CHAIRMAN'S STATEMENT

I herein present the 1998 annual report for Founder (Hong Kong) Limited and its subsidiaries (the "Group").

RESULTS

For the year ended 31 December 1998, the Group recorded turnover of HK$2.1 billion and a net loss of HK$165 million.

REVIEW OF OPERATIONS

The operating loss for the year ended 31 December 1998 was HK$162 million (for the year ended 31 December 1997, operating profit of HK$142 million) which can be analysed into: the decrease in the gross profit and the increase in the net operating expense/income. The turnover, gross profit recorded for each of the Group's business units are as follows:

Business unit	1998 Turnover (HK$'m)	1997 Turnover (HK$'m)	% Changes
Electronic Publishing Systems	798	730	9%
Systems Integration	210	247	(15%)
Hardware Business	1,063	889	19%
Others	89	107	(17%)
TOTAL	2,160	1,973	9%

Business unit	1998 Gross Profit (HK$'m)	1997 Gross Profit (HK$'m)	% Changes
Electronic Publishing Systems	209	257	(19%)
Systems Integration	26	65	(60%)
Hardware Business	24	71	(66%)
Others	4	12	(67%)
TOTAL	263	405	(35%)

During the period under review, the contribution from the Group's publishing business in China has been flat. Turnover of this segment for the year ended 31 December 1998 was HK$798 million, increased 9% compared with the same period of last year. Technology enhancement in this business segment was insignificant during the year and the delay in the delivery of new products to the market has negatively affected the gross profit of the business. The gross profit percentage decreased from 35% to 26%. In addition, as the Group's overseas markets were adversely affected by the Asian economic crisis, overall publishing operations experienced a drop in profit as compared with the year ended 1997. Nevertheless, the publishing business remains the principal source of profit for the Group, contributing 79% of profit out of total gross profit.

For the systems integration operation, as the market competition becomes stiffer, it resulted in reduction in the selling price. Sales of this business segment for the year ended 31 December 1998 were HK$210 million, declined 15% compared with last year. The gross profit percentage decreased from 26% to 12%. The Group considers that it is necessary to reposition its business development direction and to strengthen its management. Accordingly, the Group has undergone a major restructuring in this business during the year. On 2 June 1998, the Group and the US Compaq/Digital Corporation had established a 50:50 joint venture, Founder Dicheng Information Technology Co., Ltd. which major range of business includes providing network services and systems integration solutions to government offices, enterprises, postal and telecommunication companies, banks and financial institutions etc.

For the hardware business, the Group has restructured its operations. During the year under review, the Group disposed its hardware manufacturing operations in order to concentrate more on software business. The Group's hardware distribution business has been adversely affected by the significant drop in price of one of the principal brands distributed by the Group. In addition, overall price cut in the market for the hardware products also resulted in low gross profit. Turnover for this segment of business rose 19% which is significantly lower than that of the market growth rate. The gross profit percentage decreased from 8% to 2%.

The net operating income/expense increased from HK$262 million to HK$425 million, representing a 62% increase. During the year under review, the Group has increased the scale of operation, expanded the size of the branches and increased the number of employees and their corresponding compensation and benefits. Due to the rapid downturn in market condition and the delay in the delivery of new products, the sales growth rate of the Group was far from satisfactory as originally planned. As a result, provision for doubtful debts and write-off of R&D costs were made. The raise in the employee's compensation and benefits and the corresponding increase in other expenses resulted from the increase in the scale of operation and corporate activities further adversely affected the Group's profitability. The depreciation, operating lease rentals, research & development expenses, amortisation & write-off of deferred development costs, interest expenses, revaluation deficit, and provision for doubtful debts, have been disclosed in the notes to financial statements. As the remedial measure, the Group has taken steps to restructure its management and organisation structure with a view to improve its management control and enhance its profitability.

