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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Wang Xuan (*Chairman*)

Cheung Shuen Lung (*President*)

Zhang Zhao Dong

Wei Xin

Independent non-executive Directors

Hu Hung Lick, Henry

Li Fat Chung

COMPANY SECRETARY

Ho Yui Pok

REGISTERED OFFICE

Unit 1408, 14th Floor,
Cable TV Tower,
No. 9 Hoi Shing Road,
Tsuen Wan,
New Territories,
Hong Kong.

PRINCIPAL BANKERS

The China & South Sea Bank, Ltd.

Fortis Bank

LEGAL ADVISER

Koo & Partners

AUDITORS

Ernst & Young
Certified Public Accountants

SHARE REGISTRAR AND TRANSFER OFFICE

Central Registration Hong Kong Limited
Suite 1712-1716,
17th Floor,
Hopewell Centre,
183 Queen's Road East,
Hong Kong.

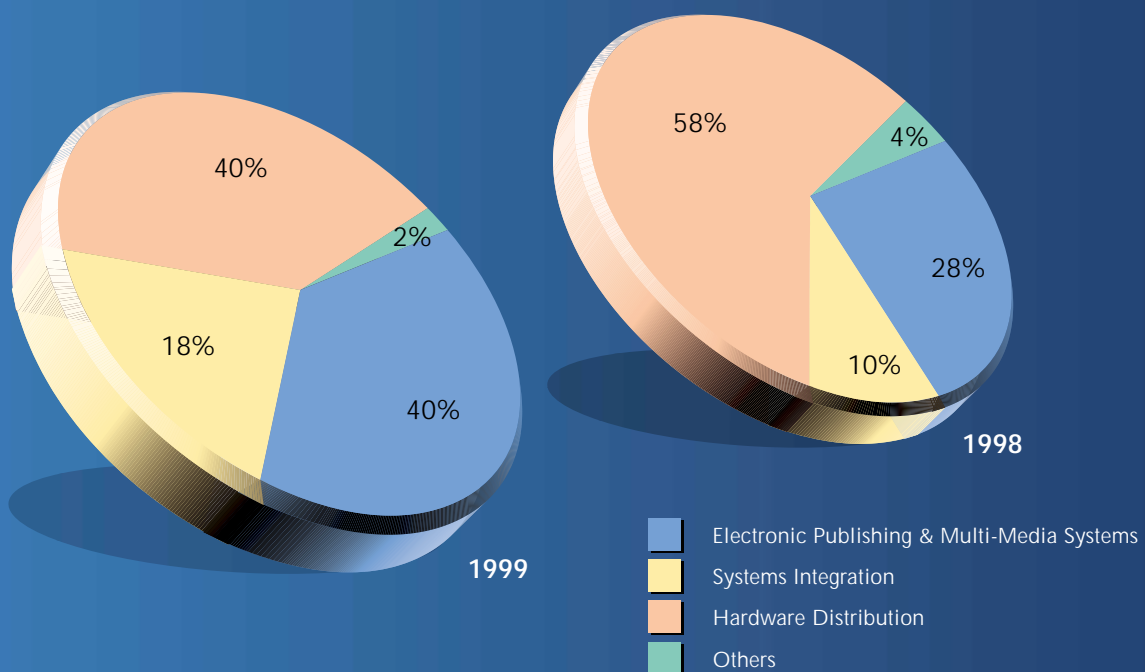
FINANCIAL HIGHLIGHTS

FINANCIAL AND OPERATIONAL SUMMARIES

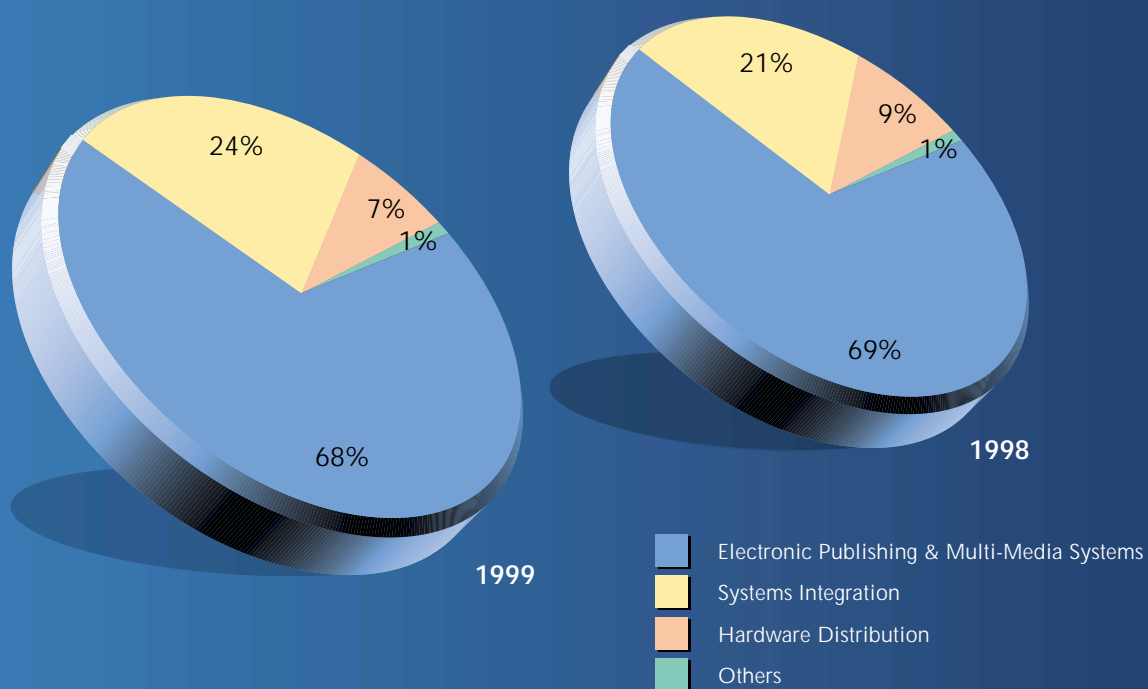
YEAR	1999	1998	1997	1996	1995
Turnover (<i>HK\$' million</i>)	1,583	2,164	1,973	1,483	1,096
Total assets (<i>HK\$' million</i>)	1,159	1,163	1,363	1,242	1,030
Total liabilities (<i>HK\$' million</i>)	601	491	552	528	535
Net Assets (<i>HK\$' million</i>)	558	672	811	714	495
Net assets per share book value (<i>HK\$</i>)	0.50	0.84	1.23	1.30	0.99
Working capital ratio	1.71	2.02	2.16	2.08	1.68
Long term debt to equity ratio	0.008	0.011	0.014	0.013	0.022
Total number of staff (<i>As at the end of the year</i>)	2,400	2,900	2,800	2,000	1,255

FINANCIAL HIGHLIGHTS (CONTINUED)

TURNOVER



GROSS PROFIT



OFFICE LOCATIONS OF THE GROUP



EVENTS OF THE YEAR

February 1999

ISO9001 certificate granted to Founder R& D Center

The Group's Founder R&D Center has started to study and apply the ISO9001 standards since 1997 and finally obtained this internationally recognized quality assurance certificate after two years' effort. In the future, the Group will strive to further rationalize its corporate management, improve its product quality and development efficiency, as well as minimize its production and management costs in pursuit of the ultimate objective of strengthening the Group's overall competitiveness in the market.

June 1999

Acquisition of Beijing Founder Order Computer System Co., Ltd. (Formerly known as "Beijing Super Power Software System Ltd.")

The Company entered into an agreement with Mexican Gold Limited to acquire the entire issued share capital of Sparkling Idea Limited, the holder of the entire issued share capital of Beijing Super Power Software System Ltd., which is principally engaged in the provision of system integration solutions for banks and financial institutions in the PRC.

July 1999

E-Media strategy defined and set in motion

The Group proposed the E-Media development strategy after having defined E-Media as a breakthrough over traditional media, a brand new means to create and deliver the contents which combines the latest technologies for Internet, communications, media digitalization and application software. At the same time, the Group has also decided its dedication to leverage on its own technological innovation capability and the existing service systems to provide the complete solutions and technical support to operators within the E-Media realm, marking the Group's very first step into the e-business arena.

August 1999

The Launch of Red Flag Linux Chinese Operating System

Red Flag Linux Chinese Operating System was launched by the Group in cooperation with the Science Institute of the PRC and Compaq. The operating system was the Chinese version of Linux and supports various chipsets and popular database formats.

EVENTS OF THE YEAR (CONTINUED)

September 1999

A memorandum of understanding agreed upon with Yahoo!

The Group has entered into a memorandum of understanding with the US's Yahoo!, the largest portal site around the globe, to establish close business partnership. The aim is to capitalize on Yahoo!'s reputation as a famous Internet search engine and the Group's leading position and technological edge in the Chinese media market, so as to form a brand new mode of commercial operation in the ever-changing Chinese Internet world.

December 1999

A super media alliance formed

The Group, in partnership with Yahoo!, has formed a super media alliance with more than 70 major media organizations in the PRC. The aim is to capitalize on the respective technology and market advantages of the Group and Yahoo! so as to realize sharing of resources and risks in their Internet news and advertising businesses.

December 1999

The contract to operate the official campaign website of Beijing's 2008 Olympics Committee awarded

With its robust technological edge, the Group managed to outbid other competitors and won the contract to construct and operate the official campaign website of Beijing's 2008 Olympics Committee.

CHAIRMAN'S STATEMENT

I herein present the annual report for the results of the Group for the year ended 31 December 1999.

RESULTS

For the year ended 31 December 1999, the Group recorded turnover of HK\$1,583 million and a net loss of HK\$223 million.

REVIEW OF OPERATIONS

The net loss from ordinary activities attributable to shareholders for the year ended 31 December 1999 was HK\$223 million (for the year ended 31 December 1998, HK\$166 million) which can be analysed into: the decrease in the turnover and the increase in the net operating expense. The turnover, gross profit recorded for each of the Group's business units are as follows:

Business unit	1999 Turnover (HK\$'m)	1998 Turnover (HK\$'m)	% Changes
Electronic Publishing and Multi-Media Systems	633	598	6%
Systems Integration	283	215	32%
Hardware Distribution	634	1,262	(50)%
Others	33	89	(63)%
	<hr/>	<hr/>	
TOTAL	<u>1,583</u>	<u>2,164</u>	<u>(27)%</u>

Business unit	1999 Gross Profit (HK\$'m)	1998 Gross Profit (HK\$'m)	% Changes
Electronic Publishing and Multi-Media Systems	136	154	(12)%
Systems Integration	49	48	2%
Hardware Distribution	14	21	(33)%
Others	1	3	(67)%
	<hr/>	<hr/>	
TOTAL	<u>200</u>	<u>226</u>	<u>(12)%</u>

ELECTRONIC PUBLISHING AND MULTI-MEDIA SYSTEMS

During the period under review, the Electronic Publishing and Multi-Media Systems business remained the principal contributor to the Group's revenue, accounting for 68 % of total gross profit. Turnover was approximately HK\$633 million, an increase of 6% from the previous year. The gross profit for the year was HK\$136 million representing a decrease of 12% over 1998. The Group re-aligned its sales strategy so as to focus on premium customers, providing services and products to meet their specific needs. In addition, the Group streamlined its organisational structure, closed and down-graded certain departments and branches that were not operating satisfactorily and posed strict control on costs to maintain its competitiveness. During the year, the Group re-evaluated most of its products, which were being improved. The Electronic Publishing and Multi-Media Systems business is now expected to grow substantially.

