



 **FOUNDER HOLDINGS LIMITED**
方正控股有限公司
(Incorporated in Bermuda with limited liability)
2003 Interim Report

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CORPORATE INFORMATION

Board of Directors

Executive directors

Mr Cheung Shuen Lung (*Chairman*)
Professor Xiao Jian Guo (*Deputy Chairman*)
Professor Wei Xin
Mr Zhang Zhao Dong

Independent non-executive directors

Dr Hu Hung Lick, Henry
Mr Li Fat Chung

Company Secretary

Ms Tang Yuk Bo, Yvonne

Audit Committee

Dr Hu Hung Lick, Henry
Mr Li Fat Chung

Auditors

Ernst & Young
Certified Public Accountants

Solicitors

Norton Rose

Principal Bankers

Bank of China (Hong Kong) Limited
Fortis Bank Asia HK
Hang Seng Bank Limited

Registered Office

Cedar House
41 Cedar Avenue
Hamilton HM12
Bermuda

Head Office and Principal Place of Business

Unit 1408, 14th Floor
Cable TV Tower
9 Hoi Shing Road
Tsuen Wan
New Territories
Hong Kong

Share Registrars and Transfer Office

Principal registrars

Butterfield Fund Services (Bermuda) Limited
Rosebank Centre
11 Bermudiana Road
Pembroke
Bermuda

Hong Kong branch share registrars and transfer office

Computershare Hong Kong Investor Services Limited
Suite 1712-1716
17th Floor, Hopewell Centre
183 Queen's Road East
Hong Kong

Listing Information

Main board of The Stock Exchange of Hong Kong Limited
Stock code: 0418
Board lot: 2,000 shares

Investor Relations

Public Relations Department
Founder Holdings Limited
Unit 1408, 14th Floor
Cable TV Tower
9 Hoi Shing Road
Tsuen Wan
New Territories
Hong Kong
Telephone: (852) 2611 4114
Facsimile: (852) 2413 3218
Website: <http://www.founder.com.hk>
Email: ir@founder.com.hk

MANAGEMENT DISCUSSION AND ANALYSIS

The board of directors (the "Board") of Founder Holdings Limited (the "Company") presents the unaudited condensed consolidated interim financial statements of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 June 2003, together with the comparative figures for the corresponding period in 2002. The condensed consolidated interim financial statements have not been audited by the Company's auditors, but have been reviewed by the Company's audit committee.

Overall Performance

The Group's unaudited consolidated loss after tax and minority interests for the six months ended 30 June 2003 was substantially narrowed by approximately 90% to HK\$5.2 million (2002: loss of HK\$54.5 million). The Group recorded a drop in turnover during this interim period by approximately 6% to HK\$620.9 million (2002: HK\$659.0 million). For the two semi-annual periods under review, gross profit percentage maintained at around 19%. Our cost control measures implemented in the first half of 2003 further reduced our selling and distribution costs and administrative expenses by approximately 7% and 17% respectively if compared to the corresponding period in 2002.

Basic loss per share for this interim period was HK0.5 cents (2002: HK4.9 cents).

Operating Review And Prospects

During the first half of 2003, the outbreak of SARS brought an unprecedented negative impact on the business environment of Mainland China, especially in Beijing where our major operating subsidiaries are situated. Our normal business activities in the second quarter of 2003 were temporary disturbed. Despite the harsh business environment, we achieved a satisfactory improvement in our performance in the current period under review.

(A) Software development and systems integration

Media sector

The turnover of the software development and systems integration business in the media sector for the period decreased by 14% to HK\$234.1 million (2002: HK\$272.5 million) while its contribution to loss from operating activities for the period recorded a profit of HK\$4.9 million (2002: loss of HK\$1.3 million).

We have continued to strengthen the promotion campaign of our network publishing total solutions, Founder Apabi e-Book Solutions and to devote more research and development resources for our traditional digital publishing and commercial printing business. To capture the business opportunities from the computerization campaign of the PRC government, we have also allocated internal resources to explore the e-Government business.

Non-media sector

The turnover of the software development and systems integration business in the non-media sector for the period decreased by 47% to HK\$70.4 million (2002: HK\$131.6 million) while its loss from operating activities for the period increased by 22% to HK\$5.3 million (2002: HK\$4.3 million).

