



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



Interim Report
2004

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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
Morrison & Foerster

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
Belgian Bank
Hang Seng Bank Limited

REGISTERED OFFICE

Canon's Court
22 Victoria Street
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

Computershare Hong Kong Investor Services Limited
46th Floor, Hopewell Centre
183 Queen's Road East
Hong Kong

Transfer office

Computershare Hong Kong Investor Services Limited
Shops 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
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MANAGEMENT DISCUSSION AND ANALYSIS

The board of directors (the "Board") of Founder Holdings Limited (the "Company") presents the unaudited consolidated interim financial statements of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 June 2004, together with the comparative figures for the corresponding period in 2003. 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 2004 decreased by 82% to approximately HK\$0.9 million (2003: HK\$5.2 million). The Group recorded an increase in turnover during this interim period by 41% to approximately HK\$874.9 million (2003: HK\$620.9 million). For the two semi-annual periods under review, gross profit percentage dropped from 19.1% in 2003 to 14.1% in 2004 as a result of the increase in sales of the distribution business of information products which had a much lower gross profit percentage if compared to the business of software development and systems integration. The increase in sales in the first half of the current year led to the increase in the selling and distribution costs by 27%. On the other hand, our cost control measures further reduced our administrative expenses by 3% if compared to the corresponding period in 2003.

Basic loss per share for this interim period was HK0.1 cents (2003: HK0.5 cents).

OPERATING REVIEW

(A) Software development and systems integration for media sector

The turnover of the software development and systems integration business in the media sector for the period increased by 21% to approximately HK\$282.6 million (2003: HK\$234.1 million) while its segmental profit increased by 160% to approximately HK\$12.6 million (2003: HK\$4.9 million).

In the past few years, tremendous effort and resources were put into the restructuring of our media business. Last year our media business already resumed to profit-making. In the first half of the current year, the performance of this business segment was further improved. Besides our traditional graphic arts and e-publishing software solutions for the needs of newspaper and publishing houses, our network publishing total solutions, Founder Apabi e-Book Solutions, are well applied to e-library and e-books. The launch of new product, Founder EasiPrint Digital Printing System, in last December was well received by the market. We expect that this new printing system will be another milestone in printing technology for digital printing and will contribute to the growth of our media business in the near future.

MANAGEMENT DISCUSSION AND ANALYSIS

(B) Software development and systems integration for non-media sector

The turnover of the software development and systems integration business in the non-media sector for the period increased by 23% to approximately HK\$86.7 million (2003: HK\$70.4 million) while its segment results recorded a loss of approximately HK\$10.7 million (2003: HK\$5.3 million).

Market competition in the systems integration business for the banking and security industries in the PRC was still severe during the period under review. Profit margins were narrowed down. We have further restructured our operational team and business units, and have tightened the control over operating expenses. Since the second quarter of the current year, increasing number of systems integration contracts have been granted to us. Up to the end of August 2004, the year-to-date total value of contracts granted to us already exceeded the total value for last year. We expect the performance of this sector would improve in the second half of the year.

(C) Distribution of information products

The turnover of the distribution business of information products for the period increased by 61% to approximately HK\$498.7 million (2003: HK\$310.0 million) while its segmental profit increased by 99% to approximately HK\$2.9 million (2003: HK\$1.5 million). The significant improvement in the performance of the distribution business was mainly attributable to:

1. increase in product range and suppliers;
2. expansion of distribution network; and
3. tight control on operating costs, trade receivables and inventories.

Besides the headquarters in Beijing, the Group has established 12 branch offices/representative offices in Shanghai, Guangzhou, Chengdu, Shenyang, Shenzhen, Jinan, Nanjing, Wuhan, Hangzhou, Xian, Guiyang and Xizang Zizhiqu. In June 2004, our subsidiary, Beijing Founder Century Information System Co., Ltd., was ranked the 6th place among the top 500 information product distributors in the PRC.

Prospects

In the first half of the year, besides the non-media business was still loss-making, the other businesses of the Group either resumed to profit-making or narrowed down their losses. Since we have already further restructured the loss-making business units of the Group, the management is confident that the performance of the Group for the whole year of 2004 will further improve if compared to last year.

MANAGEMENT DISCUSSION AND ANALYSIS

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 had granted 90 million share options to the eligible directors and employees of the Group during the current period.

In the first half of the current year, there was no significant change in the workforce of the Group. The number of employees of the Group remained at approximately 2,070 as at 30 June 2004 (31 December 2003: 2,080).