SYSTEMS INTEGRATION

For systems integration, the turnover and gross profit for 1999 were HK\$283 million and HK\$49 million respectively, representing an increase of about 32% and 3% as compared to 1998. The substantial growth was mainly due to the acquisition from Mexican Gold Limited by the Group of its systems integration solutions for the PRC finance and banking industry. The acquired business offers services and/or products including systems for electronic cash, voucher management, automatic cash management, customer self-servicing system and computer telephone integration.

HARDWARE DISTRIBUTION

During 1999, the Group's turnover was HK\$634 million which is 50% lower than the previous year's turnover. The main reason of decrease in turnover was the Group's distribution strategy was reviewed and resulted in a reduction in the number of products handled; the Group also took a more cautious approach in selecting products for distribution. In addition, the Group implemented a sales strategy to minimise stock levels and inventory turnover. During the first half of the year, part of the slow-moving and obsolete stocks were sold at a discount to purchase costs. In the second half of year, the situation was improved and the gross profit margin has improved. However, the overall gross profit margin for the year can only be maintained at last year's overall rate of 2%.

CONCLUSION ON TURNOVER AND GROSS PROFIT

Though the Group's overall turnover for the year fell by 27%, the gross profit margin increased from 10% in 1998 to 13% in 1999. The major reasons for increase were the increase in gross profit margin mix for the systems integration business, which emerges in place of hardware business as a major contributor to overall gross profit.

TOTAL NET EXPENSES

During the period under review, the total net expenses amounted to HK\$428 million (1998: HK\$389 million), representing an increase of 10% as compared with 1998. The Group reduced its workforce by approximately 500 employees to 2,400 employees, which represented approximately a 17% reduction; operational expenses. During the year, the Group reviewed the status of fixed assets and reduced the useful lives from an average of five years to three years, which results in an increase of depreciation charge accordingly. The Group also strengthened the management and appraisal of accounts receivable; provisions were made for accounts receivable and doubtful debts. On the other hand, the property market in Hong Kong suffers further devaluation in 1999 and the Group has made the corresponding adjustment in the accounts and finally. Together with the re-structuring costs and other professional fees incurred during the year as a result of various corporate activities taken place during the year, these items accounted for an adverse effect of approximately HK\$80 million to the current year's results.

FINANCIAL POSITION

Though there was a record of loss during the financial year, the Group can maintain very healthy cash balances. As at the end of 1999, there recorded a balance of over approximately HK\$346 million cash and bank balances and time deposits, after deducting short term bank loans and overdrafts of HK\$173 million there recorded a total of HK\$173 million net positive balance.

Reforms on the operation and management of the Group

During 1999, the Group implemented a series of innovative plans in order to address operational difficulties. These included:

- (1) A major restructuring and reduction in the size of the Board of Directors in order to facilitate decision making and enhance operational efficiency;
- (2) Hiring management professionals to improve the Group's operational and management standards. In April 1999, Mr Lei Hon Sang joined the Group as Senior Vice-President, and also as President of Beijing Founder Electronics Co., Ltd., the flagship company of the Group. Mr Lei is mainly responsible for the overall business operations of the Beijing Founder Electronics Co., Ltd. He implemented a large-scale restructuring and streamlining, and closed unsatisfactory departments and branches. These moves produced positive results within months, significantly enhancing the Company's competitive edge and profit-making capabilities.

- (3) Acquisition of the system integration business for finance and banking industry improved the Group's competitiveness and its market share.
- (4) The Group strengthened the management of Founder R&D Center, and accelerated the pace of upgrading existing products and launching new ones.

PROSPECTS

The reform measures are expected to improve the Group's overall competitive edge. The Board is confident that the effects of the measures have started to make a significant contribution to the Group's performance from early 2000.

For the electronic publishing and multi-media systems products, the Group has launched the Founder Internet Content Publish Server ("ICS"), designed for press publishers, internet content providers and industries and business enterprises, is an universal application tool for the setting up of website and distribution of information. Its promising prospect is evidenced by the fact that the software can be promoted to internet content providers in addition to press publishers and other news agencies. It can also be used by companies in general for the setting up of intranet and internet websites.

In addition, the Group's RIP series products will be developed into a management system with output process control capabilities. In addition to type-set interpretation and output, the system will feature task-bill generation and control, colour management and external printer load adjustment. The system works on a browser/server structure, which can immensely improve production efficiency of printer enterprises. This latest RIP product from Founder will be available by the end of 2000.

Furthermore, the Group's browser-based news editing system, picture management system and advertisement management system have been developed and used by major clients such as Guangzhou Daily. Being the leading product in the PRC, the system has been certified by the Association of China News Publishing Bureau. This product is expected to play a major role in the system upgrade of the Group's existing clients in 2000, furthering revenue of the Group.

Utilising its close relationship with clients in the PRC media industry, the Group will undertake system-integration business from press publishers, radio stations and TV stations for the setting up of websites. In view of its 80% market share in the news publishing industry of the PRC, the Directors believe that the Group is likely to acquire relatively more business opportunities for the setting up of websites for news media.

In order to take full opportunity of developments in the internet, in July 1999 the Group proposed a new development strategy for E-Media. This strategy aimed at enhancing the quality of internet-application products used in publishing, and the provision of business solutions and technical expertise. The new concept created several business opportunities for the Group. These included:

- (1) A restructuring of Founder Data (see below for details)
- (2) The Group won the contract to establish and operate the official website for application of the 2008 Beijing Olympics.
- (3) A number of products were modified to support the operation of internet browsers.
- (4) The Group won the contract to establish Guangzhou Daily's Da Yang Website; the project was completed by the end of December 1999.

RESTRUCTURING FOUNDER DATA

To further expand its business, the Group restructured its media business in order to provide internet advertising services, business-to-business platforms and electronic business solutions through Founder Data Group. One of the major subsidiary of Founder Data Group, is a joint-venture company with Yahoo!. Ad Targeting will use the Group's extensive connections with the media industry in the PRC and Yahoo!'s technical support to create an "advertising server", that will aim to be the leader in the internet advertising market.

Founder Data Group will also establish a business-to-business platform, specializing in news broadcasting/production, operation and services for network media. Participants can exchange news content through the internet such as information and graphics, and conduct advertising transactions with advertising media.

The Group's operations in Hong Kong and overseas also underwent a major restructuring in 1999, which resulted in several business opportunities. Several international Chinese press publishers will upgrade their systems in 2000 and have shown interest in the Group's other products. It is expected that there will also be a substantial growth in the Japanese and Korean markets. As Founder Inc. (Japan) performed satisfactorily, the Group is exploring the possibility of listing this subsidiary in Hong Kong's securities market.

The Board is confident in the Group's long-term development. The Board believes that, with its determination, the Group's business will show substantial recovery and significant improvement.

AUDIT COMMITTEE

Pursuant to the revised Code of Best practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, the Board has established an Audit Committee (the "Committee"), comprising two independent non-executive directors, namely, Dr. Hu Hung Lick Henry and Mr. Li Fat Chung in March 1999. The Board has also passed terms of reference for the Committee on the same date. The terms of reference are set up in accordance with A Guide for The Formation of An Audit Committee issued by The Audit Committee Task Force of the Corporate Governance Working Group of The Hong Kong Society of Accountants. Before convening the Board meeting, the Committee's principal duties include the review and supervision of the Group's financial reporting process and internal controls and to make recommendations to the Board. During the period, a meeting has been convened by the committee.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 1999, the Group had total assets of approximately HK\$1,159 million which were financed by liabilities of approximately HK\$601 million and equity of approximately HK\$558 million.

The total liabilities comprised HK\$5 million mortgage loan, HK\$23 million trust receipt loans, HK\$150 million of working capital loans and other liabilities of HK\$423 million.

The cash and bank balances and time deposits amounted to approximately HK\$346 million and the short term bank loans and overdrafts amounted to approximately HK\$173 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 1999, the Group had a working capital ratio of 1.71, a long term debt to equity ratio of 0.008 and total unutilised banking facilities of HK\$63 million. The Directors believe that the Group had good liquidity and healthy capital structure.

EMPLOYEES

The total number of staff as at 31 December 1999 was approximately 2,400, representing an decrease of 17.2% when compared to 1998. There are approximately 2,200 employees in the PRC.

CHAIRMAN'S STATEMENT (CONTINUED)

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 23 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, 25 May 2000

DIRECTORS AND SENIOR MANAGEMENT BIOGRAPHIES



From Left to Right: Mr. Zhang Zhao Dong, Professor Wang Xuan, Mr. Cheung Shuen Lung, Professor Wei Xin.

EXECUTIVE DIRECTORS

Professor Wang Xuan, aged 63, Chairman, is a professor of Peking University and one of the founders of the Group. Professor Wang is a member of the Academia Science, the China Engineering Academy and the Third World Science Academy. He is also a member of the Standing Committee of the Ninth National People's Congress (NPC) and the Vice-chairman of NPC Education, Science, Culture and Public Health Committee. He graduated from the Faculty of Mathematics of Peking University in 1958, and lectured and carried out research work at Peking University thereafter. He is currently the director of the Research Institute of Computer Science and Technology at Peking University and the Founder Technical Research Academy.

Mr Cheung Shuen Lung, aged 44, executive Director and the President, is a research fellow of the Enterprise Research Institute at Peking University and one of the founders of the Group. Mr Cheung has 19 years of experience in the computer industry.

Mr Zhang Zhao Dong, aged 50, executive Director, is a senior engineer, graduated from the Faculty of Geophysics at Peking University in 1977, and lectured and carried out research work at Peking University thereafter. Mr Zhang is currently responsible for the overall management of the Group's operation in the PRC.

Professor Wei Xin, aged 44, executive Director, is a professor and an executive deputy director of the Institute of Higher Education and the Institute for Economics of Education of Peking University. He is also the assistant financial controller of Peking University. Professor Wei graduated from Peking University with specialisation in the economics of education, education planning and financing, and educational administration and policy analysis. He has lectured and carried out research work at Peking University and universities in the United States of America. He is also a deputy director of University-owned enterprise management committee of Peking University.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr Hu Hung Lick, Henry, G.B.S., OBE, PhD, JP aged 80, has been practising as a barrister for over 45 years and is currently the President of Shue Yan College, and a member of the Standing Committee of the Chinese People's Political Consultative Conference and 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 39 is a Partner of Chan, Li, Law & Co., Certified Public Accountants. He is a fellow member of both the Association of Chartered Certified Accountants in the United Kingdom and the Hong Kong Society of Accountants. Mr Li is also a fellow member of the Taxation Institute of Hong Kong. Mr Li received a master degree in business administration from the University of Warwick, United Kingdom.

