UNAUDITED RESULTS

The board of directors (the "Board") of Founder (Hong Kong) Limited (the "Company") announce the unaudited consolidated results of the Company and its subsidiaries (together the "Group") for the six months ended 30 June 1999 with comparative figures of the corresponding period in 1998 as follows:

		Six months ended	
		30 June	30 June
		1999	1998
	Notes	***HK$'000***	*HK$'000*
Turnover		**802,545**	975,136
Operating (loss)/profit		**(106,700)**	19,935
Share of profit of jointly controlled entities		**939**	—
(Loss)/Profit before taxation		**(105,761)**	19,935
Taxation	2	**(116)**	(2,881)
Net (loss)/profit attributable to shareholders		**(105,877)**	17,054
(Loss)/Earnings per share	4		
— Basic		**(13.2) cents**	2.1 cents
— Diluted		**N/A**	2.0 cents

Notes:—

1. Significant accounting policy

During the period, after the review of the fixed asset condition, the Group has revised the estimated useful lives of certain equipment with aggregate cost of approximately HK$99 million from the average of 5 years to the average of 3 years, the Group's depreciation charge hence increased by approximately HK$6.5 million for the first half of year 1999. In the opinion of the directors, the revised estimated useful lives of such equipment reflect more closely the actual useful lives of such assets. The revision of estimated useful lives has increased the Group's depreciation charge by approximately HK$6.5 million for the current period. For 1999 and subsequent years, the revision of estimated useful lives will increase the Group's annual depreciation charge by approximately HK$13 million.

2. Taxation

	Six months ended 30 June 1999 HK$'000	Six months ended 30 June 1998 HK$'000
The People's Republic of China (the "PRC"), other than Hong Kong SAR	**116**	2,881
Overseas	**—**	—
	116	2,881
Jointly controlled entities The PRC (outside of Hong Kong)	**—**	—
Taxation charge for the period	**116**	2,881

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

The Group's subsidiary in the PRC, other than Hong Kong, has been subject to PRC profits tax at 50% of its standard tax rate for the three fiscal years which commenced in 1998 and ending on 31 December 2000. At present, the standard tax rate applicable to the PRC subsidiary is 15%.

Taxes on assessable profits of overseas subsidiaries have been calculated at the rates of taxation prevailing and based on existing taxation legislation, interpretation and practices in the countries in which the subsidiaries operate.

The Group did not have any significant unprovided deferred taxation in respect of the period.

3. Transfers to general reserve

No transfer from retained earnings was made to the general reserve for the six months ended 30 June 1999. Such appropriation will be made at the year end in accordance with the relevant PRC regulations.

4. (Loss)/Earnings per share

The calculation of basic loss per share for the six months ended 30 June 1999 is based on the unaudited net loss attributable to shareholders for the period of HK$105,877,000 (Six months ended 30 June 1998: profit of HK$17,054,000) and the weighted average of 800,146,000 (Six months ended 30 June 1998: 794,351,000) ordinary shares in issue,

The diluted loss per share for the period is not shown as the impact of the outstanding share options was anti-dilutive during the period.

The calculation of diluted earnings per share for the six months ended 30 June 1998 is based on the unaudited net profit attributable to shareholders for the period of HK$17,054,000 and the weighted average number of 794,351,000 ordinary shares in issue during the period, as used in the basic earnings per share calculation, and the weighted average of 40,253,000 ordinary shares assumed to have been issued at no consideration on the deemed exercise of all options outstanding during the period.

The adoption of the revised Statement of Standard Accounting Practice No. 5 "Earnings per share" issued by the Hong Kong Society of Accountants ("SSAP 5") has resulted in some modification to the basis of calculation of earnings per share amounts and the disclosures presented for earnings per share. Amounts presented for the prior period have been restated to reflect the requirements of the revised SSAP 5.

INTERIM DIVIDEND

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 1999.

REVIEW OF OPERATION

The Group's operation of the first half of year 1999 was affected adversely by the internal restructuring. The turnover decreases compared with the same period of last year, recording an amount of HK$802,545,000, representing a 18% decrease; and a loss of HK$105,877,000.

The effect of the Group's restructuring plan reveals in different aspects. In April, the Group changed the composition of the Board and set up a new management team in May. The whole process led to a relatively conservative approach of each business units, and the customers also took a wait-and-see attitude. Moreover, in order to enhance the management mechanism of the branches in China, the Group has adopted a series of streamlining and consolidation policies. As such, provision for losses as a result of that has been made.

During the period, the Group's EPS business mainly focused on product reform and repositioning its direction in the market. The Company started to introduce high value-added products so as to equip the publishers with more competitive electronic software to cope with the new era of internet. However, the positive effects of the reform policies will only be reflected in the coming future. During the first half of 1999, no product with break-through technology was introduced to the market, and the overall performance recorded a decline. Generally speaking, due to restructuring and the formulation of new business plans, sales for the first half of 1999 recorded a decline compared with the same period of last year.