FINANCIAL REVIEW

Liquidity, financial resources and capital commitments

As at 30 June 2004, the Group recorded total assets of HK\$957.1 million which were financed by liabilities of HK\$529.3 million, minority interests of HK\$86.0 million and equity of HK\$341.8 million. The Group's net asset value per share as at 30 June 2004 amounted to HK\$0.3 (31 December 2003: HK\$0.3) per share.

The Group had a total cash and bank balance of HK\$242.5 million as at 30 June 2004. After deducting total borrowings of HK\$4.9 million, the Group recorded a net cash balance of HK\$237.6 million as at 30 June 2004 as compared to HK\$318.2 million as at 31 December 2003. The Group's borrowings, which are subject to little seasonality, consist of mainly short term revolving trust receipt loans. As at 30 June 2004, the Group's gearing ratio, measured on the basis of total borrowings as a percentage of total shareholders' equity, was 0.01 (31 December 2003: 0.02) while the Group's working capital ratio maintained at 1.53 (31 December 2003: 1.53).

As at 30 June 2004, 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, Renminbi and United States dollars.

MANAGEMENT DISCUSSION AND ANALYSIS

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 2004, the major contracts in hand for the software development and systems integration business amounted to approximately HK\$179 million (31 December 2003: HK\$162 million), which are all expected to be completed within one year time.

Material acquisitions and disposals of subsidiaries and associates

On 31 March 2004, Beijing Founder Electronics Co., Ltd., a wholly-owned subsidiary of the Company, entered into a conditional sale and purchase agreement for the disposal of its entire equity interest in its 30% owned jointly-controlled entity, Beijing PeCan Information System Inc.. A profit of approximately HK\$4.3 million was recorded for the disposal.

As part of its restructuring exercise, Founder International Inc. partially disposed of its equity interest in Power Print Inc., thus reducing its interest from 75.1% to 33.4% in May 2004. A loss of approximately HK\$0.8 million was resulted from the partial disposal.

Charges on assets

As at 30 June 2004, all the Group's land and buildings and investment properties in Hong Kong of approximately HK\$31.4 million and bank deposits of approximately HK\$48.3 million were pledged to certain banks to secure banking facilities granted.

Contingent liabilities

The Group did not have any significant contingent liabilities as at 30 June 2004.

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Notes	Unaudited	
		For the six months ended 30 June	
		2004 HK\$'000	2003 HK\$'000
TURNOVER	2	874,912	620,918
Cost of sales		(751,224)	(502,156)
Gross profit		123,688	118,762
Other revenue and gains		27,443	18,929
Selling and distribution costs		(81,222)	(63,868)
Administrative expenses		(60,823)	(62,628)
Other operating expenses, net		(13,094)	(22,188)
LOSS FROM OPERATING ACTIVITIES	3	(4,008)	(10,993)
Finance costs	4	(165)	(437)
Share of profits and losses of:			
Jointly-controlled entity		(17)	(271)
Associates		4,207	220
PROFIT/(LOSS) BEFORE TAX		17	(11,481)
Tax	5	(1,707)	(555)
LOSS BEFORE MINORITY INTERESTS		(1,690)	(12,036)
Minority interests		767	6,794
NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		(923)	(5,242)
LOSS PER SHARE — Basic	6	(0.1) cents	(0.5) cents

CONDENSED CONSOLIDATED BALANCE SHEET

	Notes	Unaudited 30 June 2004 HK\$'000	Audited 31 December 2003 HK\$'000
NON-CURRENT ASSETS			
Fixed assets		87,250	82,731
Intangible assets		2,148	932
Goodwill		6,271	7,055
Interest in a jointly-controlled entity		—	9,518
Interests in associates		42,125	38,660
Deferred tax assets		7,895	7,895
		145,689	146,791
CURRENT ASSETS			
Inventories		158,747	125,835
Systems integration contracts		34,835	52,466
Trade and bills receivables	8	295,599	248,281
Prepayments, deposits and other receivables		78,405	61,091
Short term investments		1,281	2,501
Pledged deposits		48,270	41,077
Cash and cash equivalents		194,285	282,660
		811,422	813,911
CURRENT LIABILITIES			
Trade and bills payables	9	330,393	266,499
Tax payable		223	144
Other payables and accruals		193,727	259,893
Interest-bearing bank borrowings		4,936	5,515
		529,279	532,051
NET CURRENT ASSETS		282,143	281,860
TOTAL ASSETS LESS CURRENT LIABILITIES		427,832	428,651
MINORITY INTERESTS		86,030	86,667
		341,802	341,984
CAPITAL AND RESERVES			
Issued capital		112,380	112,380
Reserves		229,422	229,604
		341,802	341,984