MANAGEMENT

Mr Lei Hon Sang, aged 41, Senior Vice President of the Company and President of Beijing Founder Electronics Co., Ltd. ("Founder Electronics"). Mr Lei graduated from Department of Computer Technology and Applied Mathematics of the University of Hong Kong in 1983. He had worked in the PRC branch office of a renowned international IT company for 12 years and was the deputy president and general manager of IT product department of the PRC branch. Mr Lei joined the Company in May 1999 and has over 10 years experience in the management of IT company.

Mr Yip Ka Yeung, aged 45, Vice President of the Company. He is one of the founders of the Company and has accumulated 20 years of operation and management experience in the computer industry. He is responsible for the Group's business in Hong Kong and overseas. Mr Yip is the brother-in-law of Mr Cheung Shuen Lung, the President of the Company.

Professor Xiao Jian Guo, aged 43, Vice President of the Company, Director of Founder Electronics, Chief of the Founder R & D Centre, Professor of Peking University and Supervisor of Post-graduates. Professor Xiao is responsible for the research and development of the Company. He graduated from the Computer Science Department of Peking University and obtained a master degree in 1987. Professor Xiao is a famous expert in computer software and printing and publishing technology in the PRC.

Mr See Chiu Yeung, aged 33, Regional Business General Manager and President Assistant of the Company. Mr See graduated from the Faculty of Electrical Engineering at Morrison Hill Technical Institute in 1989. He is currently pursuing a distant learning master degree course in Business Administration at Murdoch University, Australia. He has over 13 years experience in operating and managing of electronic multi-media business. He is currently responsible for the promotion of the Company's technology and system solutions in the South East Asia area and to further assist the Company on establishing strategic alliances with vendors and customers, and to identify business opportunities in the South East Asia area for developing a market niche for the Company.

Mr Ho Yui Pok, aged 34, Financial Controller and Company Secretary of the Group, joined Founder Holdings Limited in April 2000. He has over 10 years experience in accounting and he was a manager of an international public accountants firm. Mr Ho holds a master degree in Management Science and a bachelor degree in Accounting from the University of Kent, England. He is an associate member of both the Hong Kong Society of Accountants and the Association of Chartered Accountants in England and Wales.

Mr Jian Bi Jiang, aged 36, Director and Vice President of Founder Electronics. Mr. Jian is also a senior engineer of Peking University. He joined the Group in 1988 and is responsible for the e-publishing and digital media product of the Group in the PRC. Mr Jian graduated from the Mathematics Department of Peking University in 1987.

Professor Zou Wei, aged 36, Deputy Chief of the Founder R&D Centre and the General Manager of Internet-related Products Department. He is an associate professor and supervisor of post-graduates. Professor Zou joined the Group in 1995 and is responsible for the development of internet-related products. He obtained his master degree in Software Studies from the Institute of Software, Chinese Academy of Sciences in 1988. Before joining the Group, he was responsible for the software and product development in the Science Academy of the PRC and Oracle.

Mr Luo Shao Yu, aged 34, Chairman of Beijing Founder Order Computer System Co., Ltd. ("Founder Order"). He obtained a bachelor degree from the Department of Computer Science of Peking University in 1987 and a master degree from the Institute of Psychology, Chinese Academy of Sciences. Mr Luo is one of the founders of Founder Order and has over 10 years experience in computer system integration of the financial industry.

Mr Xu Wen Sheng, aged 31, President of Founder Order. Mr Xu joined Founder Order in 1993 and is responsible for the system integration of the financial industry. He graduated from the Computer Science Department of Dalian Technical University in 1990. Before joining the company, he was responsible for the software development in China Great Wall Computer Group Corp.

Mr Zhong Zhen Xiang, aged 33, Senior Vice President of Founder Order. He joined Founder Order in 1993 and is responsible for the business development of system integration for financial industry. Mr Zhong graduated from the Computer Science Department of Beijing University and obtained a master degree in 1990. Before joining Founder Order, he was the project development manager of China Great Wall Computer Group Corp.

Mr Guan Xianghong (Kan Shoukou in Japanese), aged 33, certified senior engineer by the Ministry of International Trade and Industry of Japan, is the President of Founder Inc. (Japan). He graduated from the Electrical Engineering Department of Peking University and has 11 years of experience in the factory automation and electronic publishing industry in Japan.

Mr Teh Hon Seng, aged 36, General Manager of PUC Founder (M) Sdn. Bhd., Mr Teh graduated with an honour degree in Applied Science from the University of Science, Malaysia in 1998. He has 11 years of experience in the computer and electronic publishing industry.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting of Founder Holdings Limited will be held at Unit 1408, 14th Floor, Cable TV Tower, No. 9 Hoi Shing Road, Tsuen Wan, New Territories, Hong Kong on Friday, 23 June 2000 at 11:00 a.m. for the following purposes:

1. To receive and consider the audited financial statements for the year ended 31 December 1999 and the reports of the Directors and Auditors thereon.
2. To re-elect retiring Directors and fix their remuneration.
3. To re-appoint Auditors and authorise the Board of Directors to fix their remuneration.
4. As special businesses, to consider and, if thought fit, pass the following resolutions, as Ordinary Resolutions:
 - (A) **"THAT** the authorised share capital of the Company be increased from HK\$160,000,000 divided into 1,600,000,000 shares of HK\$0.10 each to HK\$210,000,000 divided into 2,100,000,000 shares of HK\$0.10 each by the creation of 500,000,000 new shares of HK\$0.10 each, such new shares to rank pari passu in all respects with the existing shares of the Company."
 - (B) **"THAT**
 - (a) subject to paragraph (b) of this Resolution, the exercise by the Directors of the Company during the relevant period (as defined herein) of all the powers of the Company to purchase shares of HK\$0.10 each in the capital of the Company ("Shares"), subject to and in accordance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and all applicable laws, be and is hereby generally and unconditionally approved;
 - (b) the aggregate nominal amount of Shares which may be purchased by the Company pursuant to paragraph (a) of this Resolution shall be no more than 10% of the aggregate nominal amount of the share capital of the Company in issue at the date of this Resolution; and

(c) for the purpose of this Resolution, "relevant period" means the period from the passing of this Resolution until whichever is the earlier of:

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by any applicable law or the Company's Bye-laws to be held; and
- (iii) the revocation or variation of this Resolution by the passing of an ordinary resolution in general meeting of the Company."

(C). **"THAT**

- (a) subject to paragraph (c) of this Resolution, the exercise by the Directors of the Company during the relevant period (as defined herein) of all the powers of the Company to allot, issue and deal with additional shares in the capital of the Company and to make or grant offers, agreements and options (including warrants, bonds and securities convertible into shares of the Company) which would or might require the exercise of such power be and is hereby generally and unconditionally approved;
- (b) the approval in paragraph (a) of this Resolution shall authorise the Directors of the Company during the relevant period to make or grant offers, agreements and options (including warrants, bonds and securities convertible into shares of the Company) which would or might require the exercise of such power after the end of the relevant period;

- (c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by the Directors of the Company pursuant to the approval in paragraph (a) of this Resolution, otherwise than pursuant to (i) the exercise of the conversion rights attaching to any convertible securities issued by the Company; (ii) the exercise of warrants to subscribe for shares of the Company or the exercise of options granted under any share option scheme adopted by the Company; (iii) an issue of shares of the Company in lieu of the whole or part of a dividend on shares of the Company or a bonus issue of shares of the Company in accordance with the Company's Bye-laws; or (iv) any offer of any class of securities of the Company made pro rata (apart from fractional entitlements) by the Company to holders of such class of securities (excluding for that purpose any holder who is resident in a place where such offer is not permitted under the laws of that place), shall not exceed 20% of the aggregate nominal amount of the share capital of the Company in issue as at the date of this Resolution and the said approval shall be limited accordingly; and
- (d) for the purpose of this Resolution, "relevant period" means the period from the passing of this Resolution until whichever is the earlier of:
 - (i) the conclusion of the next annual general meeting of the Company;
 - (ii) the expiration of the period within which the next annual general meeting of the Company is required by any applicable law or the Company's Bye-laws to be held; and
 - (iii) the revocation or variation of this Resolution by the passing of an ordinary resolution in general meeting of the Company."

- (D) “**THAT** the general mandate granted to the Directors of the Company to exercise the powers of the Company to allot, issue and deal with shares of the Company pursuant to Ordinary Resolution No. 4(C) set out in the notice of annual general meeting of the Company of which this Resolution forms part (the “Notice”) be and is hereby extended by the addition thereto of an amount representing the aggregate nominal amount of the share capital of the Company repurchased by the Company under the authority granted pursuant to Ordinary Resolution No. 4(B) set out in the Notice, provided that such amount shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue as at the date of this Resolution.”

By Order of the Board

Ho Yui Pok

Company Secretary

Hong Kong, 25 May 2000

Notes:

- (1) A member entitled to attend and vote at the Meeting is entitled to appoint one or more proxies to attend and, on a poll, vote instead of him/her. A proxy need not be a member of the Company. Completion and returning of an instrument appointing a proxy will not preclude a member from attending and voting in person at the Meeting.
- (2) In order to be valid, the proxy form and any power of attorney (if any) or other authority (if any) under which it is signed, or a copy of such authority certified notorially or in some other way approved by the Board, must be deposited with the Company's head office and principal place of business, Unit 1408, 14th Floor, Cable TV Tower, No. 9 Hoi Shing Road, Tsuen Wan, New Territories, Hong Kong not less than 48 hours before the time of the holding of the Meeting (or any adjourned meeting).
- (3) An explanatory statement containing the information necessary to enable the shareholders to make an informed decision as to whether or not to vote for or against Ordinary Resolution No. 4(B) above to approve the general mandate for the repurchase by the Company of its own Shares, as required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, will be sent to shareholders of the Company together with the 1999 annual report.

REPORT OF THE DIRECTORS

The directors herein present their report and the audited financial statements of the Company and the Group for the year ended 31 December 1999.

PRINCIPAL ACTIVITIES

The principal activities of the Company are investment holding, systems integration and the trading of computer products. Details of the principal activities of the subsidiaries and jointly-controlled entities are set out in notes 14 and 15 respectively, to the financial statements. There were no material changes in the nature of the Group's principal activities during the year.

