

INTERIM REPORTS

UNAUDITED RESULTS

The board of directors (the "Directors") of Founder Holdings Limited (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2000, together with the comparative figures for the corresponding period of last year which are set out as follows:

CONSOLIDATED PROFIT AND LOSS ACCOUNT

		Six months ended	
		30 June 2000	30 June 1999
		HK\$'000	HK\$'000
	Notes		
TURNOVER	1	883,116	802,545
Cost of sales		(661,719)	(701,939)
Gross profit		221,397	100,606
Other revenue		6,368	1,618
Selling expenses		67,354	66,934
Administrative expenses		82,461	92,459
Other operating expenses		21,683	44,266
Total operating expenses		171,498	203,659
PROFIT/(LOSS) FROM OPERATING ACTIVITIES		56,267	(101,435)
Finance costs		(5,001)	(5,265)
		51,266	(106,700)
Share of profits/(losses) of:			
Jointly-controlled entities		(66)	939
Associates		(618)	—
PROFIT/(LOSS) BEFORE TAX		50,582	(105,761)
Tax	2	(2)	(116)
PROFIT/(LOSS) BEFORE MINORITY INTERESTS		50,580	(105,877)
Minority interests		407	—
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		50,987	(105,877)
EARNINGS/(LOSS) PER SHARE	4		
— Basic		4.6 cents	(13.2) cents
— Diluted		4.5 cents	N/A

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Notes:—

1. Turnover

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

2. Tax

	Six months ended	
	30 June 2000 HK\$'000	30 June 1999 HK\$'000
The People's Republic of China (the "PRC"), other than Hong Kong SAR Overseas	— <u>2</u>	116 <u>—</u>
Tax charge for the period	<u>2</u>	<u>116</u>

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

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 period.

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 were no significant unprovided deferred tax in respect of the period (1999: Nil).

3. Transfer to general reserve

No transfer from retained earnings was made to the general reserve for the six months ended 30 June 2000. Such appropriation will be made at the year end in accordance with the relevant PRC regulations.

4. Earnings/(Loss) per share

The calculation of basic earnings/(loss) per share for the six months ended 30 June 2000 is based on the unaudited net profit attributable to shareholders for the period of approximately HK\$50,987,000 (Six months ended 30 June 1999: loss of approximately HK\$105,877,000) and the weighted average of approximately 1,108,928,000 (Six months ended 30 June 1999: approximately 800,146,000) ordinary shares in issue.

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The calculation of diluted earnings per share is based on the unaudited net profit attributable to shareholders for the period of approximately HK\$50,987,000 and the weighted average number of approximately 1,108,928,000 ordinary shares in issue during the period, as used in the calculation of the basic earnings per share and the weighted average of approximately 13,403,000 ordinary shares assumed to have been issued at no consideration on the deemed exercise of all options outstanding during the period.

Diluted loss per share for the six months ended 30 June 1999 has not been shown as the impact of the outstanding share options was anti-dilutive.

INTERIM DIVIDEND

The Directors do not recommend the payment of any interim dividend for the six months ended 30 June 2000 (1999: Nil).

FINANCIAL HIGHLIGHTS AND BUSINESS REVIEW

Following the successful implementation of internal management and business restructuring, the Group has achieved remarkable results and resumed its position to a profitable level. Summary of the financial results of the Group for the six months ended 30 June 2000 is as follows:

Electronic Publishing Systems ("EPS") and Multi-media Systems

The EPS and Multi-media Systems business's turnover was approximately HK\$262 million, representing 8% decrease over the corresponding period in 1999. Gross profit was approximately HK\$70 million, representing 3% decrease over last period. The gross profit margin has increased to approximately 27% from last period's 25%.

The shifting of business focuses on the high profit margin and the rapid growing market segments in E-media, multi-media and internet sectors resulted in the slight decrease of 8% in turnover. The management expects this would bring in potential growth, hence, more profitable, to the Group in long-term.

Meanwhile, the Group has maintained its leadership in the media industry and in particular has the following achievements:

- In the first half of year 2000, the Group has successfully gained several major PRC news groups which include: Zhuhai Te Qu Bao (「珠海特區報」), Shanghai Zheng Quan Bao (「上海特區報」), Hua Shang Bao (「華商報」), Wulumuqi Wan Bao (「烏魯木齊晚報」).
- A new contract worth approximately RMB20 million was signed with the largest PRC news group, People's Daily (「人民日報」), for the integrated supply contract for newspaper publication.
- The Group's new research product for news data search system — "Founder Infobase" (「方正淵博」) was launched successfully and over 100 units were sold in the period with approximately RMB3 million in turnover

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The Group also continues its expansion of business and clientele in the multi-media and internet sector:

- The establishment of internet business unit for the promotion of “e-media” strategy and gained several new contracts such as Yang Cheng Wan Bao (「羊城晚報」) for construction of web-site.
- In April 2000, the Group launched a new upgrade version of Founder Internet Content Publish Server (“ICS”) (「方正翔宇」) version 2.0 which is an universal application tool for the setting up of web-site and distribution of information. Several TV boardcasting companies in Beijing, An Hui, Zhe Jiang and other ICP web-sites are now using this new version.
- In April and June, 2000, the Group's new software product — Wires Agency Modules (「電稿通」) was adopted by the web-sites of South China Morning Post and tom.com respectively.

