

## INTERIM RESULTS

The board of directors (the “Board” or “Directors”) of Foundation Group Limited (the “Company”) presents the unaudited condensed consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 September 2003 (the “Period”) together with comparative figures for the corresponding period in 2002 as follows:

### CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 September 2003

		<b>Unaudited</b>	
		<b>Six months ended</b>	
		<b>30 September</b>	
		<b>2003</b>	2002
	Note	<b>HK\$'000</b>	HK\$'000
			As restated (Note 2)
<b>Turnover</b>		<b>23,075</b>	21,746
Direct operating costs		<b>(17,624)</b>	(19,065)
Cost of sales		<b>(644)</b>	–
		<b>4,807</b>	2,681
Other revenue		<b>642</b>	31
Selling and distribution costs		<b>(155)</b>	–
Administrative expenses		<b>(8,763)</b>	(25,291)
Loss from operations	4	<b>(3,469)</b>	(22,579)
Finance costs		<b>(1,461)</b>	–
Share of results of associates		<b>121</b>	(1,343)
Amortisation of goodwill		<b>(711)</b>	(9,758)
Interest in an associate written off		<b>(22)</b>	–
Provision for deposits paid for potential investments		<b>–</b>	(20,000)
<b>Loss from ordinary activities before taxation</b>		<b>(5,542)</b>	(53,680)
Taxation	5	<b>(402)</b>	922
<b>Loss before minority interests</b>		<b>(5,944)</b>	(52,758)
Minority interests		<b>155</b>	88
<b>Net loss for the period</b>		<b>(5,789)</b>	(52,670)
<b>Loss per share – basic</b>	6	<b>(2.93) cents</b>	(34.9) cents
– diluted	6	<b>–</b>	–

## CONDENSED CONSOLIDATED BALANCE SHEET

At 30 September 2003

		<b>Unaudited At 30 September 2003 HK\$'000</b>	Audited At 31 March 2003 HK\$'000 As restated (Note 2)
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Goodwill	7	<b>9,195</b>	–
Property, plant and equipment	8	<b>65,418</b>	74,425
Interests in unconsolidated subsidiaries	9	<b>7,525</b>	–
Interests in associates	10	<b>15,440</b>	558
Investments in securities		–	–
		<hr/> <b>97,578</b> <hr/>	<hr/> 74,983 <hr/>
<b>Current assets</b>			
Inventories	11	<b>44,234</b>	–
Trade and other debtors, deposits and prepayments	12	<b>28,912</b>	9,930
Loan receivables		–	956
Bank and cash balances		<b>46,536</b>	2,590
		<hr/> <b>119,682</b> <hr/>	<hr/> 13,476 <hr/>
<b>Current liabilities</b>			
Trade and other creditors	13	<b>24,368</b>	19,573
Tax payable		<b>350</b>	–
Short term loans	14	<b>74,200</b>	–
Amounts due to minority shareholders		<b>36,350</b>	24,414
Amount due to an associate		–	1,076
Amount due to a former director		<b>246</b>	418
		<hr/> <b>135,514</b> <hr/>	<hr/> 45,481 <hr/>
<b>Net current liabilities</b>		<hr/> <b>(15,832)</b> <hr/>	<hr/> (32,005) <hr/>
<b>Total assets less current liabilities</b>		<hr/> <b>81,746</b> <hr/>	<hr/> 42,978 <hr/>

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		Unaudited At 30 September 2003 HK\$'000	Audited At 31 March 2003 HK\$'000 As restated (Note 2)
<b>Non-current liabilities</b>			
Amounts due to unconsolidated subsidiaries	9	7,525	–
Deferred tax liabilities	2	2,193	4,440
		<b>72,028</b>	38,538
<b>Minority interests</b>	2	5,702	3,466
<b>NET ASSETS</b>		<b>77,730</b>	42,004
<b>CAPITAL AND RESERVES</b>			
Share capital	15	304	152,154
Reserves	2, 16	77,426	(110,150)
<b>SHAREHOLDERS' FUNDS</b>		<b>77,730</b>	42,004

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2003

		<b>Unaudited</b>	
		<b>Six months ended</b>	
		<b>30 September</b>	
		<b>2003</b>	2002
	Note	<b>HK\$'000</b>	HK\$'000
			As restated (Note 2)
<b>TOTAL EQUITY</b>			
At 1 April, as previously reported		<b>44,668</b>	345,860
Prior period adjustments in respect of change in accounting policy			
– deferred taxation	2, 16	<b>(2,664)</b>	(7,138)
At 1 April, as restated		<b>42,004</b>	338,722
Deficit on revaluation of leasehold properties	16	<b>(2,844)</b>	–
Exchange difference on translation of the consolidated financial statements of foreign entities not recognised in the consolidated income statement	16	<b>(216)</b>	562
Net (losses)/gains not recognised in the consolidated income statement		<b>(3,060)</b>	562
Rights issue of shares, net of expenses		<b>44,575</b>	–
Net loss for the period	16	<b>(5,789)</b>	(52,670)
At 30 September		<b>77,730</b>	286,614

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT**

For the six months ended 30 September 2003

	<b>Unaudited</b>	
	<b>Six months ended</b>	
	<b>30 September</b>	
	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	<b>(2,163)</b>	(10,538)
<b>NET CASH (USED IN)/GENERATED FROM INVESTING ACTIVITIES</b>	<b>(8,266)</b>	10,606
<b>NET CASH GENERATED FROM FINANCING ACTIVITIES</b>	<b>54,403</b>	–
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>43,974</b>	68
<b>CASH AND CASH EQUIVALENTS AT 1 APRIL</b>	<b>2,590</b>	4,617
<b>EFFECT OF FOREIGN EXCHANGE RATE CHANGES</b>	<b>(28)</b>	–
<b>CASH AND CASH EQUIVALENTS AT 30 SEPTEMBER</b>	<b><u>46,536</u></b>	<u>4,685</u>
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>		
Bank and cash balances	<b><u>46,536</u></b>	<u>4,685</u>