SEGMENTAL INFORMATION

An analysis of the Group's turnover and contribution to loss from operating activities by principal activity and geographical area of operations for the year ended 31 December 1999 is as follows:

	Turnover <i>HK\$'000</i>	Contribution to loss from operating activities <i>HK\$'000</i>
By principal activity:		
Software development and systems integration	948,760	(99,209)
Hardware distribution	634,313	(119,292)
	<u>1,583,073</u>	<u>(218,501)</u>
By geographical area:		
The People's Republic of China (the "PRC"):		
Hong Kong	248,079	
Elsewhere	1,289,976	
Other countries	45,018	
	<u>1,583,073</u>	

No analysis of the contribution to trading results by geographical area has been prepared as no contribution to loss from any of the above geographical areas is substantially out of line with the normal ratio to turnover.

RESULTS AND DIVIDENDS

The Group's loss for the year ended 31 December 1999 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 34 to 73.

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

SUMMARY OF FINANCIAL INFORMATION

A summary of the results and of the assets and liabilities of the Group for the last five financial years, as extracted from the audited financial statements and reclassified as appropriate, is set out on pages 75 and 76. This summary is not part of the audited financial statements.

FIXED ASSETS AND INVESTMENT PROPERTIES

Details of movements in the fixed assets and investment properties of the Company and the Group are set out in note 12 to the financial statements and on page 74 of the annual report.

SUBSIDIARIES

Particulars of the Company's principal subsidiaries are set out in note 14 to the financial statements.

JOINTLY-CONTROLLED ENTITIES

Particulars of the Group's interests in its jointly-controlled entities are set out in note 15 to the financial statements.

BANK LOANS AND OVERDRAFTS

Details of the bank loans and overdrafts of the Company and the Group are set out in note 21 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year, together with reasons therefor, are set out in note 23 to the financial statements.

PURCHASE, SALE OR REDEMPTION 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 24 to the financial statements.

DISTRIBUTABLE RESERVES

At 31 December 1999, the Company had no reserves available for cash distribution, calculated in accordance with the provisions of Section 79B of the Hong Kong Companies Ordinance. However, the Company's share premium account, in the amount of approximately HK\$866,973,000, 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 total sales for the year. Purchases from the Group's five largest suppliers accounted for 38% (1998: 36%) of the total purchases for the year and purchases from the largest supplier included therein amounted to 24% (1998: 15%).

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 five largest suppliers.

DIRECTORS

The directors of the Company during the year were:

Executive directors:

Wang Xuan	
Cheung Shuen Lung	
Zhang Zhao Dong	(resigned on 15 April 1999 and re-appointed on 21 October 1999)
Wei Xin	(appointed on 21 October 1999)
Cheung Yuk Fung	(appointed on 15 April 1999 and resigned on 21 October 1999)
Zhao Wei	(resigned on 15 April 1999)
Xiao Jian Guo	(resigned on 15 April 1999)
Zhou Ning	(resigned on 15 April 1999)
Jiang Bi Jin	(resigned on 15 April 1999)

Non-executive directors:

Wu Shu Qing	(resigned on 16 December 1999)
Ren Yan Shen	(resigned on 16 December 1999)
Hu Hung Lick, Henry*	
Li Fat Chung*	

** Independent non-executive directors*

In accordance with the new Bye-laws of Founder Holdings Limited, Cheung Shuen Lung, Zhang Zhao Dong, Wei Xin, Hu Hung Lick Henry and Li Fat Chung will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

DIRECTORS AND SENIOR MANAGEMENT BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 16 to 19 of the annual report.

EMOLUMENTS OF DIRECTORS AND THE FIVE HIGHEST PAID INDIVIDUALS

Details of the directors' emoluments and those of the five highest paid individuals in the Group are set out in notes 7 and 8 to the financial statements, respectively.

DIRECTORS' SERVICE CONTRACTS

Each of the executive directors of the Company has entered into a service contract with the Company for an initial term of five years and continuing thereafter, subject to re-election by the shareholders of the Company. The service contract can be terminated by either the director concerned or the Company giving to the other not less than one year's notice.

The service contracts with Zhao Wei, Xiao Jian Guo, Zhou Ning, Jiang Bi Jin and Cheung Yuk Fung were terminated as a consequence of their resignations as directors of the Company.

Save as disclosed above, 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 other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

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 1999, Mr. 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 interest in the securities of the Company or any of its associated corporations as defined in the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") and recorded in the register required to be maintained pursuant to Section 29 thereof.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Pursuant to the Company's share option scheme, the Company has granted options on the Company's ordinary shares in favour of certain directors, the details of which are as follows:

Name of director	Number of outstanding share options at the beginning of year	Exercised during the year	Number of outstanding share options at the end of year	Exercise period of share options	Exercise price of share options HK\$
Wang Xuan	10,800,000	—	10,800,000	21.12.98 to 6.12.05	1.397
Cheung Shuen Lung	9,360,000	—	9,360,000	21.12.98 to 6.12.05	1.397
Zhang Zhao Dong	9,360,000	(9,360,000)*	—	21.12.98 to 6.12.05	1.397
Zhao Wei	9,360,000	(9,360,000)*	—	21.12.98 to 6.12.05	1.397
Xiao Jian Guo	9,360,000	(9,360,000)*	—	21.12.98 to 6.12.05	1.397
Zhou Ning	9,360,000	(9,360,000)*	—	21.12.98 to 6.12.05	1.397
	<u>57,600,000</u>	<u>(37,440,000)</u>	<u>20,160,000</u>		

* The options were exercised by the directors after their resignations.

Save as disclosed above, 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 arrangements to enable the directors to acquire such rights in any other body corporate.

Further details of the Company's share option scheme are set out in note 23 to the financial statements.

SUBSTANTIAL SHAREHOLDERS

At 31 December 1999, the following interests of 10% or more of the share capital of the Company were 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	%
Peking University	393,402,210	35.48
Peking University Founder Group Corporation ("Peking Founder")	393,402,210	35.48
Mexican Gold Limited	250,000,000	22.55

Note: Peking Founder is wholly owned by Peking University. The interests disclosed under Peking University represent its deemed interests in the shares of the Company by virtue of its interest in Peking Founder.

Save as disclosed above, no person, other than the directors of the Company, whose interests are set out in the section "Directors' interests in shares" in this report, had registered an interest in the share capital of the Company that was required to be recorded pursuant to Section 16(1) of the SDI Ordinance.

RELATED PARTY TRANSACTIONS

The related party transactions undertaken by the Group during the year are set out in note 29 to the financial statements.

The independent non-executive directors of the Company have reviewed the related party transactions as disclosed in note 29 to the financial statements, and have confirmed to the board of directors their opinion that such transactions were conducted in the ordinary course of the Group's business and were fair and reasonable so far as the shareholders of the Company are concerned.

POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in note 28 to the financial statements.

PENSION SCHEME

Details of the pension scheme of the Group and the employer's pension costs charged to the profit and loss account for the year are set out in notes 3 and 5 to the financial statements, respectively.

THE YEAR 2000 ISSUE

Some of the Group's older computer programmes were written using two digits rather than four to define the applicable year. As a result, without modification, those computer programs would have time-sensitive software that recognised a year ending in "00" as the year 1900 rather than the year 2000. This is generally referred to as the Year 2000 Issue. If not corrected, this could have resulted in a system failure or miscalculations, causing disruption in operations, including, among other things, a temporary inability to process transactions, send invoices, or engage in normal business activities.

The Group's definition of being Year 2000 compliant is ensuring that every supporting computer information system continues to function properly and thereby, all the critical business processes continue to operate after 31 December 1999.

The Group completed an assessment of its computer systems in June 1999 and modified or replaced portions of its software so that the computer systems would function properly with respect to dates in the year 2000 and thereafter. The Year 2000 project was completed by November 1999. The total Year 2000 project cost was approximately HK\$3 million, which included HK\$1 million for the purchase of new software and HK\$2 million for internal resources and external consultancy costs. Such costs were expensed as incurred.

No significant problems have arisen within the Group or its major suppliers from the Year 2000 issue. Accordingly, although there were contingency plans in place to deal with any problems, these have not been required.

CODE OF BEST PRACTICE

In the opinion of the directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules of The Stock Exchange of Hong Kong Limited (the “Listing Rules”) 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 but are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Company’s articles of association.

To comply with paragraph 14 of the Code of Best Practice, the Company established an audit committee (the “Committee”) with written terms of reference in March 1999 for the purpose of reviewing and providing supervision to the financial reporting process and internal controls of the Group. The Committee comprises two independent non-executive directors.

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

Wang Xuan

Chairman

Hong Kong, 25 May 2000

REPORT OF THE AUDITORS



安永會計師事務所

To the members

Founder (Hong Kong) Limited

(Incorporated in Hong Kong with limited liability)

We have audited the financial statements on pages 34 to 73 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Companies Ordinance requires the directors to prepare 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, in all material respects, of the state of affairs of the Company and of the Group as at 31 December 1999 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Ordinance.

Ernst & Young

Certified Public Accountants

Hong Kong, 25 May 2000

CONSOLIDATED PROFIT AND LOSS ACCOUNT

Year ended 31 December 1999

	Notes	1999 HK\$'000	1998 HK\$'000
TURNOVER	4	1,583,073	2,164,248
Cost of sales		<u>(1,382,910)</u>	<u>(1,938,032)</u>
Gross profit		200,163	226,216
Other revenue		6,019	11,673
Selling expenses		(132,792)	(150,035)
Administrative expenses		(171,088)	(161,391)
Other operating expenses		<u>(120,803)</u>	<u>(75,955)</u>
LOSS FROM OPERATING ACTIVITIES	5	(218,501)	(149,492)
Finance costs	6	(9,552)	(12,893)
Share of profits less losses of jointly-controlled entities		<u>5,602</u>	<u>(3,265)</u>
LOSS BEFORE TAX		(222,451)	(165,650)
Tax	9	<u>(879)</u>	<u>(46)</u>
LOSS BEFORE MINORITY INTERESTS		(223,330)	(165,696)
Minority interests		<u>259</u>	<u>—</u>
NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	10	<u>(223,071)</u>	<u>(165,696)</u>
LOSS PER SHARE	11		
Basic		<u>(23.4 cents)</u>	<u>(20.8 cents)</u>
Diluted		<u>N/A</u>	<u>N/A</u>

CONSOLIDATED STATEMENT OF RECOGNISED GAINS AND LOSSES

Year ended 31 December 1999

	<i>Notes</i>	1999 HK\$'000	1998 HK\$'000
Deficit on revaluation of land and buildings	24	—	(5,476)
Exchange differences on translation of the financial statements of foreign entities	24	<u>1,324</u>	<u>821</u>
Net profit/(loss) not recognised in the profit and loss account		1,324	(4,655)
Net loss for the year attributable to shareholders		<u>(223,071)</u>	<u>(165,696)</u>
Total recognised losses		(221,747)	(170,351)
Goodwill eliminated directly against reserves	24	<u>(284,760)</u>	<u>—</u>
		<u>(506,507)</u>	<u>(170,351)</u>

