



FOUNDER HOLDINGS LIMITED
方正控股有限公司

(Incorporated in Bermuda with limited liability)



Interim Report
2001

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CORPORATE INFORMATION

Board of Directors

Executive directors

Professor Wang Xuan (*Chairman*)
 Mr Cheung Shuen Lung (*President*)
 Mr Zhang Zhao Dong
 Professor Wei Xin
 Professor Xiao Jianguo
 Mr Lei Hon Sang
 Mr Lo Siu Yu

Independent non-executive directors

Dr Hu Hung Lick, Henry
 Mr Li Fat Chung

Company Secretary

Ms Tang Yuk Bo, Yvonne

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

Principal bankers

The China & South Sea Bank, Ltd.
 Fortis Bank

Legal Adviser

Koo and Partners

Auditors

Ernst & Young
Certified Public Accountants
 15th Floor, Hutchison House
 10 Harcourt Road
 Central, Hong Kong

Share Registrars and Transfer Office

Principal registrars:
 Butterfield Corporate Services Limited
 Rosebank Centre
 14 Bermudiana Road
 Hamilton
 Bermuda

Hong Kong branch share registrars and transfer office:

Central Registration Hong Kong Limited
 Suite 1712-1716
 17th Floor
 Hopewell Centre
 183 Queen's Road East
 Hong Kong

Website Address

<http://www.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 (the "Group") for the six months ended 30 June 2001.

INTERIM RESULTS AND DIVIDENDS

Consolidated turnover of the Group amounted to HK\$909.7 million for the six months ended 30 June 2001, representing an increase of approximately 3% over the corresponding six months ended 30 June 2000 (HK\$883.1 million). Consolidated net loss attributable to shareholders amounted to HK\$119.8 million during this interim period, compared with a net profit of HK\$51 million for the corresponding six months ended 30 June 2000. Basic loss per share was HK10.7 cents (six months ended 30 June 2000: basic earnings per share of HK4.6 cents).

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2001 (2000: Nil).

OPERATING REVIEW AND PROSPECTS

Operating results for the period

An analysis of turnover and gross profit for each of the principal activities of the Group for the six months ended 30 June 2001 is as follows:

	Six months ended 30 June		<i>% of change</i>
	2001	2000	
	HK\$' million	<i>HK\$' million</i>	
Turnover			
Software development and systems integration			
— Media sector	319	262	+22%
— Non-media sector	152	279	-46%
	<u>471</u>	<u>541</u>	-13%
Distribution of information products	439	342	+28%
	<u>910</u>	<u>883</u>	+3%
Gross profit			
Software development and systems integration			
— Media sector	93	70	+33%
— Non-media sector	17	129	-87%
	<u>110</u>	<u>199</u>	-45%
Distribution of information products	6	22	-73%
	<u>116</u>	<u>221</u>	-48%

(A) Software development and systems integration**Media sector**

In the first half of 2001, the Group recorded an increase of 22% in turnover of the software development and systems integration business in the media sector as compared to last year's corresponding period. The gross profit margin of this sector has slightly improved to 29% from last period's 27%.

With the support of our strong research and development team, the Group has introduced a number of new products to its customers during the six months ended 30 June 2001. Our new products include Founder Fei-hong Yellow-page Typesetting System (方正飛鴻號簿排版系統), Founder Victory Editorial System for Magazine (方正文采四溢期刊生產系統), Founder Tian-jiao Internet Audio & Video Integrated Solution (方正天驕互聯網視音頻整體解決方案), Founder Tian-yi News Management System for Radio and Television Stations (方正天翼新聞業務管理系統) and a number of management systems for publishing companies. In April 2001 the Group has also launched its network publishing solutions, Founder Apabi eBook Solutions (方正阿帕比網絡出版解決方案), which have been well received by many renowned PRC publishers such as Peking University Press (北京大學出版社), Tsinghua University Press (清華大學出版社), Fudan University Press (復旦大學出版社) and Post-secondary School Press (高校出版社).

In February 2001 our self-developed Founder GB18030 Font Library (方正GB18030字庫) and Founder Font Super Library (方正超大字庫) received a state-level recognition granted by State News and Publishing Bureau (國家新聞出版署), State Language Committee (國家語文委員會) and China National Printing Font Committee(全國印刷字體工作委員會). This is the first time for a font library product in the PRC to have a state-level recognition after the promulgation of the latest Nation-wide Chinese Character Standard for Computer Usage, GB18030-2000.