## **NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

### **1. BASIS OF PREPARATION**

The unaudited condensed consolidated financial statements have been 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 and with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

### **2. PRINCIPAL ACCOUNTING POLICIES**

The accounting policies and methods of computation used in the preparation of these condensed consolidated financial statements are consistent with those used in the preparation of the annual financial statements for the year ended 31 March 2003, except that the Group has changed its accounting policy following its adoption of SSAP 12 (Revised) “Income Taxes” issued by the Hong Kong Society of Accountants which are effective for accounting periods commencing on or after 1 January 2003. The change to the Group’s accounting policy and the effect of adopting this new policy are set out below:

#### **Deferred taxation**

Deferred taxation is provided, using the liability method, on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the unused tax losses and the unused tax credits can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

In prior year, deferred taxation was accounted for using the income statement liability method on all significant timing differences to the extent it is probable that the liability or asset will crystallise in the foreseeable future. The adoption of SSAP 12 (Revised) represents a change in accounting policy, which has been applied retrospectively so that the comparatives presented have been restated to conform to the changed policy:

- (a) Opening accumulated losses at 1 April 2002 and 2003 have been reduced by approximately HK\$5,003,000 and HK\$3,452,000 respectively; opening other property revaluation reserve at 1 April 2002 and 2003 have been dropped by approximately HK\$12,141,000 and HK\$6,137,000 respectively; and opening translation reserve at 1 April 2003 has been increased by approximately HK\$21,000.
- (b) The change has also resulted in an increase in deferred tax liabilities and a debit against minority interests at 31 March 2003 by approximately HK\$4,440,000 and HK\$1,776,000 respectively.
- (c) The loss for the six months ended 30 September 2003 and 30 September 2002 have been increased by approximately HK\$31,000 and decreased by approximately HK\$922,000.

### 3. SEGMENT INFORMATION

For management purposes, the Group is currently organised into the following operating divisions – freight forwarding and vessel operating common carrier services, operation of container depots and logistics management services, securities trading, apparel trading and strategic investments and others. These divisions are the basis on which the Group reports its primary segment information.

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Segment information about these businesses for the six months ended 30 September 2003 is presented below:

	Freight forwarding and vessel operating common carrier services HK\$'000	Operation of container depots and logistics management services HK\$'000	Securities trading HK\$'000	Apparel trading HK\$'000	Strategic investments and others HK\$'000	Consolidated HK\$'000
<b>For the six months ended 30 September 2003</b>						
Turnover	<u>11,402</u>	<u>10,319</u>	<u>241</u>	<u>1,113</u>	<u>-</u>	<u>23,075</u>
Segment results	<u>(849)</u>	<u>(102)</u>	<u>11</u>	<u>262</u>	<u>-</u>	<u>(678)</u>
Interest income						24
Group overheads						<u>(2,815)</u>
Loss from operations						(3,469)
Finance costs						(1,461)
Share of results of associates	-	-	-	-	121	121
Amortisation of goodwill	-	-	-	(20)	(691)	(711)
Interest in an associate written off	(22)	-	-	-	-	<u>(22)</u>
Loss from ordinary activities before taxation						(5,542)
Taxation						<u>(402)</u>
Loss before minority interests						(5,944)
Minority interests						<u>155</u>
Net loss for the Period						<u><u>(5,789)</u></u>



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	Freight forwarding and vessel operating common carrier services HK\$'000	Operation of container depots and logistics management services HK\$'000	Securities trading HK\$'000	Apparel trading HK\$'000	Strategic investments and others HK\$'000	Consolidated HK\$'000
<b>For the six months ended</b>						
<b>30 September 2002</b>						
Turnover	13,699	8,047	-	-	-	21,746
Segment results	(171)	(3,619)	-	-	Note -	(3,790)
Interest income						31
Group overheads						(15,132)
Corporate finance overheads						(3,688)
Loss from operations						(22,579)
Share of results of associates	(284)	-	-	-	(1,059)	(1,343)
Amortisation of goodwill	-	-	-	-	(9,758)	(9,758)
Provision for deposits paid for potential investments	-	-	-	-	Note (20,000)	(20,000)
Loss from ordinary activities before taxation						(53,680)
Taxation						922
Loss before minority interests						(52,758)
Minority interests						88
Net loss for the period						(52,670)

Note: The comparative figures of segment results in 2002 have been reclassified in order to give a more appropriate presentation of the results of the business segments.

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### 4. LOSS FROM OPERATIONS

	<b>Six months ended</b>	
	<b>30 September</b>	
	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Loss from operations has been arrived at after charging:		
Depreciation	<b>2,075</b>	3,279
Loss on write-off of property, plant and equipment	<b>863</b>	1,056
Loss on disposal of property, plant and equipment	<b>-</b>	439
	<b><u>          </u></b>	<b><u>          </u></b>

### 5. TAXATION

	<b>Six months ended</b>	
	<b>30 September</b>	
	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
The taxation charge comprises:		
Hong Kong Profits Tax		
Under-provision in prior years	<b>350</b>	-
Deferred tax		
Current period	<b>52</b>	(922)
	<b><u>          </u></b>	<b><u>          </u></b>
	<b><u>          </u></b>	<b><u>          </u></b>

No provision for Hong Kong Profits Tax has been made as the Group did not have any assessable profits for both periods. Provision for income tax in respect of operations in overseas has not been made as the Group did not generate any assessable profits in the respective jurisdictions for both periods.

