
Group:		
Hong Kong	17	—
Overseas	438	974
	455	974
Share of tax attributable to:		
Jointly-controlled entity	142	—
Associate	590	565
	732	565
Tax charge for the year	1,187	1,539

NOTES TO FINANCIAL STATEMENTS

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10. TAX (continued)

Hong Kong profits tax has been provided at the rate of 16% (2001: 16%) on the estimated assessable profits arising in Hong Kong during the year.

Beijing Founder Electronics Co., Ltd. ("Founder Electronics"), a wholly-owned PRC subsidiary of the Group, is subject to PRC profits tax at a rate of 10% on its assessable profits for the three fiscal years which commenced in 2001 and ending on 31 December 2003. Beijing Founder Order Computer System Co., Ltd. ("Founder Order"), a wholly-owned PRC subsidiary of the Group, is exempted from PRC profits tax for the three fiscal years which commenced in 1999 and ended on 31 December 2001 and, thereafter, is taxed at 50% of its standard tax rate in the fourth to sixth years, inclusive. Beijing Founder Century Information System Co., Ltd. ("PRC Century"), a wholly-owned PRC subsidiary of the Group, is exempted from PRC profits tax for the three fiscal years which commenced in 2002 and ending on 31 December 2004, and thereafter, will be taxed at 50% of its standard tax rate in the fourth to sixth years, inclusive. At present, the standard tax rate applicable to the PRC subsidiaries is 15%. No provision for PRC profits tax has been made for the year as the relevant PRC subsidiaries were either under the tax exemption period or had sufficient tax losses brought forward to offset against the assessable profits arising 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.

The amount of deferred tax not recognised is set out in note 28 to the financial statements.

11. NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders for the year ended 31 December 2002 dealt with in the financial statements of the Company is approximately HK\$96,647,000 (2001: HK\$195,594,000).

12. LOSS PER SHARE

The calculation of basic loss per share is based on the net loss attributable to shareholders for the year ended 31 December 2002 of approximately HK\$274,493,000 (2001: HK\$383,966,000), and the weighted average of approximately 1,123,800,000 (2001: 1,123,800,000) ordinary shares in issue during the year.

Diluted loss per share for the years ended 31 December 2002 and 2001 have not been calculated as the impact of the outstanding share options was anti-dilutive.

NOTES TO FINANCIAL STATEMENTS

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13. FIXED ASSETS

Group

	Investment properties HK\$'000	Land and buildings in Hong Kong HK\$'000	Land and buildings in Mainland China HK\$'000	Leasehold improvements HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Cost or valuation:							
At 1 January 2002	13,950	17,900	14,413	12,030	90,709	19,015	168,017
Additions	—	—	—	—	9,063	1,137	10,200
Disposals	—	(1,100)	(410)	—	(18,961)	(9,948)	(30,419)
Disposal of a subsidiary	—	—	—	—	(122)	—	(122)
Revaluation deficit	(1,750)	(2,100)	—	—	—	—	(3,850)
Exchange realignment	—	—	2	61	951	2	1,016
At 31 December 2002	12,200	14,700	14,005	12,091	81,640	10,206	144,842
Accumulated depreciation:							
At 1 January 2002	—	—	710	7,875	44,247	12,103	64,935
Provided during the year	—	975	306	3,251	16,120	1,611	22,263
Disposals	—	—	(73)	—	(8,916)	(7,155)	(16,144)
Disposal of a subsidiary	—	—	—	—	(38)	—	(38)
Written back on revaluation	—	(975)	—	—	—	—	(975)
Exchange realignment	—	—	1	6	215	(1)	221
At 31 December 2002	—	—	944	11,132	51,628	6,558	70,262
Net book value:							
At 31 December 2002	12,200	14,700	13,061	959	30,012	3,648	74,580
At 31 December 2001	13,950	17,900	13,703	4,155	46,462	6,912	103,082
Analysis of cost or valuation:							
At cost	—	—	14,005	12,091	81,640	10,206	117,942
At 31 December 2002 valuation	12,200	14,700	—	—	—	—	26,900
	12,200	14,700	14,005	12,091	81,640	10,206	144,842

The Group's land and buildings in Hong Kong were revalued on 31 December 2002 by Centaline Surveyors Ltd., independent professionally qualified valuers, on an open market value, existing use basis.

Had the Group's land and buildings in Hong Kong been carried at historical cost less accumulated depreciation and impairment losses, their carrying amounts would have been approximately HK\$34,694,000 (2001: HK\$37,757,000).

NOTES TO FINANCIAL STATEMENTS

31 December 2002

13. FIXED ASSETS (continued)

The Group's land and buildings included above are held under the following lease terms:

	Hong Kong	Mainland China	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At cost:			
Long term leases	—	14,005	14,005
At valuation:			
Medium term leases	14,700	—	14,700
	<u>14,700</u>	<u>14,005</u>	<u>28,705</u>

The Group's investment properties were revalued on 31 December 2002 by Centaline Surveyors Ltd., independent professionally qualified valuers, on an open market value, existing use basis. The investment properties are leased to third parties under operating leases, further summary details of which are included in note 34 to the financial statements.

The Group's investment properties are situated in Hong Kong and are held under medium term leases.

Particulars of the Group's investment properties are included on page 70 of the Annual Report.

All the land and buildings in Hong Kong and investment properties of the Group were pledged to banks to secure banking facilities (note 27).

NOTES TO FINANCIAL STATEMENTS

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14. INTANGIBLE ASSET

	Group Trademark <i>HK\$'000</i>
Cost:	
At beginning of year	4,950
Disposal of a subsidiary	(4,939)
Exchange realignment	(11)
	<hr/>
At 31 December 2002	<hr/> —
Accumulated amortisation:	
At beginning of year	959
Provided during the year	922
Disposal of a subsidiary	(1,879)
Exchange realignment	(2)
	<hr/>
At 31 December 2002	<hr/> —
Net book value:	
At 31 December 2002	<hr/> — <hr/>
At 31 December 2001	<hr/> 3,991 <hr/>

NOTES TO FINANCIAL STATEMENTS

31 December 2002

15. GOODWILL

As detailed in note 3 to the financial statements, the Group has adopted the transitional provision of SSAP 30 that permitted goodwill in respect of the acquisition of subsidiaries which occurred prior to 1 January 2001 to remain eliminated against consolidated reserves.