CONSOLIDATED BALANCE SHEET

31 December 1999

	Notes	1999 HK\$'000	1998 HK\$'000
NON-CURRENT ASSETS			
Fixed assets	12	115,078	160,771
Deferred development costs	13	—	5,487
Interests in jointly-controlled entities	15	26,674	21,849
		<u>141,752</u>	<u>188,107</u>
CURRENT ASSETS			
Inventories	16	282,801	262,963
Trade receivables		310,840	324,155
Other receivables	17	77,512	104,790
Tax recoverable		367	1,514
Pledged time deposits	18	40,000	—
Cash and cash equivalents	19	306,212	281,863
		<u>1,017,732</u>	<u>975,285</u>
CURRENT LIABILITIES			
Trade payables		182,572	187,435
Tax payable		354	—
Other payables and accruals	20	238,791	154,236
Interest-bearing bank borrowings	21	172,778	141,974
		<u>594,495</u>	<u>483,645</u>
NET CURRENT ASSETS		<u>423,237</u>	<u>491,640</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		564,989	679,747
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	21	4,718	7,091
		<u>560,271</u>	<u>672,656</u>
Minority interests		2,424	—
		<u>557,847</u>	<u>672,656</u>
CAPITAL AND RESERVES			
Issued capital	23	110,865	79,987
Reserves	24	446,982	592,669
		<u>557,847</u>	<u>672,656</u>

Wang Xuan
Director

Cheung Shuen Lung
Director

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 1999

	Notes	1999 HK\$'000	1998 HK\$'000
NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES	25(a)	(161,546)	10,378
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		4,412	3,611
Interest paid		(9,552)	(12,893)
Dividends paid		—	(20,655)
Net cash outflow from returns on investments and servicing of finance		(5,140)	(29,937)
TAXATION			
Overseas taxes paid		(571)	(1,385)
PRC taxes refunded		1,193	—
Net taxes refunded/(paid)		622	(1,385)
INVESTING ACTIVITIES			
Purchases of fixed assets		(26,728)	(44,432)
Proceeds from disposal of fixed assets		9,938	11,915
Increase in deferred development costs		—	(1,229)
Additional investment in jointly-controlled entities		(7,776)	(25,114)
Increase in amounts due to a jointly-controlled entity		8,553	—
Acquisition of a subsidiary	25(c)	35,240	—
Proceeds from disposal of branch operations	25(d)	—	19,449
Net cash inflow/(outflow) from investing activities		19,227	(39,411)
NET CASH OUTFLOW BEFORE FINANCING ACTIVITIES		(146,837)	(60,355)
FINANCING ACTIVITIES	25(b)		
Proceeds from issue of share capital		71,763	—
Share issue expenses		(65)	—
New bank loans		238,010	17,552
Repayment of bank loans		(97,828)	(38,906)
Capital contributions by minority shareholders		2,683	—
Net cash inflow/(outflow) from financing activities		214,563	(21,354)

CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

Year ended 31 December 1999

	1999 HK\$'000	1998 HK\$'000
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	67,726	(81,709)
Cash and cash equivalents at beginning of year	277,285	358,419
Effect of foreign exchange rate changes, net	<u>899</u>	<u>575</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>345,910</u>	<u>277,285</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	251,975	281,863
Time deposits	54,237	—
Pledged time deposits	40,000	—
Bank overdrafts	<u>(302)</u>	<u>(4,578)</u>
	<u>345,910</u>	<u>277,285</u>

BALANCE SHEET

31 December 1999

	Notes	1999 HK\$'000	1998 HK\$'000
NON-CURRENT ASSETS			
Fixed assets	12	34,704	52,046
Interests in subsidiaries	14	466,061	375,377
		<u>500,765</u>	<u>427,423</u>
CURRENT ASSETS			
Inventories	16	39,751	36,426
Trade receivables		279,565	386,987
Other receivables	17	29,717	11,086
Pledged time deposits	18	40,000	—
Cash and cash equivalents	19	55,971	22,051
		<u>445,004</u>	<u>456,550</u>
CURRENT LIABILITIES			
Trade payables		105,948	107,477
Other payables and accruals	20	15,204	22,066
Interest-bearing bank borrowings	21	23,993	136,068
		<u>145,145</u>	<u>265,611</u>
NET CURRENT ASSETS		<u>299,859</u>	<u>190,939</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		800,624	618,362
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	21	4,718	5,369
		<u>795,906</u>	<u>612,993</u>
CAPITAL AND RESERVES			
Issued capital	23	110,865	79,987
Reserves	24	685,041	533,006
		<u>795,906</u>	<u>612,993</u>

Wang Xuan
Director

Cheung Shuen Lung
Director

NOTES TO FINANCIAL STATEMENTS

31 December 1999

1. CORPORATE INFORMATION

The registered office of Founder (Hong Kong) Limited is Unit 1408, 14th Floor, Cable TV Tower, No. 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
- hardware distribution
- investment holding

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

The following SSAPs have been adopted for the first time in the preparation of the current year's consolidated financial statements, together with a summary of their major effects.

- SSAP 1: Presentation of Financial Statements
- SSAP 2: Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies

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 format of the profit and loss account and the balance sheets, as set out on pages 34, 36 and 39 respectively, have been revised in accordance with the SSAP, and a statement of recognised gains and losses, not previously required, is included on page 35. Additional disclosures as required are included in the supporting notes to the financial statements.

SSAP 2 prescribes the classification, disclosure and accounting treatment of certain items in the profit and loss account, and specifies the accounting treatment for changes in accounting estimates, changes in accounting policies and the correction of fundamental errors. The principal impact of the SSAP is that exceptional items, previously disclosed on the face of the profit and loss account, are now disclosed by way of note, and are no longer specifically referred to as "exceptional".

31 December 1999

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 remeasurement of investment properties and land and buildings, 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 1999. 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.

Subsidiaries

A subsidiary is a company, other than a jointly-controlled entity, in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors.

Interests in subsidiaries are stated at cost unless, in the opinion of the directors, there have been permanent diminutions in values, when they are written down to values determined by the directors.

Joint ventures

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity.

Joint venture arrangements which involve the establishment of a separate entity in which the Group and other parties have an interest are referred to as jointly-controlled entities.

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.

31 December 1999

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)***Goodwill**

Goodwill arising on consolidation of subsidiaries represents the excess purchase consideration paid over the fair values ascribed to the net underlying assets acquired at the date of acquisition and is eliminated against reserves in the year of acquisition.

Upon disposal of subsidiaries, the relevant portion of attributable goodwill previously eliminated against reserves is realised and taken into account in arriving at the gain or loss on disposal.

Fixed assets and depreciation

Fixed assets, other than investment properties, are stated at cost or valuation less accumulated depreciation. 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 the fixed asset.

Changes in the values of fixed assets, other than investment properties, are dealt with as movements in the 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 earnings 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 terms of the leases
Leasehold improvements	20% or over the terms of the leases, if shorter
Furniture, fixtures and equipment	10% - 33 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.

31 December 1999

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)***Fixed assets and depreciation** *(Continued)*

During the year, the estimated useful lives of certain equipment were revised. In the opinion of the directors, the revised useful lives of such assets reflect more fairly the current estimate of their useful lives. The change of estimated useful lives has the effect of increasing the Group's depreciation charge by approximately HK\$13.1 million for the current year.

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.

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 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.

The unamortised balance of deferred development costs is reviewed at the end of each period and is written off to the extent that the unamortised balance, taken together with further development and directly related costs, is no longer likely to be recovered.

31 December 1999

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)***Operating leases**

Leases where substantially all the rewards and risks of ownership of assets remain with the leasing company are accounted for as operating leases. Rentals applicable to such operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

Inventories

Inventories, which principally comprise trading stocks, are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis. Net realisable value is based on estimated selling prices less any further costs to be incurred to completion and disposal.

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.

Foreign currencies

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

On consolidation, the financial statements of overseas subsidiaries and jointly-controlled entities are translated to Hong Kong dollars at the applicable rates of exchange ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

Pension costs

The Group has joined defined contribution pension schemes in Hong Kong and in the PRC for those employees who are eligible and have elected to participate in the schemes. The assets of the schemes are held separately from those of the Group. 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 scheme.

For those employees that have not yet joined a pension scheme, the Group has accrued for the estimated future pension costs based on a percentage of their salaries. The related assets for the purpose of discharging such liabilities are not separately held from those of the Group.

31 December 1999

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) on 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) on the rendering of services, when the transactions have been completed in accordance with the terms of the contracts or based on the stage of completion of transactions. The stage of completion of a transaction associated with the rendering of services is established by reference to contract terms;
- (c) on 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 an accruals basis.

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.

Cash equivalents

For the purpose of the consolidated cash flow statement, cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance. For the purpose of balance sheet classification, cash equivalents represent assets similar in nature of cash, which are not restricted as to use.

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4. TURNOVER AND REVENUE

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

An analysis of turnover and revenue is as follows:

	Group	
	1999	1998
	HK\$'000	HK\$'000
Software development and systems integration	948,760	901,744
Hardware distribution	634,313	1,262,504
Turnover	1,583,073	2,164,248
Rental income	1,458	1,781
Interest income	4,412	3,611
Proceeds from disposal of fixed assets	9,938	11,915
Proceeds from disposal of branch operations	—	19,449
Revenue	1,598,881	2,201,004

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5. LOSS FROM OPERATING ACTIVITIES

The Group's loss from operating activities is arrived at after charging:

	Group	
	1999	1998
	HK\$'000	HK\$'000
Research and development costs:		
Deferred expenditure amortised	3,343	5,526
Deferred expenditure written off	2,162	5,163
Current year expenditure	46,191	33,225
	<u>51,696</u>	<u>43,914</u>
Staff costs (including directors' remuneration - note 7):		
Wages and salaries	122,484	108,626
Pension contributions*	4,523	3,322
Less: Forfeited contributions	(92)	(126)
	<u>126,915</u>	<u>111,822</u>
Auditors' remuneration	2,400	2,000
Cost of inventories sold	1,345,146	1,896,211
Depreciation	41,676	27,413
Loss on disposal of fixed assets	4,785	2,858
Operating lease rentals in respect of land and buildings	31,188	34,089
Revaluation deficit — land and buildings	10,978	2,916
Revaluation deficit — investment properties	5,440	4,210
Provision for doubtful trade debts	55,171	33,071
Exchange loss, net	10	1,550
and after crediting:		
Rental income — gross and net	(1,458)	(1,781)
Gain on disposal of branch operations	—	(1,501)
Interest income	<u>(4,412)</u>	<u>(3,611)</u>

* At 31 December 1999, forfeited contributions available to the Group to reduce its contributions to the pension scheme in future years were not material.

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6. FINANCE COSTS

	Group	
	1999	1998
	HK\$'000	HK\$'000
Interest on bank loans and overdrafts	<u>9,552</u>	<u>12,893</u>

7. DIRECTORS' REMUNERATION

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

	Group	
	1999	1998
	HK\$'000	HK\$'000
Fees:	<u>1,069</u>	<u>1,297</u>
Other emoluments:		
Salaries, allowances and benefits in kind	1,486	1,977
Pension scheme contributions	<u>40</u>	<u>40</u>
	<u>1,526</u>	<u>2,017</u>
	<u>2,595</u>	<u>3,314</u>

Fees include HK\$264,000 (1998: HK\$254,000) payable to the independent non-executive directors. There were no other emoluments payable to the independent non-executive directors during the year (1998: Nil).

