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".

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.

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.

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.

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.

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.

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

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
	51,696	43,914
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)
	126,915	111,822
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	**(4,412)**	(3,611)

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

6. FINANCE COSTS

	Group	
	1999	1998
	HK$'000	*HK$'000*
Interest on bank loans and overdrafts	**9,552**	12,893

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:	**1,069**	1,297
Other emoluments:		
Salaries, allowances and benefits in kind	**1,486**	1,977
Pension scheme contributions	**40**	40
	1,526	2,017
	2,595	3,314

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	**13**	11

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

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
	5,460	3,034

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**	—
	4	4

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.