The amount of the goodwill remaining in consolidated reserves, arising from the acquisition of subsidiaries prior to 1 January 2001, is as follows:

	Group Goodwill eliminated against consolidated contributed surplus <i>HK\$'000</i>
Cost:	
At beginning of year and at 31 December 2002	284,700
Accumulated impairment:	
At beginning of year	30,295
Impairment provided during the year	189,070
At 31 December 2002	219,365
Net amount:	
At 31 December 2002	65,335
At 31 December 2001	254,405

An impairment loss of approximately HK\$189,070,000 was charged to the consolidated profit and loss account for the current year. The impairment loss was provided by the directors based on the estimated recoverable amounts of the subsidiaries acquired, which were determined based on their value in use. The discount rate used in determining the value in use is 22% per annum.

NOTES TO FINANCIAL STATEMENTS

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16. INTERESTS IN SUBSIDIARIES

	Company	
	2002 HK\$'000	2001 HK\$'000
Unlisted shares, at cost	559,088	559,088
Due to a subsidiary	(301,505)	(298,221)
	257,583	260,867
Provision for impairment	(38,209)	(35,335)
	219,374	225,532

The amount due to a subsidiary is unsecured, interest-free and has no fixed terms of repayment. Although this balance is technically currently repayable under the original terms of the transactions giving rise thereto, it has been deferred or subordinated for the longer term and is therefore classified as non-current.

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Founder (Hong Kong) Limited ("Founder HK")	Hong Kong	Ordinary HK\$110,879,989	100%	—	Systems integration
Founder Electronics##	Mainland China	Registered HK\$230 million	—	100%	Software development and systems integration
PRC Century##	Mainland China	Registered RMB80 million	—	100% **	Distribution of information products
Sparkling Idea Limited	British Virgin Islands/ Hong Kong	Ordinary US\$1	—	100%	Investment holding

NOTES TO FINANCIAL STATEMENTS

31 December 2002

16. INTERESTS IN SUBSIDIARIES *(continued)*

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Founder Systems (BVI) Limited	British Virgin Islands/Mainland China	Ordinary US\$1	—	100%	Systems integration
Founder Order##	Mainland China	Registered HK\$20 million	—	100%	Software development and systems integration
Royal Bright Limited	Hong Kong	Ordinary HK\$2	—	100%	Property holding
Royal Leader Limited	Hong Kong	Ordinary HK\$2	—	100%	Property holding
Royal Power Limited	Hong Kong	Ordinary HK\$2	—	100%	Property holding
Sharp Century Limited	Hong Kong	Ordinary HK\$2	—	100%	Property holding
Founder Information Technology (H.K.) Limited	Hong Kong	Ordinary HK\$2	—	100%	Distribution of information products
Founder Electronics (HK) Limited	Hong Kong	Ordinary HK\$2	—	100%	Systems integration
Founder Century (Hong Kong) Limited ("HK Century")	Hong Kong	Ordinary HK\$2	—	100% **	Distribution of information products
True Luck Group Limited	British Virgin Islands/ Hong Kong	Ordinary US\$1	—	100%	Investment holding
Founder Technology (Canada) Corp.*	Canada	Ordinary CAN\$100	—	100%	Systems integration

NOTES TO FINANCIAL STATEMENTS

31 December 2002

16. INTERESTS IN SUBSIDIARIES *(continued)*

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
PUC Founder (M) Sdn. Bhd.*	Malaysia	Ordinary RM500,000	—	100%	Investment holding
Founder International Inc.* ("Founder Inc.")	Japan	Ordinary JPY62,650,000	—	78.8%	Systems integration
Power Print Inc.*	Japan	Ordinary JPY400 million	—	52.3%	Printing
Beijing Founder International Co., Limited*##	Mainland China	Registered US\$500,000	—	78.8%	Systems integration
Beijing Founder Information Co., Ltd.*##	Mainland China	Registered RMB8 million	—	55.2%	Publishing of magazines

* Not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.

** Incorporated during the year.

Foreign investment enterprises.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

NOTES TO FINANCIAL STATEMENTS

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17. INTEREST IN A JOINTLY-CONTROLLED ENTITY

	Group	
	2002	2001
	HK\$'000	HK\$'000
Share of net assets	8,588	6,834

Particulars of the jointly-controlled entity are as follows:

Name	Business structure	Place of incorporation/ registration and operations	Percentage of			Principal activities
			Ownership interest	Voting power	Profit sharing	
Beijing PeCan Information System Inc.	PRC equity joint venture	Mainland China	30%	30%	30%	Software development and distribution of information products

The above investment in the jointly-controlled entity is indirectly held by the Company.

18. INTERESTS IN ASSOCIATES

	Group		Company	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Listed shares in Hong Kong, at cost	—	—	323,690	323,690
Share of net assets	69,759	79,222	—	—
Due from associates	1,534	2,886	—	—
Due to an associate	(166)	(835)	—	—
	71,127	81,273	323,690	323,690
Provision for impairment	—	—	(249,241)	(158,608)
	71,127	81,273	74,449	165,082
Market value of listed shares	97,127	165,082	74,449	165,082

The amounts due from/to associates are unsecured, interest-free and have no fixed terms of repayment.

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18. INTERESTS IN ASSOCIATES *(continued)*

Particulars of the principal associates are as follows:

Name	Business structure	Place of incorporation/ registration and operations	Percentage of ownership of interest attributable to the Group		Principal activities
			2002	2001	
EC-Founder (Holdings) Company Limited ("EC-Founder")	Corporate	Bermuda/ Hong Kong and Mainland China	39.45%	39.45%	Provision of software solutions and services, design, manufacture and distribution of electronic products and electronic components
PUC Founder (MSC) Berhad*#	Corporate	Malaysia	35.93%	49.00%	Software development and systems integration

* Not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.

Listed on the Malaysian Exchange of Securities Dealing and Automated Quotation Market of the Kuala Lumpur Stock Exchange.