Since sales and marketing activities were disturbed due to the outbreak of SARS in the second quarter of this year, turnover in the first half of the year was lower than expected. Market competition in the systems integration business for the banking and security industries in the PRC was still severe during the period under review. We have further streamlined our operational team and tightened the control over operating expenses, thus improving our operational efficiency to face the keen market competition.

(B) Distribution of information products

Our substantial restructuring and reengineering exercise in the first half of 2002 laid a solid foundation for the future development of our distribution business of information products. The turnover of the distribution business of information products for the period increased by 26% to HK\$310.0 million (2002: HK\$245.7 million) while its contribution to loss for the period recorded a profit of HK\$1.5 million (2002: loss of HK\$20.1 million). This year we have planned to expand our distribution network by establishing offices in a number of cities in the PRC.

(C) Provision of software solutions and services

Our major associate, EC-Founder (Holdings) Company Limited ("EC-Founder"), positions itself as a software solution and service provider in the PRC. During the period under review, EC-Founder was still facing fierce competition for its software business. Although the turnover of its software business decreased by 33% in the current period, its gross profit margin improved by approximately 6% as a result of tight cost control.

Employees

The Group has developed its human resources policies and procedures based on performance and merit. The Group ensures that the pay levels of its employees are competitive and employees are rewarded on a performance-related basis within the general framework of the Group's salary and bonus systems. The Group provides on-the-job training to its employees in addition to retirement benefit schemes and medical insurance.

The Group operates share option schemes for the purpose of providing incentives and rewards to eligible directors and employees of the Group who contribute to the success of the Group's operations. The Company has not granted any share options during the current period.

Following the streamlining of the workforce of the Group in the first quarter of the current period, the number of employees of the Group fell by 6% from approximately 1,970 as at 31 December 2002 to approximately 1,860 as at 30 June 2003.

FINANCIAL REVIEW

Liquidity, financial resources and capital commitments

As at 30 June 2003, the Group recorded total assets of HK\$792.6 million which were financed by liabilities of HK\$463.1 million, minority interests of HK\$9.4 million and equity of HK\$320.1 million. The Group's net asset value per share as at 30 June 2003 amounted to HK\$0.28 per share as compared to HK\$0.29 per share as at 31 December 2002.

The Group had a total cash and bank balance of HK\$177.3 million as at 30 June 2003. After deducting total borrowings of HK\$23.9 million, the Group recorded a net cash balance of HK\$153.4 million as at 30 June 2003. The Group's borrowings, which are subject to little seasonality, consist of mainly short term bank loans and revolving trust receipt loans. As at 30 June 2003, the Group's gearing ratio, measured on the basis of total borrowings as a percentage of total shareholders' equity, was 0.07 (31 December 2002: 0.10) while the Group's working capital ratio was 1.39 (31 December 2002: 1.40).

As at 30 June 2003, the Group did not have any material capital expenditure commitments.

Treasury policies

The Group adopts conservative treasury policies and controls tightly over its cash and risk management. The Group's cash and cash equivalents are held mainly in Hong Kong dollars, Renminbi and United States dollars. Surplus cash is generally placed in short term deposits denominated in Hong Kong dollars and Renminbi.

Exposure to fluctuations in exchange rates and related hedges

Most of the Group's borrowings are denominated in Hong Kong dollars and United States dollars while the sales of the Group are mainly denominated in Renminbi and United States dollars. As the exchange rates of United States dollars against Hong Kong dollars and Renminbi were relatively stable during the period under review, the Group's exposure to fluctuations in exchange rates is considered minimal and no financial instruments have been used for hedging purposes.

Contracts

As at 30 June 2003, the major contracts in hand for the software development and systems integration business of the Group amounted to approximately HK\$218 million (31 December 2002: HK\$241 million), which are all expected to be completed within one year time.

Material acquisitions and disposals of subsidiaries and associates

On 19 March 2003, Founder (Hong Kong) Limited, a wholly-owned subsidiary of the Company, entered into a conditional sale and purchase agreement for the disposal of the Group's distribution business of information products to EC-Founder. Upon the completion of the disposal on 1 July 2003, EC-Founder became an approximately 54.85% owned subsidiary of the Company.