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Issued share capital (Unaudited) HK\$'000	Share premium account (Unaudited) HK\$'000	Contributed surplus (Unaudited) HK\$'000	Capital reserve (Unaudited) HK\$'000	Land and buildings revaluation reserve (Unaudited) HK\$'000	Exchange fluctuation reserve (Unaudited) HK\$'000	General reserve (Unaudited) HK\$'000	Accumulated losses (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
At 1 January 2004	112,380	27,660	802,515	68,439	601	(1,154)	43,122	(711,579)	341,984
Realisation upon partial disposal of a subsidiary	—	—	—	—	—	13	—	—	13
Exchange realignment	—	—	—	—	—	728	—	—	728
Net loss for the period	—	—	—	—	—	—	—	(923)	(923)
At 30 June 2004	<u>112,380</u>	<u>27,660</u>	<u>802,515</u>	<u>68,439</u>	<u>601</u>	<u>(413)</u>	<u>43,122</u>	<u>(712,502)</u>	<u>341,802</u>
At 1 January 2003	112,380	27,660	802,515	68,439	601	(3,339)	43,059	(726,898)	324,417
Realisation upon partial disposal of a subsidiary	—	—	—	—	—	(207)	—	—	(207)
Exchange realignment	—	—	—	—	—	1,152	—	—	1,152
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>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Unaudited	
	For the six months ended 30 June	
	2004	2003
	HK\$'000	HK\$'000
Net cash outflow from operating activities	(81,738)	(69,902)
Net cash outflow from investing activities	(2,744)	(15,626)
Net cash inflow/(outflow) from financing activities	(579)	13,363
NET DECREASE IN CASH AND CASH EQUIVALENTS	(85,061)	(72,165)
Cash and cash equivalents at beginning of period	277,956	216,383
Effect of foreign exchange rate changes, net	1,390	123
CASH AND CASH EQUIVALENTS AT END OF PERIOD	194,285	144,341
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	183,215	120,765
Non-pledged time deposits with original maturity of less than three months when acquired	11,070	23,576
	194,285	144,341

NOTES TO 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 Statement of Standard Accounting Practice No.25 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants.

The accounting policies and basis of presentation used in the preparation of these unaudited condensed consolidated interim financial statements are consistent with those used in the preparation of the audited consolidated financial statements of the Group for the year ended 31 December 2003.

2. TURNOVER AND SEGMENT INFORMATION

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts; an appropriate proportion of contract revenue of systems integration contracts; and the value of services rendered during the period.

The Group is principally engaged in software development, systems integration and the distribution of information products.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

2. TURNOVER AND SEGMENT INFORMATION (continued)

The following table presents revenue and results of the Group's business segments for the six months ended 30 June 2004 and 2003.

	Software development and systems integration for media sector		Software development and systems integration for non-media sector		Distribution of information products		Corporate		Others		Eliminations		Consolidated	
	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
Segment revenue:														
Sales to external customers	282,562	234,109	86,678	70,362	498,738	309,962	—	—	6,934	6,485	—	—	874,912	620,918
Intersegment sales	2,215	—	—	—	4,918	—	—	—	—	—	(7,133)	—	—	—
Total	<u>284,777</u>	<u>234,109</u>	<u>86,678</u>	<u>70,362</u>	<u>503,656</u>	<u>309,962</u>	<u>—</u>	<u>—</u>	<u>6,934</u>	<u>6,485</u>	<u>(7,133)</u>	<u>—</u>	<u>874,912</u>	<u>620,918</u>
Segment results	<u>12,640</u>	<u>4,870</u>	<u>(10,694)</u>	<u>(5,286)</u>	<u>2,945</u>	<u>1,481</u>	<u>(9,084)</u>	<u>(9,936)</u>	<u>(884)</u>	<u>(2,864)</u>			<u>(5,077)</u>	<u>(11,735)</u>
Interest income													1,069	742
Loss from operating activities													(4,008)	(10,993)
Finance costs													(165)	(437)
Share of profits and losses of:														
Jointly-controlled entity													(17)	(271)
Associates													4,207	220
Profit/(loss) before tax													17	(11,481)
Tax													(1,707)	(555)
Loss before minority interests													(1,690)	(12,036)
Minority interests													767	6,794
Net loss from ordinary activities attributable to shareholders													<u>(923)</u>	<u>(5,242)</u>