The above table lists the associates of the Group which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other associates would, in the opinion of the directors, result in particulars of excessive length.

Except for EC-Founder, which is held directly by the Company, the shareholdings in other associates are held through subsidiaries.

NOTES TO FINANCIAL STATEMENTS

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18. INTERESTS IN ASSOCIATES *(continued)*

Included in the Group's share of net assets of its associates is its share of net assets of EC-Founder, a company listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), which in the opinion of the directors, is material in the context of the Group's financial statements. Further details of the consolidated net assets of EC-Founder as at 31 December 2002 and of its consolidated results for the year then ended are as follows:

	2002 HK\$'000	2001 HK\$'000
Fixed assets	47,786	71,910
Intangible assets	—	1,270
Interests in associates	22,864	22,527
Long term investment	—	1,075
Current assets	151,308	279,316
Current liabilities	(84,738)	(187,346)
Long term liabilities	(600)	(2,043)
Minority interests	—	(2,336)
Net assets	<u>136,620</u>	<u>184,373</u>
Turnover	<u>311,933</u>	<u>331,455</u>
Loss before tax <i>(Note)</i>	(84,271)	(69,279)
Tax	<u>(1,494)</u>	<u>(1,432)</u>
Loss before minority interests	(85,765)	(70,711)
Minority interests	<u>335</u>	<u>1,670</u>
Net loss attributable to shareholders	<u>(85,430)</u>	<u>(69,041)</u>

Note: The loss before tax included an impairment loss of approximately HK\$36,500,000 for the goodwill arising on the acquisition of subsidiaries which remains eliminated against the consolidated reserves.

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19. INVENTORIES

	Group	
	2002	2001
	HK\$'000	HK\$'000
Trading stocks	153,449	303,366

The carrying amount of inventories carried at net realisable value included in the above was immaterial.

20. 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 as at the balance sheet date and net of provisions is as follows:

	Group	
	2002	2001
	HK\$'000	HK\$'000
Within 6 months	172,214	168,852
7-12 months	15,466	30,905
13-24 months	7,469	24,854
Over 24 months	1,153	6,450
	196,302	231,061

Included in the Group's trade and bills receivables are amounts due from the related companies of the Group of approximately HK\$9,051,000 (2001: Nil), which are repayable on similar credit terms to those offered to the major customers of the Group.

NOTES TO FINANCIAL STATEMENTS

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21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Prepayments	44,448	25,316	—	—
Deposits and other receivables	16,914	28,876	91	178
	<u>61,362</u>	<u>54,192</u>	<u>91</u>	<u>178</u>

22. SHORT TERM INVESTMENTS

	Group	
	2002	2001
	HK\$'000	HK\$'000
Overseas mutual fund, at fair value	<u>4,546</u>	<u>5,754</u>

23. PLEDGED DEPOSITS

		Group	
		2002	2001
	Note	HK\$'000	HK\$'000
Pledged for bank loans	27(a)	20,704	42,572
Pledged for general banking facilities		5,025	187
		<u>25,729</u>	<u>42,759</u>

24. CASH AND CASH EQUIVALENTS

	Group		Company	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cash and bank balances	195,153	261,159	82	57
Time deposits	21,230	2,488	—	—
	<u>216,383</u>	<u>263,647</u>	<u>82</u>	<u>57</u>

NOTES TO FINANCIAL STATEMENTS

31 December 2002

24. CASH AND CASH EQUIVALENTS *(continued)*

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to approximately HK\$160,442,000 (2001: HK\$168,736,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

25. TRADE AND BILLS PAYABLES

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

	Group	
	2002	2001
	HK\$'000	HK\$'000
Within 6 months	113,749	43,751
7-12 months	9,105	39,552
13-24 months	50,301	27,825
Over 24 months	26,139	1,085
	199,294	112,213

26. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Accruals	119,444	127,421	114	320
Other payables	17,512	17,507	—	—
Trading receipts in advance	101,710	223,600	—	—
	238,666	368,528	114	320

NOTES TO FINANCIAL STATEMENTS

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27. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Group	
	2002	2001
	HK\$'000	HK\$'000
Bank overdrafts, secured	—	187
Bank loans:		
Secured	3,137	3,984
Unsecured	26,413	136,619
	29,550	140,603
Trust receipt loans, secured	2,690	40,150
Other loan, unsecured	942	—
	33,182	180,940
Bank overdrafts repayable within one year or on demand	—	187
Bank loans and trust receipt loans repayable:		
Within one year or on demand	30,004	177,614
In the second year	957	899
In the third to fifth years, inclusive	1,279	2,240
	32,240	180,753
Other loan repayable within one year or on demand	942	—
	33,182	180,940
Portion classified as current liabilities	(30,946)	(177,801)
Long term portion	2,236	3,139

NOTES TO FINANCIAL STATEMENTS

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27. INTEREST-BEARING BANK AND OTHER BORROWINGS *(continued)*

- (a) The Group's secured bank loans and trust receipt loans at the balance sheet date are secured by:
- (i) mortgages over the Group's investment properties which had an aggregate carrying value at the balance sheet date of approximately HK\$12,200,000 (2001: HK\$5,950,000).
 - (ii) mortgages over the Group's land and buildings in Hong Kong which had an aggregate net book value at the balance sheet date of approximately HK\$14,700,000 (2001: HK\$17,900,000).
 - (iii) the pledge of certain of the Group's time deposits amounting to approximately HK\$20,704,000 (2001: HK\$42,572,000).
- (b) The Group's unsecured bank loans at the balance sheet date of approximately HK\$18,846,000 (2001: HK\$136,619,000) were guaranteed by Peking University Founder Group Corporation ("Peking Founder"), a substantial shareholder of the Group.
- (c) The Group's other loan is unsecured, bears interest at 5% per annum and is repayable within one year or on demand.

28. DEFERRED TAX

The principal components of the Group's deferred tax asset not recognised in the financial statements are as follows:

	Not provided	
	2002	2001
	HK\$'000	HK\$'000
Accelerated depreciation allowances	1,019	845
Tax losses	40,921	39,733
	41,940	40,578

The revaluation of the Group's investment properties does not constitute a timing difference and, consequently, the amount of potential deferred tax thereon has not been quantified.