Charges on assets

As at 30 June 2003, all the Group's land and buildings and investment properties in Hong Kong and fixed deposits in total of approximately HK\$58 million were pledged to certain banks in Hong Kong and the PRC to secure banking facilities granted.

Contingent liabilities

The Group did not have any significant contingent liabilities as at 30 June 2003.

By Order of the Board
Cheung Shuen Lung
Chairman

Hong Kong, 19 September 2003

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Notes	Unaudited	
		Six months ended 30 June	
		2003	2002
		HK\$'000	HK\$'000
TURNOVER	2	620,918	658,990
Cost of sales		(502,156)	(531,871)
Gross profit		118,762	127,119
Other revenue and gains		18,929	18,571
Selling and distribution costs		(63,868)	(68,340)
Administrative expenses		(62,628)	(75,177)
Other operating expenses		(22,188)	(42,226)
LOSS FROM OPERATING ACTIVITIES	3	(10,993)	(40,053)
Finance costs	4	(437)	(3,695)
Share of profits and losses of:			
Jointly-controlled entity		(271)	668
Associates		220	(12,618)
LOSS BEFORE TAX		(11,481)	(55,698)
Tax	5	(555)	(536)
LOSS BEFORE MINORITY INTERESTS		(12,036)	(56,234)
Minority interests		6,794	1,707
NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		(5,242)	(54,527)
LOSS PER SHARE — Basic	6	(0.5) cents	(4.9) cents

CONDENSED CONSOLIDATED BALANCE SHEET

		Unaudited 30 June 2003 HK\$'000	Audited 31 December 2002 HK\$'000
NON-CURRENT ASSETS			
Fixed assets		69,127	74,580
Interest in a jointly-controlled entity		8,313	8,588
Interests in associates		72,146	71,127
		<u>149,586</u>	<u>154,295</u>
CURRENT ASSETS			
Inventories		161,590	153,449
Trade and bills receivables	8	223,883	196,302
Prepayments, deposits and other receivables		77,872	61,362
Short term investments		2,383	4,546
Pledged deposits		32,910	25,729
Cash and cash equivalents		144,341	216,383
		<u>642,979</u>	<u>657,771</u>
CURRENT LIABILITIES			
Trade and bills payables	9	200,456	199,294
Tax payable		251	794
Other payables and accruals		238,497	238,666
Interest-bearing bank and other borrowings		22,120	30,946
		<u>461,324</u>	<u>469,700</u>
NET CURRENT ASSETS		<u>181,655</u>	<u>188,071</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>331,241</u>	<u>342,366</u>
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings		1,765	2,236
		<u>329,476</u>	<u>340,130</u>
MINORITY INTERESTS		9,356	15,713
		<u>320,120</u>	<u>324,417</u>
CAPITAL AND RESERVES			
Issued capital		112,380	112,380
Reserves		207,740	212,037
		<u>320,120</u>	<u>324,417</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Issued share capital (Unaudited) <i>HK\$'000</i>	Share premium account (Unaudited) <i>HK\$'000</i>	Contributed surplus (Unaudited) <i>HK\$'000</i>	Capital reserve (Unaudited) <i>HK\$'000</i>	Land and building revaluation reserve (Unaudited) <i>HK\$'000</i>	Exchange fluctuation reserve (Unaudited) <i>HK\$'000</i>	General reserve (Unaudited) <i>HK\$'000</i>	Accumulated losses (Unaudited) <i>HK\$'000</i>	Total (Unaudited) <i>HK\$'000</i>
At 1 January 2003	112,380	27,660	802,515	68,439	601	(3,339)	43,059	(726,898)	324,417
Realisation of exchange fluctuation reserve on partial disposal of a subsidiary	—	—	—	—	—	(207)	—	—	(207)
Exchange realignment	—	—	—	—	—	1,152	—	—	1,152
Net gains not recognised in the profit and loss account	—	—	—	—	—	945	—	—	945
Net loss for the period	—	—	—	—	—	—	—	(5,242)	(5,242)
At 30 June 2003	<u>112,380</u>	<u>27,660</u>	<u>802,515</u>	<u>68,439</u>	<u>601</u>	<u>(2,394)</u>	<u>43,059</u>	<u>(732,140)</u>	<u>320,120</u>
At 1 January 2002	112,380	27,660	613,445	64,754	601	(4,801)	42,999	(448,702)	408,336
Exchange realignment	—	—	—	—	—	2,404	—	—	2,404
Net gains not recognised in the profit and loss account	—	—	—	—	—	2,404	—	—	2,404
Transfer to capital reserve	—	—	—	3,685	—	—	—	(3,685)	—
Net loss for the period	—	—	—	—	—	—	—	(54,527)	(54,527)
At 30 June 2002	<u>112,380</u>	<u>27,660</u>	<u>613,445</u>	<u>68,439</u>	<u>601</u>	<u>(2,397)</u>	<u>42,999</u>	<u>(506,914)</u>	<u>356,213</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Unaudited	
	Six months ended 30 June	
	2003	2002
	HK\$'000	HK\$'000
Net cash inflow/(outflow) from operating activities	(69,902)	8,590
Net cash outflow from investing activities	(15,626)	(8,035)
Net cash inflow/(outflow) from financing activities	<u>13,363</u>	<u>(87,707)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(72,165)	(87,152)
Cash and cash equivalents at beginning of period	216,383	263,460
Effect of foreign exchange rate changes, net	<u>123</u>	<u>1,382</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u><u>144,341</u></u>	<u><u>177,690</u></u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	120,765	177,558
Non-pledged time deposits with original maturity of less than three months when acquired	<u>23,576</u>	<u>132</u>
	<u><u>144,341</u></u>	<u><u>177,690</u></u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. Basis of preparation and accounting policies