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The taxation for the period can be reconciled to the loss per the consolidated income statement as follows:

	<b>Six months ended</b>	
	<b>30 September</b>	
	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Loss from ordinary activities before taxation	<b><u>(5,542)</u></b>	<u>(53,680)</u>
Tax at the applicable rate of 17.5% (2002: 16%)	<b>(970)</b>	(8,589)
Effect of different tax rates of subsidiaries operating in other jurisdictions	<b>(63)</b>	(840)
Tax effect of income not subject to taxation	<b>(2,190)</b>	(2,212)
Tax effect of expenses not deductible for taxation purposes	<b>3,150</b>	9,021
Tax losses not recognised	<b>125</b>	1,698
Adjustment recognised in the Period for current tax of prior periods	<b>350</b>	–
Taxation	<b><u>402</u></b>	<u>(922)</u>

No deferred tax asset has been recognised in respect of approximately HK\$16,127,000 (31 March 2003: HK\$11,305,000) due to the unpredictability of future profit streams.

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### 6. LOSS PER SHARE

The calculation of the basic loss per share is based on the net loss for the Period of approximately HK\$5,789,000 (30 September 2002: HK\$52,670,000 (restated)) and on the weighted average number of approximately 197,828,000 ordinary shares (30 September 2002: weighted average number of approximately 150,876,000 ordinary shares (restated)) in issue during the Period after adjusting the effects of the Share Consolidation and Rights Issue (Note 15(a) and 15(b)) on 9 July 2003 and 5 August 2003 respectively.

Diluted loss per share has not been presented as the exercise of the outstanding share options and warrants had an anti-dilutive effect on the basic loss per share for both periods.

### 7. GOODWILL

	HK\$'000
At 1 April 2003	–
Arising on acquisition of subsidiaries and a loan due from a subsidiary (Note 19)	9,215
Amortisation	(20)
	<hr/>
At 30 September 2003	<u>9,195</u>

Goodwill is amortised on a straight line basis over its useful life of five years.

### 8. PROPERTY, PLANT AND EQUIPMENT

	HK\$'000
Net book value at 31 March 2003	74,425
Exchange realignment	(323)
Additions	187
Acquired on acquisition of subsidiaries	1,140
Written off	(863)
Depreciation	(2,075)
Deficit on revaluation of leasehold properties	(7,073)
	<hr/>
Net book value at 30 September 2003	<u>65,418</u>

The Group's leasehold properties were revalued at 30 September 2003 by the Directors. The revaluation deficit of approximately HK\$7,073,000 was debited to other property revaluation reserve (Note 16).

## 9. INTERESTS IN UNCONSOLIDATED SUBSIDIARIES

	At 30 September 2003 HK\$'000	At 31 March 2003 HK\$'000
Interests stated at carrying value	12,201	–
Less: Impairment losses	<u>(4,676)</u>	<u>–</u>
	<u>7,525</u>	<u>–</u>
Amounts due to unconsolidated subsidiaries	<u>(7,525)</u>	<u>–</u>

Particulars of the unconsolidated subsidiaries held by the Group at 30 September 2003 are as follows:

Name	Place of registration and operations	Percentage of equity attributable to the Group
Beijing Capital Asia International Bonded Affairs Development Co., Ltd. ("Bonded Affairs")	The People's Republic of China	70%
Shanghai Fu Da Jewellery Company Limited ("Fu Da")	The People's Republic of China	57%

The Group has been unable to exercise its rights as a major shareholder of Bonded Affairs and Fu Da throughout the Period. Accordingly, the Group has been unable either to control the assets and operations or to exercise significant influence over the financial and operating policy decisions of both Bonded Affairs and Fu Da. In view of the above, the financial statements of Bonded Affairs and Fu Da have not been consolidated. Based on the latest information available to the Directors, the respective principal activities of Bonded Affairs and Fu Da are general trading and jewellery subcontracting.

The Directors, to their best knowledge, are satisfied that the Group has no material obligations or commitments either in respect of Bonded Affairs or Fu Da that require either adjustment to or disclosure in these consolidated financial statements.

The Group has not been able to obtain the financial information since the loss of effective control of Bonded Affairs and Fu Da.

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### 10. INTERESTS IN ASSOCIATES

	<b>At</b>	At
	<b>30 September</b>	31 March
	<b>2003</b>	2003
	<b>HK\$'000</b>	HK\$'000
Share of net liabilities	<b>(4,930)</b>	(4,132)
Goodwill	<b>15,680</b>	–
Amounts due from associates	<b>59,041</b>	37,422
	<hr/>	<hr/>
	<b>69,791</b>	33,290
Less: Impairment losses	<b>(54,351)</b>	(32,732)
	<hr/>	<hr/>
	<b>15,440</b>	558
	<hr/> <hr/>	<hr/> <hr/>

The amounts due from associates are unsecured, interest free and have no fixed terms of repayment.

The movement of goodwill arising on acquisition of associates are analysed as follows:

	HK\$'000
At 1 April 2003	–
Arising on acquisition of an associate	16,371
Amortisation	(691)
	<hr/>
At 30 September 2003	<b>15,680</b>
	<hr/> <hr/>

The goodwill arose from the acquisition of an associate, Global Institute, Inc., is amortised on a straight line basis over its useful life of five years.

- (a) On 15 July 2003, the Group acquired 49% equity interest in Global Institute, Inc. at a consideration of HK\$16,000,000. Global Institute, Inc., incorporated in the British Virgin Islands, is an investment holding company. Its wholly-owned subsidiary is engaged in organising and provision of academic training programmes.
- (b) Pursuant to an agreement dated 5 December 2003 in relation to the cessation of an associate, Zhaoqing Wing Jin Transportation Co., Ltd. ("Zhaoqing Wing Jin"), the Group and the joint venture partner of Zhaoqing Wing Jin agreed that the Group's shares of net assets of Zhaoqing Wing Jin of approximately HK\$542,000 and the loan receivable due from the joint venture partner of approximately HK\$556,000 were offset against the amount due to Zhaoqing Wing Jin of approximately HK\$1,076,000. Consequently, the Group recognised a write off of interest in an associate of approximately HK\$22,000 in the current period.