NOTES TO FINANCIAL STATEMENTS

31 December 2002

29. SHARE CAPITAL

	Group and Company	
	2002	2001
	HK\$'000	HK\$'000
Authorised:		
2,100,000,000 ordinary shares of HK\$0.10 each	<u>210,000</u>	<u>210,000</u>
Issued and fully paid:		
1,123,799,893 ordinary shares of HK\$0.10 each	<u>112,380</u>	<u>112,380</u>

30. SHARE OPTION SCHEMES

SSAP 34 was adopted during the year, as explained in note 2 and under the heading "Employee benefits" in note 3 to the financial statements. As a result, the following detailed disclosures relating to the Company's and the subsidiary's share option schemes are now included in the notes to the financial statements. In the prior year, these disclosures were included in the Report of the Directors, as their disclosure is also a requirement of the Listing Rules.

(a) Share option schemes of the Company

On 24 May 2002, the Company adopted a new share option scheme (the "New Scheme") in compliance with Chapter 17 of the Listing Rules which replaced the old share option scheme (the "Old Scheme") in force previously.

The purpose of the New Scheme is to recognise and acknowledge the contributions or potential contributions made or to be made by the participants to the Group, to motivate the participants to optimise their performance and efficiency for the benefit of the Group, and to maintain or attract business relationships with participants whose contributions are or may be beneficial to the growth of the Group. Eligible participants of the New Scheme include (i) any part-time or full-time employee or officer of any member of the Group or of any substantial shareholder of the Company or of any associated company of the Company; (ii) any substantial shareholder of the Company; (iii) the chief executive or director (executive, non-executive or independent non-executive) of any member of the Group or of any substantial shareholder of the Company or of any associated company of the Company; and (iv) any supplier, agent, customer, partner or business associate of, or adviser or consultant to, any member of the Group. The New Scheme became effective on 24 May 2002 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

NOTES TO FINANCIAL STATEMENTS

31 December 2002

30. SHARE OPTION SCHEMES *(continued)*

(a) Share option schemes of the Company *(continued)*

The maximum number of unexercised share options currently permitted to be granted under the New Scheme is an amount equivalent, upon their exercise, to 10% of the total number of shares of the Company in issue as at the date when the New Scheme is approved by the shareholders of the Company in general meeting. The maximum number of shares issuable under share options to each eligible participant in the New Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting. No share options were granted under the New Scheme during the year.

The offer of a grant of share options is deemed to have been accepted when the duplicate offer letter comprising the acceptance of the option is signed and upon payment of a nominal consideration of HK\$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors and ends on a date which is not later than ten years from the date of the offer of the share options.

The exercise price of the share options is determinable by the directors, based on the highest of (i) the closing price of the shares of the Company in the Stock Exchange's daily quotation sheet on the date of the offer of the share options; (ii) the average closing price of the shares of the Company in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of the offer; and (iii) the nominal value of the Company's shares.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

The Old Scheme was replaced by the New Scheme on 24 May 2002. However, the options granted under the Old Scheme will remain in full force and effect.

NOTES TO FINANCIAL STATEMENTS

31 December 2002

30. SHARE OPTION SCHEMES (continued)

(a) Share option schemes of the Company (continued)

The following share options were outstanding under the Old Scheme at 1 January 2002 and at the end of the year:

Name or category of participant	Number of share options				Date of grant of share options *	Exercise period of share options	Exercise price of share options ** HK\$
	At 1 January 2002	Lapsed during the year	Cancelled during the year	At 31 December 2002			
Directors							
Wang Xuan (Note)	10,800,000	(10,800,000)	—	—	6.8.1996	21.12.1998 to 6.12.2005	1.397
Cheung Shuen Lung	9,360,000	—	(9,360,000)	—	6.8.1996	21.12.1998 to 6.12.2005	1.397
	<u>20,160,000</u>	<u>(10,800,000)</u>	<u>(9,360,000)</u>	<u>—</u>			
Other employees							
In aggregate	900,000	(200,000)	—	700,000	16.4.1999	16.4.1999 to 6.12.2005	0.912
In aggregate	10,000,000	(10,000,000)	—	—	1.11.1999	1.11.1999 to 6.12.2005	1.944
	<u>10,900,000</u>	<u>(10,200,000)</u>	<u>—</u>	<u>700,000</u>			
	<u>31,060,000</u>	<u>(21,000,000)</u>	<u>(9,360,000)</u>	<u>700,000</u>			

Note: Wang Xuan resigned as a director of the Company during the year.

* The vesting period of the share options is from the date of the grant until the commencement of the exercise period.

** The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 700,000 additional ordinary shares of the Company and additional share capital of HK\$70,000 and share premium of HK\$568,400 (before issue expenses).

NOTES TO FINANCIAL STATEMENTS

31 December 2002

30. SHARE OPTION SCHEMES (continued)

(b) Share option scheme of Founder Inc.

Founder Inc., a subsidiary of the Company, operates a share option scheme (the "Subsidiary Scheme") to motivate its employees. Eligible participants of the Subsidiary Scheme include the directors and employees of Founder Inc. and its subsidiaries. The Subsidiary Scheme became effective on 16 December 2000 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date. The maximum number of unexercised share options currently permitted to be granted under the Subsidiary Scheme is an amount equivalent, upon their exercise, to 10% of the shares of Founder Inc. in issue at any time. At 31 December 2002, the number of shares issuable under the Subsidiary Scheme was 58, which represented approximately 4.6% of the shares of Founder Inc. in issue at that date. The maximum number of shares issuable under share options to each eligible participant in the Subsidiary Scheme is limited to 25% of the aggregate number of shares of Founder Inc. issued and issuable under the Subsidiary Scheme at any time. The exercise period in relation to each share option shall commence on the date when the offer for the options is accepted and expire on the earlier of the 10th anniversary thereafter or the 10th anniversary of the date on which the Subsidiary Scheme was adopted by Founder Inc. An offer for share options may be accepted within 40 days from the date of offer upon payment of a nominal consideration of JPY1,000. The exercise price of the share options is determined by the shareholders of Founder Inc. in a general meeting and should not be lower than the par value of the shares to be allotted and issued under the Subsidiary Scheme.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

Chapter 17 of the Listing Rules has made certain provisions of the Subsidiary Scheme obsolete, which requires amendments to ensure full compliance with the Listing Rules. On 24 May 2002, the board of directors proposed a new share option scheme in replacement of the existing Subsidiary Scheme, which is subject to the approval of the shareholders of Founder Inc. in the forthcoming annual general meeting.