The unaudited condensed consolidated interim financial statements of the Group are prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") No.25 "Interim financial reporting" issued by the Hong Kong Society of Accountants (the "HKSA"). The accounting policies and basis of presentation used in the preparation of these condensed consolidated interim financial statements are consistent with those used in the preparation of the audited financial statements of the Group for the year ended 31 December 2002, except the following new/revised SSAPs issued by the HKSA which have been adopted for the first time in the preparation of the current period's condensed consolidated interim financial statements:

- SSAP 12 (Revised) : "Income taxes"
- SSAP 35 : "Accounting for government grants and disclosure of government assistance"

SSAP 12 (Revised) principally prescribes the accounting treatment and disclosures for deferred tax. In prior years, deferred tax is provided using the income statement 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. SSAP 12 (Revised) requires the adoption of the balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. The adoption of SSAP 12 (Revised) has had no material effect on the results for the current or prior accounting periods.

SSAP 35 prescribes the accounting treatment and disclosures for government grants and disclosures for other forms of government assistance. This SSAP has had no material impact on these condensed consolidated interim financial statements.

2. Turnover and segment information

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts, and the value of services rendered during the period. The Group is principally engaged in the software development and systems integration and the distribution of information products.

The following table presents revenue and results of the Group's business segments for the six months ended 30 June 2003 and 2002:

	Software development and systems integration for media business		Software development and systems integration for non-media business		Distribution of information products		Corporate		Other		Consolidated	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Segment revenue:												
Sales to external customers	<u>234,109</u>	272,528	<u>70,362</u>	131,633	<u>309,962</u>	245,695	<u>835</u>	100	<u>5,650</u>	9,034	<u>620,918</u>	658,990
Segment results	<u>4,870</u>	(1,294)	<u>(5,286)</u>	(4,338)	<u>1,481</u>	(20,128)	<u>(8,940)</u>	(12,730)	<u>(3,860)</u>	(2,246)	<u>(11,735)</u>	(40,736)
Interest income											<u>742</u>	683
Loss from operating activities											<u>(10,993)</u>	(40,053)
Finance costs											<u>(437)</u>	(3,695)
Share of profits and losses of:												
Jointly-controlled entity											<u>(271)</u>	668
Associates											<u>220</u>	(12,618)
Loss before tax											<u>(11,481)</u>	(55,698)
Tax											<u>(555)</u>	(536)
Loss before minority interests											<u>(12,036)</u>	(56,234)
Minority interests											<u>6,794</u>	1,707
Net loss from ordinary activities attributable to shareholders											<u>(5,242)</u>	(54,527)