The remuneration of the directors fell within the following band:

	Number of directors	
	1999	1998
Nil — HK\$1,000,000	<u>13</u>	<u>11</u>

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

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8. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included one (1998: one) director, details of whose remuneration are set out in note 7 above. The details of the remuneration of the remaining four (1998: four) non-director, highest paid employees are as follows:

	Group	
	1999	1998
	HK\$'000	HK\$'000
Salaries, allowances and benefits in kind	5,272	2,984
Pension scheme contributions	188	50
	<u>5,460</u>	<u>3,034</u>

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

	Number of employees	
	1999	1998
Nil — HK\$1,000,000	2	3
HK\$1,000,001 — HK\$1,500,000	1	1
HK\$2,500,001 — HK\$3,000,000	1	—
	<u>4</u>	<u>4</u>

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9. TAX

No provision for Hong Kong profits tax has been made as there were no assessable profits for the year.

Beijing Founder Electronics Company Limited, a wholly owned PRC subsidiary of the Group, is subject to PRC profits tax at 50% of its standard tax rate for the three fiscal years commencing 1 January 1998 and ending 31 December 2000. Beijing Founder Order Computer System Company Limited, a wholly owned PRC subsidiary of the Group, is exempted from PRC profits tax for the three fiscal years commencing in 1999 and ending on 31 December 2001 and, thereafter, will be taxable 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 as the relevant PRC subsidiaries were either under the tax free period or did not have any assessable profits for the year.

Taxes on profits assessable elsewhere have been calculated at the applicable rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

There was no significant unprovided deferred tax in respect of the year (1998: Nil).

10. NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders dealt with in the financial statements of the Company is HK\$208,785,000 (1998: profit HK\$5,374,000).

11. LOSS PER SHARE

The calculation of basic loss per share is based on the net loss from ordinary activities attributable to shareholders for the year of HK\$223,071,000 (1998: HK\$165,696,000), and the weighted average of 951,275,000 (1998: 797,152,000) ordinary shares in issue during the year.

Diluted loss per share for the years ended 31 December 1999 and 1998 has not been calculated as the impact of the outstanding share options was anti-dilutive.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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12. FIXED ASSETS

Group

	Investment properties HK\$'000	Land and buildings in Hong Kong HK\$'000	Land and buildings in the PRC 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 1999	21,320	39,900	14,443	7,712	117,440	25,183	225,998
Additions	—	—	515	175	23,918	2,120	26,728
Disposals	—	—	(453)	(1,581)	(32,230)	(3,567)	(37,831)
Transfer to investment properties	2,600	(2,600)	—	—	—	—	—
Revaluation deficit	(5,440)	(12,000)	—	—	—	—	(17,440)
Exchange adjustments	—	—	46	6	504	78	634
At 31 December 1999	18,480	25,300	14,551	6,312	109,632	23,814	198,089
Accumulated depreciation:							
At 1 January 1999	—	—	97	5,646	50,324	9,160	65,227
Provided during the year	—	1,022	95	807	36,354	3,398	41,676
Disposals	—	—	(68)	(491)	(21,049)	(1,500)	(23,108)
Written back on revaluation	—	(1,022)	—	—	—	—	(1,022)
Exchange adjustments	—	—	—	2	210	26	238
At 31 December 1999	—	—	124	5,964	65,839	11,084	83,011
Net book value:							
At 31 December 1999	<u>18,480</u>	<u>25,300</u>	<u>14,427</u>	<u>348</u>	<u>43,793</u>	<u>12,730</u>	<u>115,078</u>
At 31 December 1998	<u>21,320</u>	<u>39,900</u>	<u>14,346</u>	<u>2,066</u>	<u>67,116</u>	<u>16,023</u>	<u>160,771</u>
Analysis of cost and valuation:							
At cost	—	—	14,551	6,312	109,632	23,814	154,309
At valuation at 31 December 1999	<u>18,480</u>	<u>25,300</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>43,780</u>
	<u>18,480</u>	<u>25,300</u>	<u>14,551</u>	<u>6,312</u>	<u>109,632</u>	<u>23,814</u>	<u>198,089</u>

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12. FIXED ASSETS *(Continued)*

Company

	Investment properties <i>HK\$'000</i>	Land and buildings in Hong Kong <i>HK\$'000</i>	Leasehold improvements <i>HK\$'000</i>	Furniture, fixtures and equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost or valuation:						
At 1 January 1999	15,500	35,000	5,833	5,379	887	62,599
Additions	—	—	38	609	—	647
Disposals	—	—	—	(113)	—	(113)
Revaluation deficit	(4,900)	(11,800)	—	—	—	(16,700)
At 31 December 1999	10,600	23,200	5,871	5,875	887	46,433
Accumulated depreciation:						
At 1 January 1999	—	—	5,083	4,676	794	10,553
Provided during the year	—	976	750	373	53	2,152
Written back on revaluation	—	(976)	—	—	—	(976)
At 31 December 1999	—	—	5,833	5,049	847	11,729
Net book value:						
At 31 December 1999	10,600	23,200	38	826	40	34,704
At 31 December 1998	15,500	35,000	750	703	93	52,046
Analysis of cost and valuation:						
At cost	—	—	5,871	5,875	887	12,633
At valuation at 31 December 1999	10,600	23,200	—	—	—	33,800
	10,600	23,200	5,871	5,875	887	46,433

The Company's and the Group's leasehold land and buildings in Hong Kong were revalued on 31 December 1999, by Centaline Surveyors Ltd., independent professionally qualified valuers, on an open market, existing use basis.

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12. FIXED ASSETS *(Continued)*

Had the Company's and Group's land and buildings in Hong Kong been carried at historical cost less accumulated depreciation, their carrying values would have been included in the financial statements at approximately HK\$37,215,000 (1998: HK\$38,056,000) and HK\$39,541,000 (1998: HK\$44,578,000), respectively.

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

	Hong Kong <i>HK\$'000</i>	PRC <i>HK\$'000</i>	Total <i>HK\$'000</i>
At cost:			
Long term lease	—	14,551	14,551
At valuation:			
Long term lease	25,300	—	25,300
	<u>25,300</u>	<u>14,551</u>	<u>39,851</u>

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

The Company's and the Group's investment properties were revalued on 31 December 1999 by Centaline Surveyors Ltd., independent professionally qualified valuers, on an open market, existing use basis.

Particulars of the Group's investment properties are included on page 74 of the annual report.

All the land and buildings in Hong Kong and certain investment properties of the Company and the Group were pledged to banks to secure banking facilities (note 21).

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13. DEFERRED DEVELOPMENT COSTS

	Group	
	1999	1998
	HK\$'000	HK\$'000
Cost:		
At beginning of year	13,969	17,872
Additions	—	1,229
Written off	(2,162)	(5,163)
Exchange adjustments	61	31
	<u>11,868</u>	<u>13,969</u>
At 31 December	11,868	13,969
Accumulated amortisation:		
At beginning of year	8,482	2,950
Provided during the year	3,343	5,526
Exchange adjustments	43	6
	<u>11,868</u>	<u>8,482</u>
At 31 December	11,868	8,482
Net book value:		
At 31 December	<u>—</u>	<u>5,487</u>

14. INTERESTS IN SUBSIDIARIES

	Company	
	1999	1998
	HK\$'000	HK\$'000
Unlisted shares, at cost	453,115	136,690
Due from subsidiaries	190,773	247,884
Due to a subsidiary	(3,408)	(3,359)
	<u>640,480</u>	<u>381,215</u>
Provisions for permanent diminutions in values	(133,116)	(2,519)
Provisions against amounts due from subsidiaries	(41,303)	(3,319)
	<u>466,061</u>	<u>375,377</u>

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

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14. INTERESTS IN SUBSIDIARIES *(Continued)*

Particulars of the Company's 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	
Beijing Founder Electronics Co., Ltd.	People's Republic of China	Registered HK\$130 million	100%	—	Software development, systems integration and hardware distribution
Beijing Founder Order Computer System Co., Ltd.	People's Republic of China	Registered HK\$8 million	—	100% **	Software development and systems integration
Founder Data Corporation International Limited	British Virgin Islands	Ordinary US\$100	—	70% ***	Investment holding
Founder Electronics (HK) Limited	Hong Kong	Ordinary HK\$2	100% **	—	Investment holding
Founder Holdings Limited	Bermuda	Ordinary HK\$100,000	100% ***	—	Dormant
Founder Inc.	Japan	Ordinary JP¥D50 million	—	100%	Systems integration and hardware distribution

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14. 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 Information Limited *	Taiwan	Ordinary NTD20 million	—	70% ***	Systems integration and software development
Founder Systems (H.K.) Limited	Hong Kong	Ordinary HK\$2	100%	—	Software development
Founder Systems (B.V.I.) Limited	British Virgin Islands	Ordinary US\$1	100%	—	Systems integration and software development
Founder Systems Software Limited	Hong Kong	Ordinary HK\$2	—	100% **	Software development and systems integration
Founder Technology (Canada) Corp.*	Canada	Ordinary CAN\$100	100%	—	Systems integration and hardware distribution
PUC Founder (M) Sdn. Bhd.*	Malaysia	Ordinary RM500,000	100%	—	Systems integration and hardware distribution
PUC Founder (MSC) Sdn. Bhd.*	Malaysia	Ordinary RM2	—	100%	Dormant

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14. 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 (S) Pte. Ltd.*	Republic of Singapore	Ordinary S\$200,000	—	100%	Systems integration and hardware distribution
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
Sparkling Idea Limited	British Virgin Islands	Ordinary US\$1	100% **	—	Investment holding

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

** acquired during the year

*** incorporated during the year

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results of 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.

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15. INTERESTS IN JOINTLY-CONTROLLED ENTITIES (Continued)

	Group	
	1999	1998
	HK\$'000	HK\$'000
Share of net assets	35,227	21,849
Loan to a jointly-controlled entity	(8,553)	—
	<u>26,674</u>	<u>21,849</u>

Particulars of the jointly-controlled entities are as follows:

Name	Business structure	Place of incorporation and operations	Percentage of			Principal activities
			Ownership interest	Voting power	Profit sharing	
Beijing Founder Dicheng Information Technology Co., Ltd.	PRC equity joint venture	People's Republic of China	50%	50%	50%	Provision of consultancy services and systems integration
Beijing PeCan Information System Inc.	PRC equity joint venture	People's Republic of China	30%	30%	30%	Development of software and trading of computer products

All the above investments in jointly-controlled entities are indirectly held by the Company.