Systems Integration

As indicated in the annual report last year, the systems integration sector will become a major profit contributor to the Group. The systems integration business's turnover rose by more than 10 times to approximately HK\$226 million. Gross profit amounted to approximately HK\$96 million, accounting for 43% of the Group's total gross profit.

Through extensive relationship network and excellent services and technical support, the Group has established a strong clientele in the PRC's industry and financial institutes, which serve over 100 customers. The major customers now include The Industrial and Commercial Bank of China (“ICBC”) and China Construction Bank (“CCB”) for most of their branches in the PRC.

The Group has successfully secured a total of approximately HK\$150 million new contracts during the period under review which includes: the IC card financial application system for the Country Credit Union Bank of China (Jiangyin Branch) (contract sum is approximately HK\$10 million), verification system for ICBC (Guangdong Province branch) (contract sum is approximately HK\$11 million) and the installation of the H-1000 POS terminal system for Zhongxin Guoan Information Joint-stock Ltd and Industrial, Commercial and Administration Bureau of the Shandong Province with a total contract sum of approximately HK\$18 million. As at 30 June 2000, the major outstanding contracts on hand amounted to approximately HK\$160 million.

Hardware Distribution

The hardware distribution business's turnover was decreased by 24% to approximately HK\$342 million. However, the gross profit rose by 61% to approximately HK\$22 million. The gross profit margin has improved to 6% as compared to 3% in last period.

The substantial increase in profit margin was mainly due to shifting towards distributing higher end and higher profit margin products to the commercial and business sectors. The management believes that this would bring in more profitable return to the Group.

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Operating Expenses

The results demonstrate that our tight cost control and prudent measures through financial and strategic actions are both practical and effective. The Group has taken various measures to control the operating costs. These measures include the restructuring of business segment and manpowers in order to optimise the resources, streamlining and curtailing of under-performance business units, and strengthening internal control on account receivables and inventory level.

The implementation of these procedures proven to be fruitful in the year 2000 which contribute to approximately 16% reduction of total operating expenses.

FUTURE PROSPECTS

Following the remarkable turnaround results in the period, the Group expected the improvements will continue in the second half of the year and in particular, several major development and prospects are summarised as follows:

EPS and Multi-media Systems

- Launch of upgrade version for advertising management system “Jing Wei” (「經緯」) and newspaper publishing management system “Wen Tao” (「文韜」) in November 2000.
- Launch of “e-book” integration system with the co-operation with the PRC’s publishing house and internet “book shops” in September, 2000.
- Development of integration systems for the production and boardcast system TV programs

Systems Integration

- Tax system for PRC Tax Bureau
- Call Centre system for China Insurance Company
- Data Centre system for CCB
- Police IC system for PRC Police Bureau

Internet Business

In order to capture the rapid growth of the internet business opportunities in China and leverage off the close co-operative relationships between the Group and its business partners (especially those in the PRC media industry), the Group has recently begun to engage in the non-media internet business through Founder Data Corporation International Limited (“FDC”) and its subsidiary and associated companies (the “FDC Group”).

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As disclosed further in the circular dated 9 September 2000 of the Company, it is the intention of the Company to dispose its entire interests in FDC to Management Investment & Technology (Holdings) Limited ("MIT"), a company listed in The Stock Exchange of Hong Kong Limited, in exchange for a substantial shareholding in MIT. Hence, MIT will serve as an independent vehicle for raising new capital from the equity market for the future development of the business of the FDC Group. On the other hand, MIT (through the operation of FDC Group) will act as the flagship of Founder for the provision of Internet services.