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

3. LOSS FROM OPERATING ACTIVITIES

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

	Unaudited	
	For the six months	
	ended 30 June	
	2004	2003
	HK\$'000	HK\$'000
Depreciation of fixed assets	6,952	6,129
Amortisation of goodwill	784	—
Loss on disposal of fixed assets	301	220
Provision and write-off/(reversal and write-back) of doubtful trade debts and other receivables	(6,053)	5,079
Provision and write-off/(reversal and write-back) of obsolete inventories	40	(2,342)
Loss/(gain) on partial disposal of a subsidiary	762	(3,496)
Gain on disposal of a jointly-controlled entity	(4,348)	—
Interest income	(1,069)	(742)
	<u> </u>	<u> </u>

4. FINANCE COSTS

	Unaudited	
	For the six months	
	ended 30 June	
	2004	2003
	HK\$'000	HK\$'000
Interest on bank loans and overdrafts	165	437
	<u> </u>	<u> </u>

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

5. TAX

	Unaudited	
	For the six months	
	ended 30 June	
	2004	2003
	HK\$'000	HK\$'000
Group:		
Current — Hong Kong	3	8
Current — Elsewhere	161	209
	164	217
Share of tax attributable to:		
Jointly-controlled entity	—	4
Associates	1,543	334
	1,543	338
Total tax charge for the period	1,707	555

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 17.5%) on the estimated assessable profits arising in Hong Kong 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.

Beijing Founder Order Computer System Co., Ltd. ("Founder Order") is exempted from profits tax of the People's Republic of China (the "PRC") 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") 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. EC-Founder Co., Ltd. is exempted from PRC profits tax for the three fiscal years which commenced in 2001 and ended on 31 December 2003 and, thereafter, is 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, PRC Century and EC-Founder Co., Ltd. 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.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

6. LOSS PER SHARE

The calculation of basic loss per share for the six months ended 30 June 2004 is based on the unaudited net loss from ordinary activities attributable to shareholders for the period of approximately HK\$923,000 (2003: HK\$5,242,000), and the weighted average of approximately 1,123,800,000 (2003: 1,123,800,000) ordinary shares in issue during the period.

Diluted loss per share for the six months ended 30 June 2004 and 2003 have not been disclosed 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 2004 (2003: 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 the trade and bills receivables as at the balance sheet date and net of provisions is as follows:

	Unaudited	Audited
	30 June	31 December
	2004	2003
	HK\$'000	HK\$'000
Within 6 months	255,293	228,512
7 – 12 months	31,374	9,323
13 – 24 months	7,157	9,835
Over 24 months	1,775	611
	295,599	248,281

Included in the Group's trade and bills receivables are amounts due from the associates and related companies of the Group of approximately HK\$3,125,000 (2003: Nil) and HK\$86,000 (2003: HK\$186,000) respectively, which are repayable on similar credit terms to those offered to the major customers of the Group.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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 2004 HK\$'000	Audited 31 December 2003 HK\$'000
Within 6 months	320,795	257,961
7 – 12 months	2,845	1,608
13 – 24 months	3,058	1,761
Over 24 months	3,695	5,169
	330,393	266,499

10. CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities as at 30 June 2004.

11. RELATED PARTY TRANSACTIONS

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

		Unaudited For the six months ended 30 June 2004 HK\$'000	2003 HK\$'000
Purchases of goods from a company in which one director of a subsidiary was a shareholder	(i)	22,518	16,356
Bank facilities guarantees given by Peking University Founder Group Corporation ("Peking Founder"), a substantial shareholder of the Company	(ii)	306,475	188,460

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

11. RELATED PARTY TRANSACTIONS *(continued)*

Notes:

- (i) The purchase prices were determined based on actual costs incurred.
 - (ii) The bank facilities guarantees were given to PRC banks for credit facilities granted to a subsidiary and utilised to the extent of approximately HK\$255,495,000 (2003: HK\$130,899,000).
- (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. During the period, rental and management fee expenses of approximately HK\$13,168,000 (2003: HK\$6,487,000) were paid to Peking Founder according to the terms of the lease agreements.
- (c) During the period, the Group received commission income of approximately HK\$1,877,000 (2003: Nil) for the provision of advertising agency services from a subsidiary of Yahoo! Inc., a shareholder which held 8.47% of the shares of EC-Founder (Holdings) Company Limited ("EC-Founder"), a 54.85% owned subsidiary of the Company.