## 11. INVENTORIES

	<b>At</b>	At
	<b>30 September</b>	31 March
	<b>2003</b>	2003
	<b>HK\$'000</b>	HK\$'000
Merchandise goods for sales	<b><u>44,234</u></b>	<u>–</u>

## 12. TRADE AND OTHER DEBTORS, DEPOSITS AND PREPAYMENTS

The Group allows an average credit period ranging from 30 to 180 days to its trade customers.

At 30 September 2003, the balance of trade and other debtors, deposits and prepayments included trade debtors of HK\$18,432,000 (31 March 2003: HK\$5,459,000). The aged analyses of trade debtors, net of provision for bad and doubtful debts at the reporting dates are as follows:

	<b>At</b>	At
	<b>30 September</b>	31 March
	<b>2003</b>	2003
	<b>HK\$'000</b>	HK\$'000
0 – 60 days	<b>11,385</b>	2,778
61 – 90 days	<b>1,867</b>	1,028
91 – 180 days	<b>3,592</b>	1,202
181 – 365 days	<b>1,587</b>	193
Over 1 year	<b><u>1</u></b>	<u>258</u>
	<b><u>18,432</u></b>	<u>5,459</u>

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### 13. TRADE AND OTHER CREDITORS

At 30 September 2003, the balance of trade and other creditors included trade creditors of HK\$4,783,000 (31 March 2003: HK\$4,225,000). The aged analyses of the trade creditors at the reporting dates are as follows:

	<b>At</b>	At
	<b>30 September</b>	31 March
	<b>2003</b>	2003
	<b>HK\$'000</b>	HK\$'000
0 – 60 days	<b>2,914</b>	2,798
61 – 90 days	<b>827</b>	935
91 – 180 days	<b>535</b>	63
181 – 365 days	<b>97</b>	15
Over 1 year	<b>410</b>	414
	<hr/> <b>4,783</b> <hr/>	<hr/> 4,225 <hr/>

Included in other creditors is an aggregate amount of approximately HK\$2,927,000 (31 March 2003: HK\$3,007,000) representing accrued salaries due to the Company's former directors, Mr. Liang Jun, Mr. Tsai Bobby Sung-En, Mr. Chang Chih Ping, Tony and Mr. Hon Ming Kong.

### 14. SHORT TERM LOANS

Short term loans of HK\$74,200,000 at 30 September 2003 included the following:

- (a) A loan of HK\$10,000,000 from a third party is interest bearing at a monthly interest rate of 3.5% and repayable six months from the date of advance due in November 2003. The whole amount is secured by 60% shareholding in United Asia Terminal Holdings Limited ("United Asia"), a subsidiary of the Company. United Asia is the holding company of Shanghai Fortune Limited, Fortune Union Investment Limited and Shanghai United Asia Container Services Co., Ltd. which are principally engaged in container depots and logistics management services. The renewal of the said loan agreement is currently being finalised by the Group and the lender. The Directors are in the opinion that the lender will not demand for immediate repayment of the said loan and the interest payable of approximately HK\$1,458,000 (included in other creditors).



- (b) The remaining balance comprises two loans, with an aggregate amount of HK\$64,200,000, which are interest bearing at 1% per annum over bank's best lending rate and repayable six months from the date of the loan agreements due in March 2004. The whole amount is secured by a pledge of all the issued share capital in and the shareholder loan due from Full Ahead Limited, a wholly-owned subsidiary of the Company. Full Ahead Limited is the holding company of the subsidiaries which are mainly engaged in apparel trading.

## 15. SHARE CAPITAL

	Number of shares	HK\$'000
Authorised:		
At 1 April 2003 and 2002: Ordinary shares of HK\$0.10 each	3,000,000,000	300,000
Share Subdivision (Note (a)(iii)), ordinary shares of HK\$0.001 each	297,000,000,000	–
	<u>300,000,000,000</u>	<u>300,000</u>
At 30 September 2003: Ordinary shares of HK\$0.001 each	<u>300,000,000,000</u>	<u>300,000</u>
Issued and fully paid:		
At 1 April 2003 and 2002: Ordinary shares of HK\$0.10 each	1,521,541,315	152,154
Capital Reduction (Note (a)(i))	–	(152,002)
Share Consolidation (Note (a)(ii))	(1,369,387,184)	–
Rights Issue of shares (Note (b))	152,154,131	152
	<u>304,308,262</u>	<u>304</u>
At 30 September 2003: Ordinary shares of HK\$0.001 each	<u>304,308,262</u>	<u>304</u>

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- (a) Pursuant to the special resolutions passed at a special general meeting held on 9 July 2003:
- (i) The paid up capital of each of the issued shares was reduced from HK\$0.10 to HK\$0.0001 each by the cancellation of HK\$0.0999 of the paid up capital on each issued share ("Capital Reduction"). As a result of the Capital Reduction, based upon 1,521,541,315 issued shares, an amount of approximately HK\$152,002,000 from the share capital account of the Company was cancelled and credited to the contribution surplus account of the Company. The contributed surplus was then applied to eliminating part of the accumulated losses.
  - (ii) Every 10 issued reduced shares of HK\$0.0001 each immediately after the Capital Reduction were consolidated into one new share of HK\$0.001 each ("Share Consolidation").
  - (iii) Each authorised but unissued share of HK\$0.10 each in the capital of the Company (including the authorised but unissued shares arising from the Capital Reduction) was subdivided into 100 new shares of HK\$0.001 each ("Share Subdivision"). Following the Capital Reduction, Share Consolidation and Share Subdivision, the authorised but unissued share capital and issued share capital of the Company became 299,847,845,869 and 152,154,131 new shares respectively.
- (b) On 5 August 2003, 152,154,131 new shares of HK\$0.001 each were issued by way of rights issue ("Rights Issue") at an issue price of HK\$0.30 per rights share in the proportion of one rights share for every one share then held to provide additional working capital to the Company.