The following share options were outstanding under the Subsidiary Scheme at 1 January 2002 and at the end of the year:

Category of participant	Number of share options			Date of grant of share options*	Exercise period of share options	Exercise price of share options** JPY
	At 1 January 2002	Lapsed during the year	At 31 December 2002			
Non-director employees						
In aggregate	60	(2)	58	16.12.2000	17.12.2000 to 16.12.2010	4,720,000

* The vesting period of the share options is from the date of the grant until the commencement of the exercise period.

** The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in Founder Inc.'s share capital.

NOTES TO FINANCIAL STATEMENTS

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31. RESERVES

Group	Share premium account HK\$'000	Contributed surplus HK\$'000	Capital reserve HK\$'000	Land and buildings revaluation reserve HK\$'000	Exchange fluctuation reserve HK\$'000	General reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2001	27,660	582,334	62,680	601	2,453	42,866	(62,529)	656,065
Exchange realignment	—	—	—	—	(7,254)	—	—	(7,254)
Impairment of goodwill of subsidiaries remaining eliminated against contributed surplus	—	30,295	—	—	—	—	—	30,295
Impairment of goodwill of an associate remaining eliminated against contributed surplus	—	816	—	—	—	—	—	816
Net loss for the year	—	—	—	—	—	—	(383,966)	(383,966)
Transfer to general reserve	—	—	—	—	—	133	(133)	—
Transfer to capital reserve	—	—	2,074	—	—	—	(2,074)	—
At 31 December 2001 and beginning of year	27,660	613,445	64,754	601	(4,801)	42,999	(448,702)	295,956
Exchange realignment	—	—	—	—	1,462	—	—	1,462
Impairment of goodwill of subsidiaries remaining eliminated against contributed surplus	—	189,070	—	—	—	—	—	189,070
Share of general reserve of an associate	—	—	—	—	—	42	—	42
Net loss for the year	—	—	—	—	—	—	(274,493)	(274,493)
Transfer to general reserve	—	—	—	—	—	18	(18)	—
Transfer to capital reserve	—	—	3,685	—	—	—	(3,685)	—
At 31 December 2002	<u>27,660</u>	<u>802,515</u>	<u>68,439</u>	<u>601</u>	<u>(3,339)</u>	<u>43,059</u>	<u>(726,898)</u>	<u>212,037</u>
Reserves retained by:								
Company and subsidiaries	27,660	802,515	64,754	601	(3,877)	43,017	(684,688)	249,982
Jointly-controlled entity	—	—	—	—	82	—	6,906	6,988
Associates	—	—	3,685	—	456	42	(49,116)	(44,933)
At 31 December 2002	<u>27,660</u>	<u>802,515</u>	<u>68,439</u>	<u>601</u>	<u>(3,339)</u>	<u>43,059</u>	<u>(726,898)</u>	<u>212,037</u>
Company and subsidiaries	27,660	613,445	64,754	601	(4,955)	42,999	(418,546)	325,958
Jointly-controlled entity	—	—	—	—	82	—	5,152	5,234
Associates	—	—	—	—	72	—	(35,308)	(35,236)
At 31 December 2001	<u>27,660</u>	<u>613,445</u>	<u>64,754</u>	<u>601</u>	<u>(4,801)</u>	<u>42,999</u>	<u>(448,702)</u>	<u>295,956</u>

The contributed surplus of the Group originally represented the difference between the nominal value of the shares and the share premium account of Founder HK acquired pursuant to the Group reorganisation on 31 March 2000, over the nominal value of the Company's shares issued in exchange therefor. Goodwill arising on the acquisition of subsidiaries in prior years remains eliminated against the contributed surplus, further details of which are included in note 15 to these financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2002

31. RESERVES (continued)

The capital reserve of the Group arose from the increase in the non-distributable reserve of a subsidiary and an associate.

In accordance with the relevant PRC regulations, each of the Group's PRC subsidiaries and jointly-controlled entity is required to transfer not less than 10% of its profit after tax, as determined in accordance with PRC accounting standards and regulations, to a general reserve until such reserve reaches 50% of its registered capital. The quantum of the annual transfer is subject to the approval of the board of directors of the PRC subsidiaries and jointly-controlled entity in accordance with their articles of association. No such transfer was made during the year as the Group's PRC subsidiaries and jointly-controlled entity either incurred losses during the year or the transfer of profit after tax to the general reserve has already reached 50% of the registered capital.

In accordance with the relevant Taiwanese regulations, each of the Group's Taiwanese subsidiaries and associates is required to transfer not less than 10% of its profit after tax, as determined in accordance with Taiwanese accounting standards and regulations, to a general reserve. During the year, a Taiwanese subsidiary and an associate transferred in total approximately HK\$60,000 (2001: HK\$133,000), which represented 10% of their profit after tax, to the general reserve.

Company

	Share premium account HK\$'000	Contributed surplus HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2001	27,660	448,209	(2,126)	473,743
Loss for the year	—	—	(195,594)	(195,594)
At 31 December 2001 and beginning of year	27,660	448,209	(197,720)	278,149
Net loss for the year	—	—	(96,647)	(96,647)
At 31 December 2002	27,660	448,209	(294,367)	181,502

The contributed surplus of the Company represents the excess of the fair value of the shares of Founder HK acquired pursuant to the Group reorganisation on 31 March 2000, over the nominal value of the Company's shares issued in exchange therefor. Under the Companies Act 1981 of Bermuda (as amended), the Company may make distributions to its shareholders out of the contributed surplus in certain circumstances.

