

31 December 1999

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)

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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>

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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.

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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>

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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	—
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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	—
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Balance at 31 December 1999	<u>977,838</u>	<u>154,144</u>	<u>2,424</u>

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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.

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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)
	<u>54,671</u>
Gain on disposal	<u>1,501</u>
	<u><u>56,172</u></u>
Satisfied by:	
Cash	<u><u>56,172</u></u>

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	<u>(36,723)</u>
Net inflow of cash and cash equivalents in respect of the disposal of branch operations	<u><u>19,449</u></u>

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.

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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	<u>12,615</u>	<u>8,344</u>

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	<u>15,377</u>	<u>15,496</u>
	<u>25,765</u>	<u>26,385</u>

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

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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.

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29. RELATED PARTY TRANSACTIONS

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

		Group	
		1999	1998
	<i>Notes</i>	<i>HK\$'000</i>	<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.