12. POST BALANCE SHEET EVENT

On 22 July 2004, Founder International Inc. ("Founder Inc.") entered into a share application agreement (the "Subscription Agreement") with Media Champion Holdings Limited ("Media Champion"), a company wholly-owned by Mr Guan Xiang Hong, the president and executive director of Founder Inc. and vice president of the Company. Pursuant to the Subscription Agreement, Founder Inc. will issue a total of 870 Founder Inc.'s shares at a price of JPY300,000 (equivalent to approximately HK\$21,000) per share to Media Champion. Further details of the transaction were set out in the announcement of the Company dated 23 July 2004 and the circular of the Company dated 13 August 2004.

OTHER INFORMATION

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 30 June 2004, the interests and short positions of the directors in the share capital of the Company or 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 by the Company pursuant to 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 (the "Model Code"), were as follows:

Long positions in ordinary shares of associated corporations

EC-Founder

Name of director	Number of ordinary shares held, capacity and nature of interest			Percentage of the associated corporation's issued share capital
	Directly beneficially owned	As trustee*	Total	
Mr Cheung Shuen Lung	36,890,100	60,671,600	97,561,700	8.86
Professor Xiao Jian Guo	8,703,300	—	8,703,300	0.79
Professor Wei Xin	3,956,000	60,671,600	64,627,600	5.87
Mr Zhang Zhao Dong	3,956,000	60,671,600	64,627,600	5.87

* These shares were held by F2 Consultant Limited as nominee on behalf of these directors who are acting in their capacity as the trustees of a discretionary trust for the employees of Founder Data Corporation International Limited ("FDC") and its subsidiaries. FDC is a wholly-owned subsidiary of EC-Founder.

The interests of the directors in the share options of the Company and EC-Founder are separately disclosed under the section "Share option schemes" below.

OTHER INFORMATION

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES *(continued)*

In addition to the above, 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.

Save as disclosed above and under the section "Share option schemes" below, none of the directors had registered an interest or short position in the shares and underlying shares of the Company or any of its associated corporations that was required to be recorded pursuant to 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

Save as disclosed under the section "Directors' interests and short positions in shares and underlying shares" above and the section "Share option schemes" below, at no time during the period were rights to acquire benefits by means of the acquisition of shares in the Company granted to any director or their respective spouse or minor children, 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' AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES

At 30 June 2004, the following interest of 5% or more of the issued share capital of the Company was recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions

Name	Capacity and nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital
Peking Founder	Directly beneficially owned	367,179,610	32.67

Save as disclosed above, no person, other than the directors of the Company, whose interests are set out in the section "Directors' interests and short positions in shares and underlying shares" above and the section "Share option schemes" below, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

OTHER INFORMATION

SHARE OPTION SCHEMES

(a) 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 Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") which replaced the old share option scheme (the "Old Scheme") in force previously. However, the options granted under the Old Scheme remain in full force and effect.

The following share options were outstanding under the Old Scheme and the New Scheme at 1 January 2004 and at the end of the period:

Name or category of participant	Number of share options			Date of grant of share options*	Exercise period of share options	Exercise price of share options** HK\$
	At 1 January 2004	Granted during the period	At 30 June 2004			
Old Scheme						
<i>Other employees</i>						
In aggregate	<u>700,000</u>	<u>—</u>	<u>700,000</u>	16.4.1999	16.4.1999 to 6.12.2005	0.912
New Scheme						
<i>Directors</i>						
Mr Cheung Shuen Lung	—	8,000,000	8,000,000	5.2.2004	6.2.2004 to 4.2.2014	1.104
Professor Xiao Jian Guo	—	8,000,000	8,000,000	5.2.2004	6.2.2004 to 4.2.2014	1.104
Professor Wei Xin	—	8,000,000	8,000,000	5.2.2004	6.2.2004 to 4.2.2014	1.104
Mr Zhang Zhao Dong	<u>—</u>	<u>8,000,000</u>	<u>8,000,000</u>	5.2.2004	6.2.2004 to 4.2.2014	1.104
Subtotal	<u>—</u>	<u>32,000,000</u>	<u>32,000,000</u>			
<i>Other employees</i>						
In aggregate	<u>—</u>	<u>58,000,000</u>	<u>58,000,000</u>	2.1.2004	3.1.2004 to 31.12.2013	0.840
Total under the New Scheme	<u>—</u>	<u>90,000,000</u>	<u>90,000,000</u>			

* The vesting period of the share options is from the date of the 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 Company's share capital.