NOTES TO FINANCIAL STATEMENTS

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32. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Adoption of SSAP 15

Revised SSAP 15 was adopted during the current year, as detailed in note 2 to the financial statements, which has resulted in a change to the layout of the cash flow statement. The cash flow statement is now presented under three headings: cash flows from operating activities, investing activities and financing activities. Previously, five headings were used, comprising the three headings listed above, together with cash flows from returns on investments and servicing of finance and from taxes paid. The significant reclassifications resulting from the change in presentation are that taxes paid and interest received are now included in cash flows from operating activities. The presentation of the 2001 comparative cash flow statement has been changed to accord with the new layout.

The method of calculation of certain items in the consolidated cash flow statement has changed under the revised SSAP 15, as explained under the heading "Foreign currencies" in note 3 to the financial statements. Cash flows of overseas subsidiaries are now translated into Hong Kong dollars at the exchanges rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated to Hong Kong dollars at the weighted average exchange rates for the year. Previously, the cash flows of overseas subsidiaries were translated into Hong Kong dollars at the exchanges rates ruling at the balance sheet date. This change has had no material impact on the cash flow statements.

(b) Disposal of subsidiaries

	2002 HK\$'000	2001 HK\$'000
Net assets disposed of:		
Fixed assets	84	—
Intangible asset	3,060	—
Cash and bank balances	4,317	—
Interests in associates	274	—
Trade receivables	3,994	—
Prepayments, deposits and other receivables	1,089	55
Short term investments	681	—
Trade payables and other accrued liabilities	(3,561)	—
Minority interests	(5,592)	—
	<hr/>	<hr/>
	4,346	55
Loss on disposal (note 6)	(560)	(55)
	<hr/>	<hr/>
	3,786	—
	<hr/>	<hr/>

NOTES TO FINANCIAL STATEMENTS

31 December 2002

32. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(continued)*

(b) Disposal of subsidiaries *(continued)*

	2002 HK\$'000	2001 HK\$'000
Satisfied by:		
Cash	—	—
Interest in an associate	3,786	—
	<u>3,786</u>	<u>—</u>

An analysis of the net outflow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

	2002 HK\$'000	2001 HK\$'000
Cash consideration	—	—
Cash and bank balances disposed of	(4,317)	—
	<u>(4,317)</u>	<u>—</u>
Net outflow of cash and cash equivalents in respect of the disposal of subsidiaries	<u>(4,317)</u>	<u>—</u>

The results of the subsidiaries disposed of in 2002 contributed approximately HK\$23,829,000 to the Group's consolidated turnover and profit of approximately HK\$402,000 to the Group's consolidated loss after tax for the year.

The results of the subsidiary disposed of in 2001 had no significant impact on the Group's consolidated turnover or loss after tax for that year.

NOTES TO FINANCIAL STATEMENTS

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33. CONTINGENT LIABILITIES

At the balance sheet date, contingent liabilities not provided for in the financial statements were as follows:

	Group		Company	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Bills discounted with recourse	2,120	—	—	—
Guarantees given to banks in connection with facilities granted to subsidiaries	—	—	84,896	59,140
Guarantees given to suppliers in connection with credit facilities granted to subsidiaries	—	—	111,949	—
	<u>2,120</u>	<u>—</u>	<u>196,845</u>	<u>59,140</u>

As at 31 December 2002, the guarantees given to banks in connection with facilities granted to subsidiaries by the Company were utilised to the extent of approximately HK\$14,631,000 (2001: HK\$27,100,000).

As at 31 December 2002, the guarantees given to suppliers in connection with credit facilities granted to subsidiaries by the Company were utilised to the extent of approximately HK\$20,984,000 (2001: Nil).

34. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties (note 13) under operating lease arrangements, with leases negotiated for terms ranging from three months to three years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

NOTES TO FINANCIAL STATEMENTS

31 December 2002

34. OPERATING LEASE ARRANGEMENTS *(continued)*

(a) As lessor *(continued)*

At 31 December 2002, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2002	2001
	HK\$'000	HK\$'000
Within one year	1,694	1,370
In the second to fifth years, inclusive	1,723	832
	3,417	2,202

(b) As lessee

The Group leases certain of its office properties under operating lease arrangements, which are negotiated for terms ranging from seven months to three years.

At 31 December 2002, the Group had total future minimum lease payments under the non-cancellable operating leases falling due as follows:

	Group	
	2002	2001
	HK\$'000	HK\$'000
Within one year	23,672	30,481
In the second to fifth years, inclusive	26,525	49,511
	50,197	79,992

NOTES TO FINANCIAL STATEMENTS

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35. COMMITMENTS

In addition to the operating lease commitments detailed in note 34 above, the Group had the following commitments at the balance sheet date:

	Group	
	2002	2001
	HK\$'000	HK\$'000
Authorised, but not contracted for:		
Capital contribution payable to a joint venture to be established	<u>—</u>	<u>37,688</u>

36. RELATED PARTY TRANSACTIONS

In addition to the related party transactions and balances disclosed elsewhere in these financial statements, the Group had the following significant transactions with related parties during the year:

		Group	
		2002	2001
	Notes	HK\$'000	HK\$'000
Rental expenses paid to Peking Founder	(i)	12,868	14,133
Sales of goods to associates	(ii)	379	2,370
Sales of technical know-how to a company in which three directors of the Company were directors	(iii)	—	20,132
Sales of goods to a company in which three directors of the Company were directors	(ii)	11,109	33,677
Sales of goods to a company in which one director of a subsidiary was a shareholder	(ii)	24,855	—
Purchases of goods from associates	(iv)	6,970	10,048
Purchases of goods from a company in which three directors of the Company were directors	(iv)	4,839	2,962
Purchase of goods from a company in which one director of a subsidiary was a shareholder	(iv)	16,833	—
Bank loan guarantees given by Peking Founder	(v)	18,846	136,619
Bank facilities guarantees given by Peking Founder	(vi)	<u>113,168</u>	<u>28,266</u>

NOTES TO FINANCIAL STATEMENTS

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36. RELATED PARTY TRANSACTIONS *(continued)*

Notes:

- (i) The rental expenses were paid in accordance with the terms of the agreements governing such transaction.
- (ii) The sales of goods were made according to published prices and conditions similar to those offered to other customers of the Group.
- (iii) The transaction was conducted at prices determined between the two parties.
- (iv) The directors consider that the purchases of goods were made according to published prices and conditions similar to those offered by the related parties to its other customers.
- (v) The bank loan guarantees were given to PRC banks for the loans granted to a subsidiary.
- (vi) The bank facilities guarantees were given to PRC banks for credit facilities granted to a subsidiary.