## 16. RESERVES

	Share premium HK\$'000	Other property revaluation reserve HK\$'000	Translation reserve HK\$'000	Negative goodwill reserve HK\$'000	Goodwill reserve HK\$'000	Capital redemption reserve HK\$'000	Other reserve HK\$'000	Accu- mulated losses HK\$'000	Total HK\$'000
<b>For the year ended 31 March 2003</b>									
At 1 April 2002									
- as previously reported	615,825	36,793	577	27,314	(1,843)	1,190	33,392	(519,542)	193,706
- prior period adjustments in respect of change in accounting policy - deferred taxation (Note 2)	-	(12,141)	-	-	-	-	-	5,003	(7,138)
- as restated	615,825	24,652	577	27,314	(1,843)	1,190	33,392	(514,539)	186,568
Deficit on revaluation of leasehold properties	-	(5,800)	-	-	-	-	-	-	(5,800)
Reversal of deferred taxation arising on revaluation of leasehold properties	-	1,914	-	-	-	-	-	-	1,914
Exchange difference arising on translation of operations outside Hong Kong	-	-	474	-	-	-	-	-	474
Reserves attributable to minority shareholders	-	6,410	26	-	-	-	-	-	6,436
Share of movement of reserve of associates	-	-	29	-	-	-	-	-	29
Net loss for the year	-	-	-	-	-	-	-	(299,771)	(299,771)
At 31 March 2003	<u>615,825</u>	<u>27,176</u>	<u>1,106</u>	<u>27,314</u>	<u>(1,843)</u>	<u>1,190</u>	<u>33,392</u>	<u>(814,310)</u>	<u>(110,150)</u>
<b>For the six months ended 30 September 2003</b>									
At 1 April 2003									
- as previously reported	615,825	33,313	1,085	27,314	(1,843)	1,190	33,392	(817,762)	(107,486)
- prior period adjustments in respect of change in accounting policy - deferred taxation (Note 2)	-	(6,137)	21	-	-	-	-	3,452	(2,664)
- as restated	615,825	27,176	1,106	27,314	(1,843)	1,190	33,392	(814,310)	(110,150)
Deficit on revaluation of leasehold properties	-	(7,073)	-	-	-	-	-	-	(7,073)
Reversal of deferred taxation arising on revaluation of leasehold properties	-	2,334	-	-	-	-	-	-	2,334
Transfer from share capital due to Capital Reduction (Note 15(a)(i))	-	-	-	-	-	-	-	152,002	152,002
Premium arising from Rights Issue, net of expenses (Note 15(b))	44,423	-	-	-	-	-	-	-	44,423
Exchange difference arising on translation of operations outside Hong Kong	-	-	(332)	-	-	-	-	-	(332)
Reserves attributable to minority shareholders	-	1,895	132	-	-	-	-	-	2,027
Share of movement of reserve of associates	-	-	(16)	-	-	-	-	-	(16)
Net loss for the Period	-	-	-	-	-	-	-	(5,789)	(5,789)
At 30 September 2003	<u>660,248</u>	<u>24,332</u>	<u>890</u>	<u>27,314</u>	<u>(1,843)</u>	<u>1,190</u>	<u>33,392</u>	<u>(668,097)</u>	<u>77,426</u>
<b>For the six months ended 30 September 2002</b>									
At 1 April 2002									
- as previously reported	615,825	36,793	577	27,314	(1,843)	1,190	33,392	(519,542)	193,706
- prior period adjustments in respect of change in accounting policy - deferred taxation (Note 2)	-	(12,141)	-	-	-	-	-	5,003	(7,138)
- as restated	615,825	24,652	577	27,314	(1,843)	1,190	33,392	(514,539)	186,568
Exchange difference arising on translation of operations outside Hong Kong	-	-	539	-	-	-	-	-	539
Share of movement of reserve of associates	-	-	23	-	-	-	-	-	23
Net loss for the period	-	-	-	-	-	-	-	(52,670)	(52,670)
At 30 September 2002	<u>615,825</u>	<u>24,652</u>	<u>1,139</u>	<u>27,314</u>	<u>(1,843)</u>	<u>1,190</u>	<u>33,392</u>	<u>(567,209)</u>	<u>134,460</u>

### 17. CONTINGENCIES AND COMMITMENTS

#### (a) Litigations

At the balance sheet date, the Group has the following contingent liabilities:

- (i) On 29 September 2000, an action was commenced in HCAJ 250 of 2000 (the “1st Action”) by Fuhai Marine Enterprise Limited (“Fuhai Marine”) and the owners and/or those entitled to sue in respect of a cargo lately laden on board the ship or vessel “Sui Hang 982” against the demise charterers of the ship “Sui Hang 982” and the owners of the ship or vessel “Sui Hang 982” as well as her sister vessels. Freedom Liberty Limited (“Freedom Liberty”), a wholly-owned subsidiary of the Company, acknowledged service of the Writ of Summons in the 1st Action as the demise charterer of “Sui Hang 982”. Fuhai Marine was the forwarding agent of a containerised cargo interests on board the “Zhu Yun 278”, the vessel which collided with “Sui Hang 982”, on 28 June 2000 within Hong Kong waters. After the collision, “Zhu Yun 278” foundered and sank with all cargoes on board. The claims in the 1st Action are for approximately US\$50,000 plus interests and costs and are brought in tort. The case is currently being handled by the Company’s legal advisers. In the opinion of the Directors, it appears unlikely that the plaintiffs would proceed with the 1st Action as no Statement of Claim has yet been served to date notwithstanding the commencement of the 1st Action in September 2000. Based on the legal advice obtained, the Directors strongly believe that the Group has reasonable good chances of successfully defending the 1st Action. Hence, no provision has been made in the consolidated financial statements.
- (ii) On 27 June 2001, two actions were commenced in HCAJ 202 and HCAJ 203 of 2001 (the “2nd Action” and “3rd Action” respectively) by the owners and/or those entitled to sue in respect of cargo lately laden on board the ship or vessel “Zhu Yun 278” against the owners and/or demise charterers of the ship or vessel “Sui Hang 982”. The claims in the 2nd Action and the 3rd Action are for damages and interests (which were not specified in the respective Indorsement of Claim) and arise out of the collision between “Sui Hang 982” and “Zhu Yun 278” on 28 June 2000 within Hong Kong waters. After the collision, “Zhu Yun 278” foundered and sank with all cargoes on board. Freedom Liberty was involved in the 2nd Action and the 3rd Action because it had acknowledged service of the Writ of Summons of the 1st Action as a demise charterer of the ship or vessel “Sui Hang 982” and the 2nd Action and the 3rd Action were brought against its owners and/or demise charterers. The case is currently being handled by the Company’s legal advisers. The Writ has not yet been served on Freedom Liberty. Based on the legal advice obtained, the Directors strongly believe that the Group has reasonable good chances of successfully defending the 2nd Action and the 3rd Action. Hence, no provision has been made in the consolidated financial statements.