3. Loss from operating activities

The Group's loss from operating activities is arrived at after charging / (crediting):

	Unaudited	
	Six months ended 30 June	
	2003	2002
	HK\$'000	HK\$'000
Depreciation of fixed assets	6,129	9,068
Amortisation of trademark	—	475
Loss on disposal of fixed assets	220	2,394
Provision and write-off of doubtful trade debts	5,270	20,299
Provision and write-off/(reversal and write-back) of obsolete inventories	(2,342)	11,081
Loss on disposal of a subsidiary	—	535
Gain on partial disposal of a subsidiary	(3,496)	—
Gain on deemed partial disposal of an associate	—	(3,685)
Interest income	(742)	(683)
	<u>6,129</u>	<u>9,068</u>

4. Finance costs

	Unaudited	
	Six months ended 30 June	
	2003	2002
	HK\$'000	HK\$'000
Interest on bank loans and overdrafts	437	3,695
	<u>437</u>	<u>3,695</u>

5. Tax

	Unaudited	
	Six months ended 30 June	
	2003	2002
	HK\$'000	HK\$'000
Group:		
Hong Kong	8	—
Overseas	209	415
	<u>217</u>	<u>415</u>
Share of tax attributable to:		
Jointly-controlled entity	4	—
Associates	334	121
	<u>338</u>	<u>121</u>
Tax charge for the period	<u>555</u>	<u>536</u>

Hong Kong profits tax has been provided at the rate of 17.5% (2002: 16%) on the estimated assessable profits arising in Hong Kong during the period.

Beijing Founder Electronics Co., Ltd., a wholly-owned subsidiary of the Group in the People's Republic of China (the "PRC"), is subject to PRC profits tax at a rate of 10% on its assessable profits for the three fiscal years which commenced in 2001 and ending on 31 December 2003. Beijing Founder Order Computer System Co., Ltd. ("Founder Order"), a wholly-owned PRC subsidiary of the Group, is exempted from PRC profits tax for the three fiscal years which commenced in 1999 and ended on 31 December 2001 and, thereafter, is taxed at 50% of its standard tax rate in the fourth to sixth years, inclusive. Beijing Founder Century Information System Co., Ltd. ("PRC Century"), a wholly-owned PRC subsidiary of the Group, is exempted from PRC profits tax for the three fiscal years which commenced in 2002 and ending on 31 December 2004 and, thereafter, will be taxed at 50% of its standard tax rate in the fourth to sixth years, inclusive. At present, the standard tax rate applicable to Founder Order and PRC Century is 15%. No provision for PRC profits tax has been made for the period as the relevant PRC subsidiaries were either under their tax exemption period or had sufficient tax losses brought forward to offset against the assessable profits arising during the period.

Taxes on overseas profits 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.

No recognition of the potential deferred tax assets relating to tax losses and other deductible temporary differences has been made as the recoverability of the potential deferred tax assets is uncertain.

6. Loss per share

The calculation of basic loss per share for the six months ended 30 June 2003 is based on the unaudited net loss from ordinary activities attributable to shareholders for the period of approximately HK\$5,242,000 (2002: HK\$54,527,000) and the weighted average of approximately 1,123,800,000 (2002: 1,123,800,000) ordinary shares in issue during the period.

Diluted loss per share for the six months ended 30 June 2003 and 2002 have not been calculated as the impact of the outstanding share options was anti-dilutive.

7. Interim dividend

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2003 (2002: Nil).

8. Trade and bills receivables

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally for a period of one month, extending up to six months for major customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management.