FDC Group operates 3 major business through its principal subsidiary companies namely: Beijing AdTargeting Inc. ("AdTargeting"); Founder EC-Media Limited ("EC-Media") and Founder EC-Tech Limited ("EC-Tech") and their principal activities are as follows:

- a. AdTargeting aims to act as an Internet advertisement agency in the PRC. AdTargeting has been appointed as Yahoo!'s on-line advertising agent in the PRC and also it has established a Super Media Alliance ("SMA") with more than 30 leading newspaper and publisher in the PRC to act as an exclusive agent for their website advertisements.
- b. EC-Media is catered for establishing business-to-business e-commerce platforms which allows news publication/network media to conduct on-line trading of press content such as news and photos and the trading of advertisements for various media advertising resources.
- c. EC-Tech mainly acts as a software developer with emphasis on the development of e-commerce platform technology and provision of application service primarily for retail management and supply chain management.

Overseas Market

It is the Group's intention to expand its geographical business segment and develop its overseas market.

Malaysia

To mark the Group's first step to list an overseas operation, on 11 September 2000, PUC Founder (MSC) Sdn. Bhd. ("Founder (MSC)"), an associated company of the Company in Malaysia, held a signing ceremony in Kuala Lumpur, Malaysia to appoint K & N Kenanga Bhd. as its sponsor for its proposed listing on the Malaysian Exchange of Securities Dealing and Automated Quotation Bhd. ("MESDAQ") in 2001. Founder (MSC) has captured over 70% market share of the Chinese newspaper publishing market in Malaysia and the company is developing the Founder FingerTec Fingerprint Identification System and the FingerTec products will be marketed worldwide next year.

Founder (MSC) will intend to raise approximately RM16 million from the proposed initial public offer to invest in fingerprint and e-commerce product research and development.

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Japan

The Company has successfully introduced a renowned strategic partner to the Group and reached an agreement with Softbank Investment Company Limited ("Softbank") to invest in Founder Inc., a wholly-owned subsidiary of the Company in Japan. Softbank will hold approximately 18% interests in Founder Inc. for an investment of approximately US\$10 million which will be satisfied by cash. The principal activities of Founder Inc. was mainly software development, systems integration and hardware distribution.

In general, the Directors are optimistic with the future business outlook of the Group and have strong faith that year 2000 will mark both a fruitful year and brilliant start in the new century for the Group.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Pursuant to a scheme of arrangement sanctioned by the Supreme Court of Hong Kong which became effective on 31 March 2000, the Company adopted a share option scheme which will permit the grants of options to employees (including directors) of the Company and its subsidiaries as well as to the holders of outstanding share options under the share option scheme of Founder (Hong Kong) Limited, a wholly owned subsidiary of the Company, in return for the cancellation of the share option scheme of Founder (Hong Kong) Limited.

Pursuant to the Company's share option scheme on 30 March 2000, the Company granted options in favour of the directors of the Company for subscription of new shares in the Company. The following options were outstanding as at 30 June 2000:

Name of Director	Number of Share Options Outstanding as at 30 June 2000
Wang Xuan	10,800,000
Cheung Shuen Lung	9,360,000
	<u>20,160,000</u>

All the above share options are exercisable between 30 March 2000 to 6 December 2005 at an exercise price of HK\$1.397 per ordinary share. The exercise price is adjustable in accordance with the provisions of the share option scheme.

Apart from the foregoing, at no time during the six months ended 30 June 2000 was the Company nor any of its subsidiaries a party to any arrangement to enable the Company's directors, their respective spouses or children under 18 years of age of any such director or chief executive to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other related body corporate.

DIRECTORS' INTERESTS IN SHARE CAPITAL

As at 30 June 2000, Mr. Cheung Shuen Lung has non-beneficial personal equity interests in certain subsidiaries held in trust for the Company solely for the purpose of complying with the minimum company membership requirements.

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Save as disclosed above, and as disclosed under the heading "Directors' rights to acquire shares", none of the directors or their associates had any personal, family, corporate or other beneficial interests in the securities of the Company or any of its associated corporations as defined in the Securities (Disclosure of Interests) Ordinance and recorded in the register required to be maintained pursuant to Section 29 thereof.

SUBSTANTIAL SHAREHOLDER

As at 30 June 2000, the following interests of 10% or more of the issued 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	Percentage
Peking University	393,402,210	35.01
Peking University Founder Group Corporation ("Peking Founder")	393,402,210	35.01
Mexican Gold Limited	125,000,000	11.12

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 interests in Peking Founder.

PURCHASE, SALE OR REDEMPTION OF LISTED SHARES

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the six months ended 30 June 2000.

AUDIT COMMITTEE

According to the requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), the Group has established an Audit Committee in March 1999 comprising two independent non-executive directors of the Company. They are responsible for dealing with matters relating to audit which include reviewing and supervising the financial reporting process and internal control to protect the interests of the shareholders.

COMPLIANCE WITH THE 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 during the six months ended 30 June 2000.

By Order of the Board
Cheung Shuen Lung
Executive Director and President

Hong Kong, 14 September 2000