- (iii) On 9 April 2002, an action has been commenced in HCCL 18 of 2002 (the "4th Action") by Wedge Marine Limited against the Company (as 1st defendant) and two other defendants for the sum of approximately US\$408,000 and GBP107,000 together with interest and costs. The claim in the 4th Action is in connection with damages together with interest and cost previously claimed for the unpaid charter hire of vessel by a former subsidiary of the Company in which the Company was then claimed as having guaranteed the performance and payments of this former subsidiary. The parties are dealing with the interlocutory matters. Based on the legal advice obtained, the Directors strongly believe that the Group has reasonable good chances of successfully defending the 4th Action. Hence, no provision has been made in the consolidated financial statements.
- (iv) On 13 March 2003, Total Resources Limited ("Total Resources") issued a Writ of Summons at the District Court (the "5th Action") against the Company for HK\$304,000 being fees allegedly due to Total Resources for secondment services in relation to provision of company secretary under a Service Agreement dated 1 August 2001. On 2 May 2003, Total Resources amended its Statement of Claim and then increased its claim to HK\$1,064,000 being damages for repudiation of the Service Agreement. On 20 May 2003, an Order was granted by the District Court for the 5th Action to be transferred to the High Court. Based on the legal advice obtained, the Directors are of the opinion that the Group has reasonable good case in defending the 5th Action. Hence, no provision has been made in the consolidated financial statements.

**(b) Capital commitments**

<b>At</b>	At
<b>30 September</b>	31 March
<b>2003</b>	2003
<b>HK\$'000</b>	HK\$'000

Capital expenditure contracted for but not provided in the consolidated financial statements in respect of:

(i) Unpaid capital contribution to an associate	<b>4,141</b>	4,141
(ii) Acquisition of properties in Malaysia	<b>105,281</b>	–
	<b>109,422</b>	4,141

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### 18. RELATED PARTY TRANSACTIONS

Save as disclosed in the condensed consolidated balance sheet and in Notes 10 and 13 above in relation to balances with related parties at the balance sheet date, the Group did not have any significant related party transactions during the both periods.

### 19. ACQUISITION OF SUBSIDIARIES AND A LOAN DUE FROM A SUBSIDIARY

On 26 September 2003 the Group acquired 100% of the share capital in and a loan due from Hamlet Profits Limited, which is incorporated in the British Virgin Islands, with its subsidiaries principally engaged in apparel trading.

The assets and liabilities arising from the acquisition are as follows:

	HK\$'000
Property, plant and equipment	1,140
Interests in unconsolidated subsidiaries	7,525
Interests in associates	–
Investments in securities	–
Inventories	44,549
Trade and other debtors, deposits and prepayments	20,948
Bank and cash balances	871
Trade and other creditors	(7,183)
Amounts due to unconsolidated subsidiaries	(7,525)
Short term loans	(64,200)
	<hr/>
	(3,875)
Goodwill (Note 7)	9,215
	<hr/>
Total purchase consideration	<u>5,340</u>

### 20. EVENTS AFTER THE BALANCE SHEET DATE

- (a) Pursuant to a placing agreement and a subscription agreement both dated 7 November 2003, Leopard Vision Limited, a substantial shareholder of the Company, agreed to place 60,000,000 ordinary shares of the Company at HK\$0.25 per share to independent investors and, in turn, subscribed for 60,000,000 new shares in the Company at the same price. The estimated net proceeds of the said subscription of approximately HK\$14,700,000 will be applied for investment purposes. In the event that no appropriate investment opportunity is identified by the Group, the net proceeds will be retained by the Group for general working capital purposes.

- (b) On 3 November 2003, the Group entered into an agreement to dispose of the entire issued capital of a wholly-owned subsidiary, Electronic Dragon Technology Limited, for a cash consideration of HK\$500,000. The main asset of Electronic Dragon Technology Limited is an indirect investment in Beijing Worthope Sathen Network Technology Co. Ltd. which is principally engaged in the provision of technical support services for continuing education services and professional training and other related services to medical practitioners in the People's Republic of China. The estimated profit on disposal of the subsidiary is approximately HK\$600,000.

## **INTERIM DIVIDEND**

The Board did not recommend the payment of an interim dividend for the Period (2002: nil).

## **MANAGEMENT DISCUSSION AND ANALYSIS**

For the Period, the Group recorded a loss of approximately HK\$5.8 million as compared with a loss of approximately HK\$52.7 million (restated) for the last corresponding period. Turnover of the Group increased by 6.1% from approximately HK\$21.7 million in the last corresponding period to approximately HK\$23.1 million for the Period.

## **REVIEW OF OPERATIONS**

### **Freight Forwarding and Vessels Operating Common Carrier Services**

Due to the negative impact of SARS, turnover of this segment decreased by 16.8% from approximately HK\$13.7 million for the previous corresponding period to approximately HK\$11.4 million for the Period. Net operating loss increased slightly for the Period as compared with last corresponding period and the management will continue to take appropriate measures to cut its operating costs.