An aged analysis of trade and bills receivables as at the balance sheet date and net of provision is as follows:

	Unaudited	Audited
	30 June	31 December
	2003	2002
	HK\$'000	HK\$'000
Within 6 months	191,118	172,214
7-12 months	15,387	15,466
13-24 months	14,722	7,469
Over 24 months	2,656	1,153
	223,883	196,302

9. Trade and bills payables

An aged analysis of trade and bills payables as at the balance sheet date is as follows:

	Unaudited 30 June 2003 HK\$'000	Audited 31 December 2002 <i>HK\$'000</i>
Within 6 months	168,024	113,749
7-12 months	12,414	9,105
13-24 months	5,562	50,301
Over 24 months	14,456	26,139
	<u>200,456</u>	<u>199,294</u>

10. Related party transactions

(a) The Group had the following material transactions with related parties during the period:

		Unaudited Six months ended 30 June 2003 HK\$'000	2002 <i>HK\$'000</i>
Sales of goods to a company in which three directors of the Company were directors	<i>(i)</i>	242	9,560
Sales of goods to a company in which one director of a subsidiary was a shareholder	<i>(i)</i>	3,069	—
Purchases of goods from a company in which three directors of the Company were directors	<i>(ii)</i>	1,124	1,747
Purchases of goods from a company in which one director of a subsidiary was a shareholder	<i>(ii)</i>	16,356	—
Bank loan guarantees given by Peking University Founder Group Corporation ("Peking Founder")	<i>(iii)</i>	—	47,145
Bank facilities guarantees given by Peking Founder	<i>(iv)</i>	130,899	67,491

Notes:

- (i)* The sales of goods were made according to the published prices and conditions similar to those offered to other customers of the Group.
- (ii)* The directors consider that the purchases of goods were made according to the published prices and conditions similar to those offered by the related parties to their other customers.
- (iii)* The bank loan guarantees were given to PRC banks for the loans granted to a subsidiary.
- (iv)* The bank facilities guarantees were given to PRC banks for the credit facilities granted to a subsidiary.

- (b) On 29 April 2003, the Group entered into lease agreements with Peking Founder to lease from Peking Founder certain premises in Beijing, the PRC, as its offices, warehouse and staff canteen for an aggregate annual rental and management fees of approximately HK\$23.42 million effective from 1 May 2003 to 31 December 2005. The rental agreements signed between the Group and Peking Founder in December 1995 were terminated on 30 April 2003. During the period, rental expenses of approximately HK\$6,487,000 (2002: HK\$7,071,000) were paid to Peking Founder. The directors considered that the rental expenses were paid in accordance with the terms of the agreements governing such transaction.

11. Contingent liabilities

The Group did not have any significant contingent liabilities as at 30 June 2003.

12. Post balance sheet events

- (a) On 19 March 2003, Founder (Hong Kong) Limited ("Founder HK"), a wholly-owned subsidiary of the Company, entered into a conditional sale and purchase agreement with EC-Founder (Holdings) Company Limited ("EC-Founder"), the then 39.45% owned associated company of the Company, pursuant to which, EC-Founder would acquire the entire equity interests in Founder Century (Hong Kong) Limited and PRC Century from Founder HK (the "Acquisition") at a total consideration of HK\$71,500,000. The Acquisition was completed on 1 July 2003. EC-Founder became an approximately 54.85% owned subsidiary of the Company upon the completion of the Acquisition. Further details of the transaction were set out in the joint announcements of the Company and EC-Founder dated 19 March 2003 and 2 July 2003.
- (b) On 1 August 2003, EC-Founder entered into a conditional disposal agreement (the "DA") with Honour Glory Limited, which is 90% owned by Mr Yung Richard, Jr., a director of EC-Founder. Pursuant to the DA, EC-Founder agreed to dispose of the entire issued share capital of MIT Holdings Limited to Honour Glory Limited at a total consideration of HK\$45,500,000. The transaction was not yet completed as at 19 September 2003. Further details of the transaction were set out in the joint announcement of the Company and EC-Founder dated 1 August 2003.

OTHER INFORMATION

Directors' Interests in Securities

At 30 June 2003, the interests and short positions of the directors and the chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code") contained in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows:

Long position in shares of associated corporations of the Company

- (i) Directors' interests in shares of EC-Founder, an associated corporation of the Company under the SFO

Name of director	Number of shares held			Percentage of the issued share capital
	Personal	As trustee*	Total	
Cheung Shuen Lung	36,890,100	63,459,100	100,349,200	12.23%
Xiao Jian Guo	8,703,300	—	8,703,300	1.06%
Wei Xin	3,956,000	63,459,100	67,415,100	8.22%
Zhang Zhao Dong	3,956,000	63,459,100	67,415,100	8.22%

* These shares held by each of the directors of the Company (a total of 63,459,100 ordinary shares in the share capital of EC-Founder) are held by F2 Consultant Limited as nominee on behalf of the directors of Founder Data Corporation International Limited ("FDC") who are acting in their capacity as the trustees of a discretionary trust for the employees of FDC and its subsidiaries.