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16. INVENTORIES

	Group		Company	
	1999	1998	1999	1998
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Trading stock	<u>282,801</u>	<u>262,963</u>	<u>39,751</u>	<u>36,426</u>

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

17. OTHER RECEIVABLES

	Group		Company	
	1999	1998	1999	1998
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Prepayments	38,952	56,023	—	—
Deposits and other debtors	38,560	48,767	1,631	11,086
Dividend receivable	<u>—</u>	<u>—</u>	<u>28,086</u>	<u>—</u>
	<u>77,512</u>	<u>104,790</u>	<u>29,717</u>	<u>11,086</u>

18. PLEDGED TIME DEPOSITS

	Group		Company	
	1999	1998	1999	1998
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Time deposits	<u>40,000</u>	<u>—</u>	<u>40,000</u>	<u>—</u>

At 31 December 1999, the time deposits of the Company and the Group were pledged to banks for the banking facilities granted.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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19. CASH AND CASH EQUIVALENTS

	Group		Company	
	1999	1998	1999	1998
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cash and bank balances	251,975	281,863	13,970	22,051
Time deposits	54,237	—	42,001	—
	<u>306,212</u>	<u>281,863</u>	<u>55,971</u>	<u>22,051</u>

20. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	1999	1998	1999	1998
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Accruals	56,886	41,035	15,204	22,066
Other liabilities	21,321	35,272	—	—
Trading receipts in advance	160,584	77,929	—	—
	<u>238,791</u>	<u>154,236</u>	<u>15,204</u>	<u>22,066</u>

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21. INTEREST-BEARING BANK BORROWINGS

	Group		Company	
	1999	1998	1999	1998
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Bank overdrafts:				
Secured	<u>302</u>	<u>4,578</u>	<u>302</u>	<u>4,350</u>
Bank loans:				
Secured	<u>5,359</u>	<u>8,461</u>	<u>5,359</u>	<u>5,936</u>
Unsecured	<u>148,785</u>	<u>4,875</u>	<u>—</u>	<u>—</u>
	<u>154,144</u>	<u>13,336</u>	<u>5,359</u>	<u>5,936</u>
Trust receipt loans:				
Secured	<u>23,050</u>	<u>71,791</u>	<u>23,050</u>	<u>71,791</u>
Unsecured	<u>—</u>	<u>59,360</u>	<u>—</u>	<u>59,360</u>
	<u>23,050</u>	<u>131,151</u>	<u>23,050</u>	<u>131,151</u>
	<u>177,496</u>	<u>149,065</u>	<u>28,711</u>	<u>141,437</u>
Bank overdrafts repayable within one year or on demand	<u>302</u>	<u>4,578</u>	<u>302</u>	<u>4,350</u>
Bank loans repayable:				
Within one year or on demand	<u>172,476</u>	<u>137,396</u>	<u>23,691</u>	<u>131,718</u>
In the second year	<u>711</u>	<u>1,436</u>	<u>711</u>	<u>632</u>
In the third to fifth years, inclusive	<u>2,639</u>	<u>3,289</u>	<u>2,639</u>	<u>2,371</u>
Beyond five years	<u>1,368</u>	<u>2,366</u>	<u>1,368</u>	<u>2,366</u>
	<u>177,194</u>	<u>144,487</u>	<u>28,409</u>	<u>137,087</u>
	<u>177,496</u>	<u>149,065</u>	<u>28,711</u>	<u>141,437</u>
Portion classified as current liabilities	<u>(172,778)</u>	<u>(141,974)</u>	<u>(23,993)</u>	<u>(136,068)</u>
Long term portion	<u>4,718</u>	<u>7,091</u>	<u>4,718</u>	<u>5,369</u>

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21. INTEREST-BEARING BANK BORROWINGS *(Continued)*

Certain of the Group's bank loans and overdrafts are secured by:

- (i) Mortgages over certain of the Group's investment properties situated in Hong Kong which had an aggregate carrying value at the balance sheet date of approximately HK\$7,880,000 (1998: HK\$21,300,000).
- (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\$25,300,000 (1998: HK\$39,900,000).
- (iii) Charges over the Company's fixed deposits of approximately HK\$40,000,000 .

22. DEFERRED TAX

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

	Not provided	
	1999	1998
	HK\$'000	HK\$'000
Accelerated depreciation allowances	234	—
Tax losses	19,371	17,267
	<u>19,605</u>	<u>17,267</u>

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

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23. SHARE CAPITAL**Shares**

	Group and Company	
	1999	1998
	HK\$'000	HK\$'000
Authorised:		
1,600,000,000 (1998: 1,100,000,000) ordinary shares of HK\$0.10 each	<u>160,000</u>	<u>110,000</u>
Issued and fully paid:		
1,108,649,893 (1998: 799,873,893) ordinary shares of HK\$0.10 each	<u>110,865</u>	<u>79,987</u>

During the year, the following movements in share capital were recorded:

- (a) Pursuant to an ordinary resolution passed on 30 June 1999, the authorised share capital of the Company was increased from HK\$110,000,000 to HK\$160,000,000 by the creation of additional 500,000,000 ordinary shares of HK\$0.10 each, ranking pari passu in all respects with the existing share capital of the Company.
- (b) The subscription rights attached to 37,440,000 and 21,336,000 share options were exercised at subscription prices of HK\$1.397 and HK\$0.912 per share respectively, resulting in the issue a total of 58,776,000 ordinary shares of HK\$0.10 each for a total cash consideration, before expenses, of approximately HK\$71,762,000.
- (c) Pursuant to an ordinary resolution passed on 30 June 1999, 250 million ordinary shares of HK\$0.10 each were allotted for the acquisition of Sparkling Idea Limited at a total consideration of HK\$320 million.

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23. SHARE CAPITAL *(Continued)***Shares** *(Continued)*

A summary of the transactions during the year with reference to the above movements of the Company's ordinary share capital is as follows:

	Carrying amount 1999 HK\$'000	Shares issued 1999
At beginning of year	79,987	799,873,893
Share options exercised	5,878	58,776,000
Shares allotted for the acquisition of a subsidiary	25,000	250,000,000
	<u>110,865</u>	<u>1,108,649,893</u>

Share options

On 7 December 1995, the Company adopted a share option scheme (the "Scheme") under which the directors may, at their discretion, grant options to directors and employees of the Company and its subsidiaries to subscribe for shares in the Company. The maximum number of shares in respect of which options may be granted may not exceed 10% of the share capital of the Company in issue from time to time. The Scheme will remain in force for a period of 10 years from the date of its adoption.

As at 1 January 1999, there were 57,600,000 options outstanding which entitled the holders to subscribe for shares of the Company at any time from 21 December 1998 to 6 December 2005. The subscription price payable upon the exercise of each option is HK\$1.397, subject to adjustment.

During the year, the Company granted 22,386,600 and 25,000,000 share options for nil consideration which entitle the holders to subscribe for ordinary shares of the Company at any time during the period from 16 April 1999 to 6 December 2005 and 1 November 1999 to 6 December 2005 at the subscription price per share payable upon the exercise of each option of HK\$0.912 and HK\$1.944 respectively, subject to adjustment.

37,440,000 and 21,336,000 share options with exercise prices of HK\$1.397 each and HK\$0.912 each, respectively, were exercised during the year and the Company had 46,210,600 outstanding share options at the balance sheet date. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 46,210,600 additional ordinary shares of HK\$0.10 each for a total cash consideration of approximately HK\$77,722,000 before the related issue expenses.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 1999

24. RESERVES

Group

	Share premium account HK\$'000	Goodwill reserve HK\$'000	Land and buildings revaluation reserve HK\$'000	Exchange fluctuation reserve HK\$'000	General reserve HK\$'000	Retained profits/ (accumulated losses) HK\$'000	Total HK\$'000
At 1 January 1998	487,745	—	6,202	12	38,838	211,815	744,612
Issue of bonus shares	(13,228)	—	—	—	—	—	(13,228)
Arising on issue of ordinary shares	31,636	—	—	—	—	—	31,636
Deficit on revaluation	—	—	(5,476)	—	—	—	(5,476)
Realised on disposal	—	—	(125)	—	—	125	—
Loss for the year	—	—	—	—	—	(165,696)	(165,696)
Exchange realignments	—	—	—	821	—	—	821
At 31 December 1998 and beginning of year	506,153	—	601	833	38,838	46,244	592,669
Issue of shares	360,885	—	—	—	—	—	360,885
Share issue expenses	(65)	—	—	—	—	—	(65)
Goodwill on acquisition	—	(284,760)	—	—	—	—	(284,760)
Loss for the year	—	—	—	—	—	(223,071)	(223,071)
Exchange realignments	—	—	—	1,324	—	—	1,324
At 31 December 1999	<u>866,973</u>	<u>(284,760)</u>	<u>601</u>	<u>2,157</u>	<u>38,838</u>	<u>(176,827)</u>	<u>446,982</u>
Reserves retained by:							
Company and subsidiaries	866,973	(284,760)	601	2,087	38,838	(179,164)	444,575
Jointly-controlled entities	—	—	—	70	—	2,337	2,407
31 December 1999	<u>866,973</u>	<u>(284,760)</u>	<u>601</u>	<u>2,157</u>	<u>38,838</u>	<u>(176,827)</u>	<u>446,982</u>
Company and subsidiaries	506,153	—	601	833	38,838	49,509	595,934
Jointly-controlled entities	—	—	—	—	—	(3,265)	(3,265)
31 December 1998	<u>506,153</u>	<u>—</u>	<u>601</u>	<u>833</u>	<u>38,838</u>	<u>46,244</u>	<u>592,669</u>

31 December 1999

24. RESERVES (Continued)

Company

	Share premium account HK\$'000	Land and buildings revaluation reserve HK\$'000	Retained profits/ (accumulated losses) HK\$'000	Total HK\$'000
At 1 January 1998	487,745	5,373	21,479	514,597
Issue of bonus shares	(13,228)	—	—	(13,228)
Arising on issue of ordinary shares	31,636	—	—	31,636
Profit for the year	—	—	5,374	5,374
Deficit on revaluation	—	(5,373)	—	(5,373)
At 31 December 1998 and beginning of year	506,153	—	26,853	533,006
Issue of shares	360,885	—	—	360,885
Share issue expenses	(65)	—	—	(65)
Loss for the year	—	—	(208,785)	(208,785)
At 31 December 1999	<u>866,973</u>	<u>—</u>	<u>(181,932)</u>	<u>685,041</u>

In accordance with the relevant PRC regulations, each of the Group's PRC subsidiaries and jointly-controlled entities is required to transfer not less than 10% of its profits 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 subsidiaries and jointly-controlled entities in accordance with their articles of association. During the year, no transfer to general reserve was made by the Group's PRC subsidiaries and jointly controlled entities on the above basis.