The directors of the Company do not consider it appropriate to disclose a theoretical value of the share options granted during the period because a number of factors crucial for the valuations cannot be determined. Accordingly, any valuation of the share options based on various speculative assumptions would not be meaningful, but would be misleading to the shareholders of the Company.

OTHER INFORMATION

SHARE OPTION SCHEMES *(continued)*

(b) Share option schemes of EC-Founder

On 24 May 2002, EC-Founder adopted a new share option scheme (the "2002 Scheme") in compliance with Chapter 17 of the Listing Rules.

The share option schemes adopted by EC-Founder on 11 September 1991 (the "1991 Scheme") and 7 May 2001 (the "2001 Scheme") were terminated on 24 May 2002. However, the options granted under the 1991 Scheme and the 2001 Scheme remain in full force and effect.

The following share options were outstanding under the 1991 Scheme, the 2001 Scheme and the 2002 Scheme at 1 January 2004 and at the end of the period:

Name or category of participant	Number of share options outstanding as at 1 January 2004 and 30 June 2004	Date of grant of share options*	Exercise period of share options	Exercise price of share options** HK\$
1991 Scheme				
<i>Other employees</i>				
In aggregate	<u>2,700,000</u>	18.5.2001	15.12.2001 to 14.12.2006	0.450
2001 Scheme				
<i>Directors</i>				
Mr Cheung Shuen Lung	2,000,000	18.5.2001	18.5.2001 to 17.5.2011	0.450
Professor Wei Xin	<u>2,000,000</u>	18.5.2001	18.5.2001 to 17.5.2011	0.450
Subtotal	<u>4,000,000</u>			
<i>Other employees</i>				
In aggregate	<u>3,900,000</u>	18.5.2001	18.5.2001 to 17.5.2011	0.450
Total under the 2001 Scheme	<u>7,900,000</u>			

OTHER INFORMATION

SHARE OPTION SCHEMES *(continued)*

(b) Share option schemes of EC-Founder *(continued)*

Name or category of participant	Number of share options			Date of grant of share options*	Exercise period of share options	Exercise price of share options** HK\$
	At 1 January 2004	Granted during the period	At 30 June 2004			
2002 Scheme						
<i>Directors</i>						
Mr Cheung Shuen Lung	—	8,000,000	8,000,000	6.2.2004	7.2.2004 to 5.2.2014	0.381
Professor Wei Xin	—	8,000,000	8,000,000	6.2.2004	7.2.2004 to 5.2.2014	0.381
Mr Zhang Zhao Dong	—	8,000,000	8,000,000	6.2.2004	7.2.2004 to 5.2.2014	0.381
Subtotal	—	24,000,000	24,000,000			
<i>Other employees</i>						
In aggregate	—	38,000,000	38,000,000	2.1.2004	3.1.2004 to 31.12.2013	0.340
In aggregate	—	8,000,000	8,000,000	6.2.2004	7.2.2004 to 5.2.2014	0.381
Subtotal	—	46,000,000	46,000,000			
Total under the 2002 Scheme	—	70,000,000	70,000,000			

* The vesting period of the share options is from the date of the 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 EC-Founder.

The directors of the Company do not consider it appropriate to disclose a theoretical value of the share options granted during the period because a number of factors crucial for the valuations cannot be determined. Accordingly, any valuation of the share options based on various speculative assumptions would not be meaningful, but would be misleading to the shareholders of the Company.

OTHER INFORMATION

SHARE OPTION SCHEMES *(continued)*

(c) Share option scheme of Founder Inc.

The following share options were outstanding under the share option scheme adopted by Founder Inc. at 1 January 2004 and at the end of the period:

Category of participant	Number of share options outstanding as at 1 January 2004 and 30 June 2004	Date of grant of share options*	Exercise period of share options	Exercise price of share options** JPY
<i>Other employees</i>				
In aggregate	<u>55</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 the 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 Inc..

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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 2004.

OTHER INFORMATION

COMPLIANCE WITH THE CODE OF BEST PRACTICE

In the opinion of the directors, the Company 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 the unaudited condensed consolidated interim financial statements of the Group, 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 established an audit committee 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 two independent non-executive directors of the Company. These unaudited condensed consolidated interim financial statements of the Group for the six months ended 30 June 2004 now reported have been reviewed by the audit committee.

By Order of the Board
Founder Holdings Limited
Cheung Shuen Lung
Chairman

Hong Kong, 10 September 2004