- (ii) In addition to the above, as at 30 June 2003, Mr Cheung Shuen Lung had non-beneficial personal equity interests in certain subsidiaries of the Company held for the benefit of the Company, solely for the purpose of complying with the minimum company membership requirements.

Long position in underlying shares of associated corporations of the Company

Directors' interests in share options of EC-Founder

Name of director	Number of share options held	Date of grant of share options	Exercise period of share options	Exercise price of share options HK\$
Cheung Shuen Lung	2,000,000	18.5.2001	18.5.2001 to 17.5.2011	0.45
Wei Xin	2,000,000	18.5.2001	18.5.2001 to 17.5.2011	0.45
	<u>4,000,000</u>			

Save as disclosed above, as at 30 June 2003, none of the directors or the chief executives of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Directors' Rights to Acquire Shares and Debentures

Save as disclosed under the heading of "Directors' interests in securities" above, at no time during the period 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 arrangement to enable the directors to acquire such rights in any other body corporate.

Substantial Shareholders

At 30 June 2003, the following corporations (other than a director or chief executive of the Company) had interests in the shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO:

Long position in the shares of the Company

Name of shareholder	Number of shares held	Percentage of the issued share capital
Peking Founder	367,179,610	32.67%
Peking University Education Foundation of China	59,223,750	5.27%
Super Highway Limited	59,223,750 #	5.27%

These shares are held by Super Highway Limited on behalf of Peking University Education Foundation of China.

Save as disclosed above, as at 30 June 2003, no other person (other than a director or chief executive of the Company) had an interest or short position in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

Share Option Schemes

Share option schemes of the Company

On 24 May 2002, the Company adopted a new share option scheme (the "New Scheme") in compliance with Chapter 17 of the Listing Rules which replaced the old share option scheme (the "Old Scheme") in force previously. No share options had been granted under the New Scheme during the six months ended 30 June 2003. The Old Scheme was terminated on 24 May 2002, however, the options granted under the Old Scheme will remain in full force and effect.

The following share options were outstanding under the Old Scheme during the period:

Name or category of participant	Number of outstanding share options at 1 January 2003 and 30 June 2003	Date of grant of share options	Exercise period of share options	Exercise price of share options * HK\$
Non-director employees				
In aggregate	<u>700,000</u>	16.4.1999	16.4.1999 to 6.12.2005	0.912

* The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the share capital of the Company.

Share option scheme of a subsidiary of the Company

The following share options were outstanding under the share option scheme adopted by Founder International Inc., a subsidiary of the Company, during the period:

Name or category of participant	Number of outstanding share options at 1 January 2003 and 30 June 2003	Date of grant of share options	Exercise period of share options *	Exercise price of share options ** <i>JPY</i>
Non-director employees				
In aggregate	<u>58</u>	16.12.2000	17.12.2000 to 16.12.2010	4,720,000

* The vesting period of the share options is from the date of grant until the commencement of the exercise period.

** The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the share capital of Founder International Inc..

Purchase, Sale or Redemption of Listed Securities of the Company

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2003.

Code of Best Practice

In the opinion of the directors, the Company has complied with the Code of Best Practice (the "Code") as set out in Appendix 14 of the Listing Rules throughout the accounting period covered by these unaudited condensed consolidated interim financial statements except that the independent non-executive directors of the Company are not appointed for specific terms as required by Paragraph 7 of the Code, but are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the provisions of the Company's bye-laws.

The Company has an audit committee which was established in accordance with the requirements of the Code, for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises the two independent non-executive directors of the Company. These unaudited condensed consolidated interim financial statements for the six months ended 30 June 2003 of the Group now reported on have been reviewed by the audit committee.