37. POST BALANCE SHEET EVENT

On 19 March 2003, Founder HK entered into a conditional sale and purchase agreement, pursuant to which, Founder HK will dispose of its entire interests in HK Century and PRC Century to EC-Founder at a total consideration of HK\$71,500,000, to be satisfied as to (i) HK\$5,160,000, upon completion in cash payable by EC-Founder to Founder HK or as it may direct; (ii) HK\$61,180,000, upon completion by the issue and allotment by EC-Founder of the shares to Founder HK or its nominee at HK\$0.2185 each; and (iii) the final payment of HK\$5,160,000 (subject to adjustment) to be satisfied in cash or additional shares or by a mixture of both at the option of Founder HK upon the date falling six months after the date of completion. Such transaction will be subject, among other things, to the approval by the independent shareholders of the Company. Further details of the transaction are set out in the joint announcement of the Company and EC-Founder dated 19 March 2003.

38. COMPARATIVE AMOUNTS

As further explained in note 2 to the financial statements, due to the adoption of certain new and revised SSAPs during the current year, the accounting treatment and presentation of certain items in the financial statements have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been reclassified to conform with the current year's presentation.

39. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 24 April 2003.

PARTICULARS OF INVESTMENT PROPERTIES

31 December 2002

Location	Use	Tenure	Attributable interest of the Group
Units 1, 2a, 2b, 3a, 3b, 4a and 4b, 14th Floor Cable TV Tower 9 Hoi Shing Road Tsuen Wan New Territories Hong Kong	Office premises/ warehouse for rental	Medium term lease	100%
Residential car parking space No. 324 on Podium Level 2 Rhine Garden 38 Castle Peak Road Sham Tseng New Territories Hong Kong	Car parking space for rental	Medium term lease	100%
Flat B, 29th Floor Block 3 Locwood Court Kingswood Villas 1 Tin Wu Road Tin Shui Wai Yuen Long New Territories Hong Kong	Residential premises for rental	Medium term lease	100%
Flat B, 8th Floor Block 2 and car parking space No. 60 on Level 1 Dragon Inn Court 9 Tsing Ha Lane Tuen Mun New Territories Hong Kong	Residential premises and car parking space for rental	Medium term lease	100%
Flat D, 12th Floor Block 2 Belvedere Garden Phase 2 620 Castle Peak Road Tsuen Wan New Territories Hong Kong	Residential premises for rental	Medium term lease	100%

FIVE YEAR FINANCIAL SUMMARY

31 December 2002

A summary of the results and of the assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the published audited financial statements and reclassified as appropriate and adjusted for the Group reorganisation, is set out below.

RESULTS

	Year ended 31 December				
	2002	2001	2000	1999	1998
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
TURNOVER	<u>1,442,015</u>	<u>1,669,883</u>	<u>2,087,853</u>	<u>1,583,073</u>	<u>2,164,248</u>
PROFIT/(LOSS) FROM OPERATING ACTIVITIES	(261,874)	(365,160)	184,674	(228,053)	(162,385)
Share of profits and losses of:					
Jointly-controlled entities	1,896	1,371	1,445	5,602	(3,265)
Associates	(18,485)	(27,962)	(6,499)	—	—
PROFIT/(LOSS) BEFORE TAX	(278,463)	(391,751)	179,620	(222,451)	(165,650)
Tax	(1,187)	(1,539)	(1,315)	(879)	(46)
PROFIT/(LOSS) BEFORE MINORITY INTERESTS	(279,650)	(393,290)	178,305	(223,330)	(165,696)
Minority interests	5,157	9,324	2,701	259	—
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	<u>(274,493)</u>	<u>(383,966)</u>	<u>181,006</u>	<u>(223,071)</u>	<u>(165,696)</u>

ASSETS, LIABILITIES AND MINORITY INTERESTS

	31 December	31 December	31 December	31 December	31 December
	2002	2001	2000	1999	1998
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
TOTAL ASSETS	812,066	1,095,959	1,484,113	1,159,484	1,163,392
TOTAL LIABILITIES	(471,936)	(661,773)	(686,046)	(599,213)	(490,736)
MINORITY INTERESTS	(15,713)	(25,850)	(29,622)	(2,424)	—
NET ASSETS	<u>324,417</u>	<u>408,336</u>	<u>768,445</u>	<u>557,847</u>	<u>672,656</u>

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the annual general meeting of Founder Holdings Limited (the “Company”) will be held at Unit 1408, 14th Floor, Cable TV Tower, 9 Hoi Shing Road, Tsuen Wan, New Territories, Hong Kong on 28 May 2003 at 11:00 a.m. for the following purposes:

1. To receive and consider the audited financial statements and the directors’ and auditors’ reports of the Company for the year ended 31 December 2002.
2. To re-elect the retiring directors and to fix the remuneration of directors.
3. To re-appoint auditors and to authorise the board of directors to fix their remuneration.