During the period, the Group also carried out large-scale streamlining and consolidation measures in its systems integration business. So that such business will focus more on specialized fields with higher growth potential. The Group entered into an acquisition agreement with Beijing Order Computer Technology Co., Ltd. a systems integrator that has already built up a very good client base in the PRC's banking industry and having strong research and development capabilities. After the completion of the acquisition, the Group's systems integration business will explicitly position its main shaft in offering professional information consultancy services for the computerization of China's financial institutions.

Due to the impact of price-drop resulted from the continuous severe competition in the PRC, the Group's hardware business in the first half of 1999 also drew back a bit. In the restructuring plan, the strategy for hardware distribution has been seriously examined. Further improvement will be deployed based on current foundation and sales channels to facilitate product cycle. Moreover, the products for distribution will be cautiously selected to reduce the risk of the business.

REFORM AND PROSPECT

After the restructuring, the Group has a new management team with members having western management experiences.

In terms of structure, the new management proposed to streamline the number of branches in order to strengthen the sales and management of each branch over a larger region. Branches will be consolidated into 3 main regions: Greater North, East, and Middle South. General managers will be appointed directly by the Beijing head office so as to form an effective regional management structure with vertical management, which further enlarge the streugth of each region. Moreover, the Group has also divided the business into: Electronic Publishing Department, Enterprise Solution Department and IT Product Department. Specific sales and marketing teams are set up for each business departments respectively.

For medium and long term strategies, new management has also brought forth a brand new concept, E-Media, which targets to assist the core development of China's internet business — the publication and release of information on internet. It is a breakthrough from traditional medium using a combination of the most updated technologies including internet, communication, digital media, application software etc. to form a whole new method of production and transmission of digital information. In China, E-Media means abundant Chinese information on internet and the acceleration of information transmission and application. And the criteria for E-Media comprise every aspects of digitalization in our life which consist of not only the computerizations of the publishing business of Founder, but also the computerization for radio, television stations, websites, government institutions, educational sectors and corporations etc.

The Group will also introduce new products in correspondent to new strategies. A series of new products in the fields of digital media have been launched in September, including those in the new area of TV and broadcasting, including Founder NLE (Non Lineal Editing) system, Founder Virtual Reality system, Founder TV Editorial system and Founder BAS (Broadcasting Automation System). Besides, in the fields of the electronic publishing solutions several new products designed for the new era have also been launched: Founder software RIP (Raster Image Processor), Founder Wen Yi, the linkage product for information process and production, Founder Book Layout software 9.0, Founder FIT3.1, Founder ArtWorld2.1, Founder Imposition Software and Founder GBK Fonts. In addition, there are also other products in the Founder software group: Founder Chao Xian, Founder Packaging Software, Founder Mapping etc. Although they will not generate immediate economic return in the short term, it is believed that the introduction of new products will inevitably help the group to thrive and develop further in the medium and long run.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Pursuant to the Company's share option scheme, in prior years the Company granted options in favour of the directors of the Company for subscription for new shares in the Company. The following options were outstanding at 30 June 1999:

Name of directors	**Number of Share options at 30 June 1999**
Wang Xuan	10,800,000
Cheung Shuen Lung	9,360,000

All the above share options are exercisable between 21 December 1998 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 1999 was the Company or 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 1999, Mr. Cheung Shuen Lung and his wife each hold a 50% interest in the share capital of Swan-City International Group Limited which in turn held 25,346,058 shares of the Company. As at the same date, Mr. Cheung Shuen Lung had corporate interests as defined by the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance"), in 25,346,058 shares of the Company.

In addition to the above, Mr. Cheung Shuen Lung has non-beneficial personal equity interests in certain subsidiaries held on trust for the Company solely for the purpose of compliance with the minimum company membership requirement.

Save as disclosed above, as at 30 June 1999, none of the directors or their associates had any other beneficial interests in the share capital of the Company or any of its associated corporations as defined in the SDI Ordinance and recorded in the register required to be maintained pursuant to Section 29 thereof.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 1999, 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 shareholders	Number of shares held
Peking University	369,527,609
Peking University Founder Group Corporation ("Peking Founder")	369,527,609

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.

THE YEAR 2000 COMPLIANCE

To ensure that the Group's systems operation will not be affected by Year 2000 problem, a working team led by the Group's Vice President had been formed and had solved the crucial problems under the cooperation of each department.

The Group's accounting system is most susceptible to the Year 2000 problem. The Group has already adopted reliable software developed by professional firm. It's now still in the stage of testing. Besides, testings on other operating systems have already been completed before June 30th as planned. Testing of current systems has indicated no sign of Year 2000 problem. More testing will be conducted in respect of some of the Group's systems subject to such detail testing, the Board believes that the Company is Year 2000 compliant in the forth quarter of the year.

As at 30 June 1999, approximately HK$2.5 million had been spent on resolving the Year 2000 problem. Any cost related to solving the Year 2000 problem would be treated as expenses. The Board believes that the Year 2000 problem shall not cause any significant adverse impact on the Group's operation, sales, finance, research and development.

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 1999.

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 on 22 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.

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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited during the six months ended 30 June 1999.

By Order of the Board
Cheung Shuen Lung
Executive Director

Hong Kong, 20 September 1999