31 December 1999

25. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of loss from operating activities to net cash inflow/(outflow) from operating activities

	1999 HK\$'000	1998 HK\$'000
Loss from operating activities	(218,501)	(149,492)
Interest income	(4,412)	(3,611)
Gain on disposal of branch operations	—	(1,501)
Depreciation	41,676	27,413
Loss on disposal of fixed assets	4,785	2,858
Land and buildings and investment properties revaluation deficits	16,418	7,126
Amortisation of deferred development costs	3,343	5,526
Write off of deferred development costs	2,162	5,163
Decrease in deferred VAT recoverable	—	3,508
Decrease/(increase) in inventories	(19,838)	20,372
Decrease in trade receivables	13,315	1,501
Decrease/(increase) in prepayments	17,071	(15,036)
Decrease/(increase) in deposits and other debtors	10,207	(26,604)
Increase/(decrease) in trade payables	(4,863)	109,657
Increase/(decrease) in accruals	15,851	(8,564)
Increase/(decrease) in other liabilities	(13,951)	12,987
Increase in trading receipt in advance	82,655	14,530
Increase/(decrease) in trust receipt loans	(108,101)	4,173
Exchange differences	637	372
Net cash inflow/(outflow) from operating activities	<u>(161,546)</u>	<u>10,378</u>

31 December 1999

25. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(b) Analysis of changes in financing during the year

	Share capital (including share premium) HK\$'000	Bank loans (with maturity of over 3 months) HK\$'000	Minority interests HK\$'000
Balance at 1 January 1998	553,884	34,263	—
Issue of scrip dividends	32,256	—	—
Cash outflow from financing activities, net	—	(21,354)	—
Exchange differences	—	427	—
	<hr/>	<hr/>	<hr/>
Balance at 31 December 1998 and beginning of year	586,140	13,336	—
Cash inflow from financing activities, net	71,698	140,182	2,683
Issue of ordinary shares for acquisition of a subsidiary	320,000	—	—
Share of losses after tax of subsidiaries	—	—	(259)
Exchange differences	—	626	—
	<hr/>	<hr/>	<hr/>
Balance at 31 December 1999	<u>977,838</u>	<u>154,144</u>	<u>2,424</u>

31 December 1999

25. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(Continued)***(c) Acquisition of a subsidiary**

	1999 HK\$'000
Net assets acquired:	
Cash and bank balances	35,240
Goodwill on acquisition	284,760
	<u>320,000</u>
Satisfied by:	
Issue of shares	<u>320,000</u>
Analysis of the net inflow of cash and cash equivalents in respect of the acquisition of the subsidiary acquired:	
	1999 HK\$'000
Cash consideration	—
Cash and bank balances acquired	35,240
Net inflow of cash and cash equivalents in respect of the acquisition of a subsidiary	<u>35,240</u>

The subsidiary acquired during the year contributed approximately HK\$89,284,000 to turnover and profit of approximately HK\$9,262,000 to the consolidated loss after tax for the year ended 31 December 1999.

The subsidiary acquired during the year paid HK\$9,618,000 in respect of the Group's net operating cash flow, contributed HK\$48,000 to the net returns on investments and servicing of finance, paid HK\$11,101,000 in respect of the net investing activities, and contributed HK\$35,243,000 to financing activities, but had no significant impact in respect of tax.

31 December 1999

25. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(d) Disposal of branch operations

	1998 HK\$'000
Net assets disposed of:	
Fixed assets	5,969
Cash and bank balances	36,723
Accounts receivable	15,060
Inventories	110,024
Prepayments and other receivables	11,666
Accounts payable and other accrued liabilities	(124,585)
Tax payable	(186)
	<hr/> 54,671
Gain on disposal	<hr/> 1,501
	<hr/> <hr/> 56,172
Satisfied by:	
Cash	<hr/> <hr/> 56,172

Analysis of the net inflow of cash and cash equivalents in respect of the disposal of branch operations:

	1998 HK\$'000
Cash consideration	56,172
Cash and bank balances disposed of	<hr/> (36,723)
Net inflow of cash and cash equivalents in respect of the disposal of branch operations	<hr/> <hr/> 19,449

The branch operations disposed of in 1998 contributed approximately HK\$323,000,000 to turnover and profit of approximately HK\$3,032,000 to the consolidated loss after tax for the year ended 31 December 1998.

The branch operations disposed of in 1998 contributed approximately HK\$12,459,000 to the Group's net operating cash flow, contributed approximately HK\$4,000 in respect of net returns on investments and servicing of finance, paid approximately HK\$44,000 in respect of tax and utilised approximately HK\$421,000 for investing activities.

31 December 1999

26. CONTINGENT LIABILITIES

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

	Company	
	1999	1998
	HK\$'000	HK\$'000
Guarantees given to banks in connection with facilities granted to subsidiaries	12,615	8,344

As at 31 December 1999, the guarantees given to banks in connection with facilities granted to subsidiaries by the Company were utilised to the extent of approximately HK\$6,693,000 (1998: HK\$7,400,000).

Save as disclosed above, at the balance sheet date, the Group had no other significant contingent liabilities.

27. COMMITMENTS

Commitments under operating leases

At 31 December 1999, the Group had commitments under non-cancellable operating leases to make payments in the following year as follows:

	Group	
	1999	1998
	HK\$'000	HK\$'000
Land and buildings expiring:		
Within one year	3,434	1,267
In the second to fifth years, inclusive	6,954	9,622
After five years	15,377	15,496
	25,765	26,385

Save as disclosed above, at the balance sheet date, the Company and the Group had no other significant commitments.

31 December 1999

28. POST BALANCE SHEET EVENTS

- (a) Founder Holdings Limited ("Founder Holdings") was incorporated in Bermuda on 24 September 1999 as an exempted company with limited liability under the Companies Act 1981 of Bermuda (as amended) for the purpose of acting as the holding company of the Group. Pursuant to a scheme of arrangement (the "Scheme") sanctioned by the Supreme Court of Hong Kong which became effective on 31 March 2000, Founder Holdings issued 1,108,799,893 ordinary shares of HK\$0.10 each in exchange for a direct interest in the entire issued share capital of the Company. Founder Holdings then became the ultimate holding company of the companies now comprising the Group.

Dealing in Founder Holdings shares on The Stock Exchange of Hong Kong Limited commenced on 31 March 2000 when the listing status of the Company was simultaneously withdrawn. Further details of the Group reorganisation are set out in the Scheme document dated 3 January 2000.

- (b) On 20th April 2000, the Group disposed of its entire interest in Beijing Founder Dicheng Information Technology Co., Ltd., a jointly-controlled entity, to an independent third party at a consideration of approximately HK\$28,907,000 (US\$3,719,452).
- (c) On 17 May 2000, the Group entered into a conditional sale and purchase agreement, pursuant to which, the Group disposed of its 70% owned subsidiary, Founder Data Corporation International Limited, to an independent third party, Management Investment & Technology (Holdings) Limited ("MIT") for a consideration of HK\$307,690,000, to be satisfied by the issuance of 307,690,000 shares of MIT at HK\$1 each. Further details of the transaction are set out in the Group's joint announcement with MIT dated 25 May 2000.

31 December 1999

29. RELATED PARTY TRANSACTIONS

The Group had the following material transactions with related parties during the year.

		Group	
		1999	1998
	<i>Notes</i>	HK\$'000	<i>HK\$'000</i>
Rental expenses paid to Peking University Founder Group Corporation ("Peking Founder"), a substantial shareholder	(i)	14,088	14,043
Research and development fees paid to Peking Founder	(i)	4,039	4,026
Sales of stocks to a jointly-controlled entity	(ii)	5,824	10,637
Purchases of stocks from a jointly-controlled entity	(iii)	8,739	—

Notes:

- (i) The expenses were paid in accordance with the terms of the agreements governing such transactions.
- (ii) The directors consider that the sales of stocks were made according to the published prices and conditions similar to those offered to other customers of the Group.
- (iii) The directors consider that the purchases of stocks were made according to the published prices and conditions similar to those offered to other customers of the supplier.

30. COMPARATIVE AMOUNTS

As further explained in note 2 to the financial statements, due to the adoption of new SSAPs during the current year, the presentation of the profit and loss account, the balance sheets and certain supporting notes have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been reclassified to conform with the current year's presentation.

31. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 25 May 2000.

PARTICULARS OF INVESTMENT PROPERTIES

31 December 1999

Location	Use
Unit Nos.1, 2a, 2b, 3a, 3b, 4a and 4b on 14th Floor, Cable TV Tower, 9 Hoi Shing Road, Tsuen Wan, New Territories, Hong Kong	Office premises/warehouse for rental
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
Flat B on 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
Flat B on 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
Flat D on 12th Floor, Block 2, Belvedere Garden, Phase 2, No. 620 Castle Peak Road, Tsuen Wan, New Territories, Hong Kong	Residential premises for rental

FIVE YEAR FINANCIAL SUMMARY

31 December 1999

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

RESULTS

	Year ended 31 December				
	1999	1998	1997	1996	1995
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
TURNOVER	<u>1,583,073</u>	<u>2,164,248</u>	<u>1,973,409</u>	<u>1,483,351</u>	<u>1,096,233</u>
PROFIT/(LOSS) FROM OPERATING ACTIVITIES	(228,053)	(162,385)	142,534	126,934	113,090
Share of profits less losses of jointly-controlled entities	<u>5,602</u>	<u>(3,265)</u>	<u>—</u>	<u>—</u>	<u>—</u>
PROFIT/(LOSS) BEFORE TAX	(222,451)	(165,650)	142,534	126,934	113,090
Tax	<u>(879)</u>	<u>(46)</u>	<u>757</u>	<u>(131)</u>	<u>(3,819)</u>
PROFIT/(LOSS) BEFORE MINORITY INTERESTS	(223,330)	(165,696)	143,291	126,803	109,271
Minority interests	<u>259</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	<u>(223,071)</u>	<u>(165,696)</u>	<u>143,291</u>	<u>126,803</u>	<u>109,271</u>

FIVE YEAR FINANCIAL SUMMARY (CONTINUED)

31 December 1999

ASSETS AND LIABILITIES

	31 December 1999 HK\$'000	31 December 1998 HK\$'000	31 December 1997 HK\$'000	31 December 1996 HK\$'000	31 December 1995 HK\$'000
TOTAL ASSETS	1,159,484	1,163,392	1,362,704	1,241,511	1,030,461
TOTAL LIABILITIES	(599,213)	(490,736)	(551,953)	(527,889)	(535,545)
MINORITY INTERESTS	(2,424)	—	—	—	—
NET ASSETS	<u>557,847</u>	<u>672,656</u>	<u>810,751</u>	<u>713,622</u>	<u>494,916</u>

Note:

The combined results for the year ended 31 December 1995 were prepared based on the Group's combined results for the six months ended 30 June 1995, as extracted from the accountants' report included in the Company's prospectus dated 12 December 1995, and the consolidated results for the six months ended 31 December 1995, as extracted from the Company's 1995 annual report. The combined results were prepared on a pro forma basis to reflect the Group's reorganisation as set out in the same accountants' report.