### **Container Depot and Logistics Management Services**

After completion of the maintenance works of the container depot in Shanghai in The People's Republic of China ("PRC"), turnover increased by 28.2% from approximately HK\$8.0 million in the last corresponding period to HK\$10.3 million for the Period. Due to successful cost management, the Group managed to reduce its net operating loss of HK\$3.6 million in the last corresponding period to a net operating loss of HK\$0.1 million for the Period.



### **Long Distance and Continuing Education**

The investments of the Group in Oriental Express Development Limited and Independent Islands Limited which are respectively principally engaged in provision of satellite and internet support to long distance education for pharmacists and continuing medical education for practitioners amongst the medical sector in the PRC had still not provided any contribution to the Group due to the further delay in the construction of infrastructure of the projects. On 3 November 2003, the Group entered into an agreement to dispose of the entire issued share capital of a wholly-owned subsidiary, Electronic Dragon Technology Limited (“Electronic Dragon”). Electronic Dragon is the investment holding company of Independent Islands Limited. The management decided not to inject further financial resources into the remaining project.

In order to compensate the lack of contribution in this segment, the management decided to seek new investment opportunity in a more traditional mode of operation which the management has more confidence in. As a result, the Group acquired 49% interest in Global Institute, Inc. (“Global Institute”) in July 2003. Global Institute and its subsidiary are principally engaged in organizing and provision of higher education programs to mature students in Hong Kong through cooperation with a selection of universities, professional bodies and well respected organizations throughout the world. Initially based in Hong Kong, Global Institute is now planning to diversify into the PRC. With the trend of an increasing demand of receiving higher education in Hong Kong and the PRC, the management is optimistic about the development of the business of Global Institute.

### **Apparel Trading and Retailing**

On 26 September 2003, the Group acquired Hamlet Profits Limited (“Hamlet”) from an independent third party. Hamlet is an investment holding company and its subsidiaries (“Hamlet Group”) are principally engaged in the wholesale and retail of products under the well-known French labels, namely “Balenciaga” and “Smalto”. Hamlet Group possesses a rather extensive distribution network in Hong Kong, Macau and the PRC which the management considers to be a valuable asset to the Group.

## **Foundation Group Limited**

Since the acquisition was completed towards the end of the Period, not much of the results of Hamlet Group could be recognised in the Group's results for the Period. However, based on Hamlet Group's performance and the generally improved retail market, the management is optimistic that Hamlet Group will be able to bring positive contribution to the Group in the future.

### **Securities Trading**

The Group had cleared all its positions in the equity market during the financial year 2002 and stayed away from the bear market since then. Starting from the third quarter of year 2003, the economic conditions gradually recovered from SARS and the stock market in Hong Kong sees strong recovery and improved sentiment. In light of the prospect of a sustainable robust market environment, the management decided to participate again in equity investment so as to capture the upward wave of the stock market. The management expected that the securities trading activities of the Group will increase in the second half of the current financial year.

## **EMPLOYEES AND REMUNERATION POLICY**

As at 30 September 2003, the Group employed 306 permanent employees, including 105 employees in Hong Kong and 201 in PRC. The Group continued to review the remuneration packages of employees with reference to the level and composition of pay, general market condition and individual performance. Staff benefits include contribution to Mandatory Provident Fund Scheme, discretionary bonus, share option scheme, medical allowance and hospitalization scheme and housing allowance.

## **LIQUIDITY AND FINANCIAL RESOURCES**

During the Period, the Group had been funding its operation entirely by shareholders' equity, cash generated from operations and other loans. Total non-current assets and current assets of the Group as at 30 September 2003 were approximately HK\$97.6 million and HK\$119.7 million which were financed by non-current liabilities, current liabilities and shareholders' equity of HK\$4.0 million, HK\$135.5 million and HK\$77.7 million respectively.

Together with the cash generated from the Group's operation in its ordinary course of business, coupled with net proceeds from the Rights Issues mentioned under the heading of Capital Structure below, the Directors expected that the Group will have sufficient working capital for its operation.

Except that one of the Group's core operations was in the PRC, the Group had limited exposure to fluctuation in exchange rates.

## **CHARGE ON GROUP ASSETS**

All other loans were secured by the Group's equity interests in certain subsidiaries and certain charges on loans due by these subsidiaries. All of them were repayable within one year.

## **CAPITAL STRUCTURE**

### **Capital Reorganisation**

During the Period, a special resolution was passed in a special general meeting of the Company held on 9 July 2003 ("SGM") pursuant to which the paid up capital of the Company was reduced from HK\$0.10 per share to HK\$0.0001 per share ("Reduced Share") by the cancellation of HK\$0.0999 of the paid up capital on each issued share ("Capital Reduction"). As a result of the Capital Reduction and based upon the number of issued shares of the Company as at 9 July 2003, an amount of approximately HK\$152,002,000 from the share capital account of the Company was cancelled and credited to the contributed surplus account of the Company and was applied to eliminating part of the accumulated losses of the Company. The Capital Reduction became effective on 10 July 2003 whereupon every 10 Reduced Shares were consolidated into one share ("Share Consolidation") of HK\$0.001 each ("New Share").

### **Rights Issue**

Pursuant to an ordinary resolution passed in the SGM, 152,154,131 New Shares were issued by way of rights issue ("Rights Issue") on the basis of one rights share for every New Share held at an issue price of HK\$0.30 per share on 5 August 2003. The net proceeds of approximately HK\$44 million has been used as the Group's working capital and for investment purposes.

## **Foundation Group Limited**

### **Warrant**

The nominal value of the outstanding warrants of the Company as at 30 September 2003 was HK\$117,000,000 with rights to be exercised on or before 31 March 2004 (“2004 Warrants”).

As a result of the Share Consolidation and Rights Issue, the subscription price of the 2004 Warrants had been changed from HK\$0.50 to HK\$3.79 per share. If all of the outstanding 2004 Warrants are fully exercised, the Group will be required to issue additional 30,870,712 shares.