REFORMS & PROSPECTS

In order to resolve the Group's operational difficulties, the Board has undertaken an in-depth review of the business strategy in each operating unit and has established new directions for business development. Since the first quarter of 1999, the Group has initiated a series of management changes including a major restructuring of the Board of Directors of the Company and the management of the R&D Center in order to accelerate the pace in upgrading products as well as launching new products that will satisfy the demand of the market. As Founder R&D Center has already obtained the ISO9001 certification, it is expected that there will be improvements in the areas of software development as well as products quality control. In relation to operational management, the Group will implement a new regional branch management structure to replace its existing local branch management system in the PRC. Such changes will help to reduce costs and enable the management to have a better control over the local branch operations. In overseas, the Group will concentrate on markets that demonstrate high growth potential but are currently unsaturated. These markets include Japan, Taiwan, and Korea. In the coming year, the Group will focus on its core businesses and continue to invest in the publishing operation. In order for the Group to enhance and broaden its profitability, preparation is underway for the Group when the publishing industry has turnaround and has a steady growth. During the period under review, the Group entered into a cooperation agreement with MapInfo Corporation, a well regarded American software company that specialises in developing geographic information software. In 1999, the Group will continue to establish more strategic partnership with international corporations.

It is expected that the above measures will enhance the Group's competitive edge. However, the Board is aware that time is needed before the effects of the above measures will achieve significant economic returns. Nonetheless, the Board is confident that the results of the measures to be undertaken in 1999 will be beneficial to the Group's long term development.

YEAR 2000 COMPLIANCE

The Group's offices in China have adopted the Year 2000 ("Y2K") conformity requirements issued by the People's Republic of China; overseas branches also took the relative references offered in the regions as its definition of Y2K compliance.

The Group is well aware that certain computer programs and hardware, which use only two digits to identify the year, will not be able to distinguish between the year 1900 and year 2000. Such programs might not function effectively in year 2000 for date related processing and information recording. Failure might occur earlier if forward date calculations involved.

Thus, the Group has established a committee led by Vice President to cope with the problems including systems analysis, solutions proposing, and systems replacement. Risk analysis, planning and testing on fixing the problem are in progress. Contingency plans will be prepared and final testing is expected to be completed at the end of June, 1999.

The committee has reviewed its computer applications and hardware to assess its ability in processing transactions accurately with dates extending beyond year 2000. The Group has also tested the data exchange and transactions for Y2K compliance. Such review and testing showed no serious issue on Y2K compliance for the Group's internal computer applications and hardware. The products provided by the Group to its clients are also Y2K compliant. In addition, all newly purchased equipments would be Y2K compliant. It is expected that the Group to be Y2K compliant by the end of June 1999.

For the Y2K compliance project, the Board has authorised a budget of HK$5 million. The critical items of the Y2K project is now 60% completed and is expected to be completed by the end of June 1999 on schedule. Currently, approximately HK$1.5 million has been incurred for employing technical engineers and upgrading related products and services for the project. The costs have been accounted for either as capital expenditures or operation expenses according to their nature.

As at 31 December 1998, there was no significant commitments undertaken by the directors in respect of Year 2000 modification costs.

AUDIT COMMITTEE

The Stock Exchange of Hong Kong Limited (the "Stock Exchange") has revised the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") to require listed companies to establish an audit committee with written terms of reference which deal with its authority and duties. Amongst the committee's principal duties will be to review and supervise the Company's financial reporting process and internal control. The Company has set up an audit committee in March 1999 with written terms of reference in accordance with the requirements of the Stock Exchange. The committee comprises Dr. Hu Hung Lick Henry and Mr. Li Fat Chung, the two independent non-executive directors of the Company.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 1998, the Group had total assets of approximately HK$1,163 million which were financed by liabilities of approximately HK$491 million and equity of approximately HK$672 million.

The total liabilities comprised HK$8 million mortgage loan, HK$131 million trust receipt loans, HK$9 million of working capital loans, and other liabilities of HK$343 million.

The mortgage loans are instalment loans. The trust receipt loans are generally for terms of 90 to 120 days. The working capital loans are revolving facilities.

As at 31 December 1998, the Group had a working capital ratio of 2.02, a long term debt to equity ratio of 0.011 and total unutilised banking facilities of HK$241 million. The Directors believe that the Group had good liquidity and healthy capital structure.

EMPLOYEES

The total number of staff as at 31 December 1998 was approximately 2,900, representing an increase of 3.6% when compared to 1997. There are approximately 2,750 empolyees in the PRC.

In addition to the contributory provident fund and full medical insurance, the Group has adopted a share option scheme for certain employees. Details of options granted are set out in note 20 to the financial statements.

The Group has maintained a good relationship with its staff and has not experienced any labour disputes since its establishment.

Wang Xuan
Chairman

Hong Kong, 15 April 1999