ORDINARY RESOLUTIONS

As special business, to consider and, if thought fit, pass with or without amendments, the following resolutions as ordinary resolutions of the Company:

4. **“THAT:-**

- (A) subject to paragraph (B) of this Resolution no. 4 below, the exercise by the directors of the Company during the Relevant Period (as defined in paragraph (C) of this Resolution no. 4 below) of all the powers of the Company to purchase Shares (as defined in paragraph (C) of this Resolution no. 4 below) on The Stock Exchange of Hong Kong Limited (“**Stock Exchange**”) or on any other stock exchange on which the Shares may be listed and which is recognised for this purpose by the Securities and Futures Commission of Hong Kong and the Stock Exchange, subject to and in accordance with all applicable laws, including the Hong Kong Code on Share Repurchases and the Rules Governing the Listing of Securities on the Stock Exchange or of any other stock exchange (as amended from time to time), be and is hereby generally and unconditionally approved;
- (B) the aggregate nominal amount of Shares which may be purchased or agreed conditionally or unconditionally to be purchased pursuant to the approval in paragraph (A) of this Resolution no. 4 above shall not exceed 10 per cent. of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing of this Resolution no. 4, and the said approval be limited accordingly; and

NOTICE OF ANNUAL GENERAL MEETING

(C) for the purposes of this Resolution no. 4:-

(i) "Relevant Period" means the period from (and including) the passing of this Resolution no. 4 until whichever is the earliest of:-

(a) the conclusion of the next annual general meeting of the Company;

(b) the expiration of the period within which the next annual general meeting of the Company is required by the bye-laws of the Company or any applicable law to be held; or

(c) the revocation or variation of this Resolution no. 4 by an ordinary resolution of the shareholders of the Company in general meeting; and

(ii) "Shares" means shares of all classes in the capital of the Company and warrants and other securities which carry a right to subscribe or purchase shares in the Company."

5. **"THAT:-**

(A) subject to paragraph (B) of this Resolution no. 5 below, the exercise by the directors of the Company during the Relevant Period (as defined in paragraph (C) of this Resolution no. 5 below) of all the powers of the Company to allot, issue, grant, distribute and otherwise deal with additional Shares (as defined in paragraph (C) of this Resolution no. 5 below) and to make, issue or grant offers, agreements, options, warrants and other securities which might require Shares to be allotted, issued, granted, or distributed or otherwise dealt with during or after the end of the Relevant Period, be and is hereby generally and unconditionally approved;

(B) the aggregate nominal amount of share capital allotted, issued, granted, distributed or otherwise dealt with or agreed conditionally or unconditionally to be allotted, issued, granted, distributed or otherwise dealt with (whether pursuant to an option, conversion or otherwise) by the directors of the Company pursuant to the approval in paragraph (A) of this Resolution no. 5 above, otherwise than pursuant to:-

(i) a Rights Issue (as defined in paragraph (C) of this Resolution no. 5 below);

(ii) the grant of options under the share option scheme of the Company or the exercise of any of the subscription rights attaching to any options that have been or may be granted thereunder;

NOTICE OF ANNUAL GENERAL MEETING

- (iii) the exercise of rights of subscription or conversion under the terms of any warrant issued by the Company or any securities which are convertible into Shares; or
- (iv) any scrip dividend scheme or similar arrangement providing for allotment of Shares in lieu of the whole or part of any dividend on Shares in accordance with the bye-laws of the Company

shall not exceed the aggregate of:

- (a) 20 per cent. of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing this Resolution no. 5; and
- (b) (if the directors of the Company are so authorised by a separate resolution of the shareholders of the Company) the aggregate nominal amount of the share capital of the Company purchased by the Company subsequent to the passing of this Resolution no. 5 (up to a maximum equivalent to 10 per cent. of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing this Resolution no. 5),

and the said approval shall be limited accordingly; and

(C) for the purposes of this Resolution no. 5:-

- (i) "Relevant Period" means the period from the passing of this Resolution until whichever is the earliest of:-
 - (a) the conclusion of the next annual general meeting of the Company;
 - (b) the expiration of the period within which the next annual general meeting of the Company is required by the bye-laws of the Company or any applicable law to be held; and
 - (c) the revocation or variation of this Resolution no. 5 by an ordinary resolution of the shareholders of the Company in general meeting;

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- (ii) “Shares” means shares of all classes in the capital of the Company and warrants and other securities which carry a right to subscribe or purchase shares in the Company; and
 - (iii) “Rights Issue” means an offer of Shares open for a period fixed by the directors of the Company to holders of Shares on the register of members (and, if appropriate, to the holders of warrants and other securities which carry a right to subscribe or purchase shares in the Company on the relevant register) on a fixed record date in proportion to their then holdings of such Shares (and, if appropriate, such warrants and other securities), (subject to such exclusions or other arrangements as the directors of the Company may deem necessary or expedient in relation to fractional entitlements or having regard to any legal or practical restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any jurisdiction or territory applicable to the Company).”
6. “**THAT** subject to the passing of Resolutions nos. 4 and 5 set out in this Notice, the exercise by the directors of the Company of the powers referred to in paragraph (A) of Resolution no. 5 in respect of the share capital of the Company referred to in sub-paragraph (b) of paragraph (B) of Resolution no. 5, be and is hereby approved and authorised.”

SPECIAL RESOLUTION

As special business, to consider and, if thought fit, pass with or without amendments, the following resolution as special resolution of the Company:

7. “**THAT** “方正控股有限公司” be and is hereby adopted as the Chinese name of the Company for the purpose of registration under Part XI of the Companies Ordinance (Cap. 32) of the Laws of Hong Kong.”

By Order of the Board
Tang Yuk Bo, Yvonne
Company Secretary

Hong Kong, 24 April 2003

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Notes:

1. Any shareholder entitled to attend and vote at the annual general meeting is entitled to appoint another person as his proxy to attend and vote instead of him. A shareholder who is the holder of two or more shares may appoint more than one proxy to attend on the same occasion. A proxy need not be a shareholder of the Company.
2. Where there are joint holders of any share, any one of such joint holders may vote at the annual general meeting, either in person or by proxy, in respect of such share as if he were solely entitled thereto but if more than one of such joint holders is present at the annual general meeting, then one of the said persons so present whose name stands first on the register of members in respect of such share shall alone be entitled to vote in respect thereof.
3. To be valid, the instrument appointing a proxy, together with a power of attorney or other authority, if any, under which it is signed (or a notarially certified copy of such power or authority) must be deposited at the Company's principal place of business in Hong Kong at Unit 1408, 14th Floor, Cable TV Tower, 9 Hoi Shing Road, Tsuen Wan, New Territories, Hong Kong not less than 48 hours before the time appointed for holding the meeting or adjourned meeting (as the case may be). Delivery of an instrument appointing a proxy shall not preclude a shareholder from attending and voting in person at the meeting or at any adjourned meeting.