### **Placing of Existing Shares and Subscription of New Shares**

Subsequent to the Period, pursuant to a placement agreement dated 7 November 2003 made between Leopard Vision Limited (“Leopard Vision”), a substantial shareholder of the Company, and Emperor Securities Limited (“ESL”), ESL agreed to place 60,000,000 shares in the Company held by Leopard Vision at a placing price of HK\$0.25 per share.

Pursuant to a subscription agreement also dated 7 November 2003 made between the Company and Leopard Vision, Leopard Vision agreed to subscribe for 60,000,000 shares in the Company and the Company agreed to issue 60,000,000 new shares in the share capital of the Company to Leopard Vision at a subscription price of HK\$0.25 per share (“Subscription”).

On completion of the Subscription on 21 November 2003, 60,000,000 shares of HK\$0.001 each were issued and allotted to Leopard Vision at a consideration of HK\$0.25 per share. Net proceeds derived from the Subscription of approximately HK\$14.7 million would be used by the Company for future investment purpose. In the event that no appropriate investment opportunity is identified by the Group, the net proceeds will be retained by the Group for general working capital purpose.

## **PROSPECTS**

Since the majority of the existing businesses of the Group were still operating at a loss, the Directors will continue to take steps to improve the performance of its businesses and at the same time take a more pro-active approach in seeking more investment opportunities, whether relating to the existing business of the Group or new business ventures, so as to broaden the Group's income base as well as to diversify risk.

With the improved market condition, especially the retail market in Hong Kong boosted by the better local purchasing demand and the influx of mainland tourists as a result of the relaxation on restrictions on individual travel, the Directors believe in the prospect and are willing to allocate more resources of the Group to maintain and further develop the newly acquired retailing business of the Group.

With a view to capture the recent upward wave and improved market sentiment in the equity market, the Group will also accelerate its investment activities in the securities trading segment. The Directors also see the increased need for financial resources for investors in the market and are looking into the opportunity in developing a financial services business facilitated by the money lenders licence held by a subsidiary of Hamlet Profits Limited which was acquired recently by the Group.

## **DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES**

As at 30 September 2003, the interests and short positions of the directors and 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 (the "SFO")) as recorded in the register required to be kept under Section

## Foundation Group Limited

352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") were as follows:–

### Long position in shares in the Company

<b>Name of Director</b>	<b>Nature of interests</b>	<b>Number of ordinary shares held</b>	<b>Percentage holding</b>
Mr. Wong Ching Ping, Alex ("Mr. Alex Wong")	Family	84,042,650	23.07%

Note: The shares were registered in the name of Leopard Vision Limited ("Leopard Vision"). The entire issued share capital of Leopard Vision was held by Byford Group Limited ("Byford") which in turn was held by Expert Rich Investments Limited ("Expert Rich"). Expert Rich was wholly owned by Mr. Alex Wong, a director of the Company.

Save as disclosed above, as at 30 September 2003, none of the directors or chief executives of the Company had any interests or short positions in shares, underlying shares or debentures in 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 under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange.

## INTERESTS DISCLOSEABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

So far as known to the directors of the Company, as at 30 September, 2003, the persons (other than the directors or chief executives of the Company) who had interests or short positions in the shares, underlying shares and debentures of the Company as recorded in the register required to be kept under Section 336 of SFO or as otherwise notified to the Company and the Stock Exchange were as follows:–

### Long position in shares in the Company

<b>Name</b>	<b>Capacity/ Nature of Interests</b>	<b>Number of ordinary shares held</b>	<b>Percentage holding</b>
Expert Rich (Note 1)	Family	84,042,650	23.07%
Ms. Gomes Maria Da Silva (Note 2)	Family	84,042,650	23.07%

Notes:

1. The shares were registered in the name of Leopard Vision. The entire issued share capital of Leopard Vision was held by Byford which in turn was held by Expert Rich. Expert Rich was wholly owned by Mr. Alex Wong.
2. By virtue of the aforesaid interest of Mr. Alex Wong, Ms. Gomes Maria Da Silva, spouse of Mr. Alex Wong, was also deemed to be interested in the above 84,042,650 shares held by Leopard Vision.

Save as disclosed above, as at 30 September, 2003, the directors of the Company were not aware of any other persons (other than the directors or chief executives of the Company) who had any interests or short positions in the shares, underlying shares or debentures in the Company as recorded in the register required to be kept under Section 336 of the SFO or as otherwise notified to the Company and the Stock Exchange.

## **PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES**

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the Period.

## **CORPORATE GOVERNANCE**

The Company had complied throughout the Period with the Code of Best Practice as set out in Appendix 14 of the Listing Rules on the Stock Exchange, except that (i) the independent non-executive directors of the Company were not appointed for specific terms; and (ii) full board meeting was not held every six months as one of the directors of the Company was away from Hong Kong.

By Order of the Board  
**Wong Ching Ping, Alex**  
*Chairman*

Hong Kong, 23 December 2003

# RSM Nelson Wheeler

羅申美會計師行

Certified Public Accountants

## **INDEPENDENT REVIEW REPORT TO THE BOARD OF DIRECTORS OF FOUNDATION GROUP LIMITED**

### **INTRODUCTION**

We have been instructed by the directors of the Company to review the interim financial report set out on pages 1 to 23.

### **DIRECTORS' RESPONSIBILITIES**

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the Statement of Standard Accounting Practice No. 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the directors.

It is our responsibility to form an independent conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

### **REVIEW WORK PERFORMED**

We conducted our review in accordance with the Statement of Auditing Standards No. 700 "Engagements to Review Interim Financial Reports" issued by the Hong Kong Society of Accountants. A review consists principally of making enquiries of management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

### **REVIEW CONCLUSION**

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30 September 2003.

**RSM Nelson Wheeler**

*Certified Public Accountants*

Hong Kong

23 December 2003