Through the on-going introduction of new products to the market, we aim to maintain our market leader position in the Chinese electronic publishing systems and expect to enjoy a steady growth in our business in the coming future.

Non-media sector

The Group recorded a substantial loss from our software development and systems integration business in the non-media sector for the six months ended 30 June 2001. The turnover of our non-media software development and systems integration business dropped by 46% as compared to last year's corresponding period. The gross profit margin of this sector dropped to 11% from last period's 46%.

The substantial loss of this sector for the current period under review was principally attributable to the following reasons:

1. Unexpected slow down in sales orders especially from the banking sector, thus resulting into the drop in turnover;
2. Delay in the completion of certain sales contracts, thus leading to the profit of certain sales contracts not be realised in the first half of 2001 as scheduled; and
3. Over-expansion of our operational team, thus resulting in the surge in operating expenses.

Since we incurred a substantial loss in the first half of 2001, the management has already started to restructure the management and operation of our non-media business. Recently we have reduced the headcount of the operational team of our non-media business by over 20% in order to reduce our operating expenses. As we have established our brand name and laid down solid business foundation, we will monitor the progress of the non-media business to be in line with the market condition and are committed to making our best effort to improve its performance in the foreseeable future.

(B) Distribution of information products

The turnover of our distribution business of information products recorded a growth of 28% in the first half of 2001 as compared to last year's corresponding period. However, the gross profit margin of our distribution business dropped to 1.4% from last period's 6.4% as a result of keen competition.

During the six months ended 30 June 2001, we have implemented an ERP system to monitor our inventories and trade debtors more effectively, thus improving the efficiency of our distribution business. We have achieved great progress on the sales of our own-brand scanner since its introduction to the market last summer. At present, our scanner is named as one of the top three sellers of scanners in the PRC in terms of market share.

(C) Provision of e-commerce services

The provision of e-commerce services is carried out through our associated company, EC-Founder (Holdings) Company Limited ("EC-Founder"). EC-Founder positions itself as a software solutions and service provider on the following areas: (a) network security products and solutions, (b) location-based business intelligence, (c) e-finance solutions and (d) enterprise information solutions.

EC-Founder has successfully developed and patented its network security product, FireGate Firewall (「方御」防火牆) in March 2001 which was the first packet filter firewall product (包過濾防火牆產品) in China to pass the stringent tests of the PRC Ministry of Public Security (國家公安部), the PLA (軍隊), the Ministry of State Security (國家安全部) and the State Secrecy Bureau (國家保密局). In the same month EC-Founder has also launched its self-developed location-based business intelligence product, Founder Mirage (方正智繪) which is being used by China Industrial and Commercial Bank in the PRC. In April 2001 EC-Founder was granted contracts from China Construction Bank for the development of a business-to-business clearing platform.

Contracts

As at 30 June 2001, the major contracts in hand for the software development and systems integration business amounted to approximately HK\$740 million, which are all expected to be completed within one year time.

Employees

The total number of employees of the Group as at 30 June 2001 was 2,830 (31 December 2000: 2,673). The following are the numbers of employees as at 30 June 2001 categorised according to their functions:

Sales and marketing	674
After-sales services	276
Research and development	1,054
Accounting and finance	221
Administration and management	514
Others	91
	<hr/>
	2,830
	<hr/> <hr/>

Salaries and annual bonuses are determined according to positions and performance of the employees. The Group provides on-the-job training to its employees in addition to retirement benefits schemes and medical insurance. To enable its employees to participate in the growth of the Group, the Company has adopted a share option scheme under which the directors of the Company may, at their discretion, grant options to directors and employees of the Company and its subsidiaries to subscribe for shares of the Company.

The Group has encountered no problems with the recruitment or training of its employees. None of the companies in the Group has experienced any labour disputes in the past and the directors of the Company consider that the Group has excellent employment relations.

FINANCIAL REVIEW

Liquidity and financial resources

As at 30 June 2001, the Group recorded total assets of approximately HK\$1,222 million which were financed by liabilities of approximately HK\$578 million and equity of approximately HK\$644 million. The Group's net asset value per share as at 30 June 2001 was HK\$0.57 per share as compared to HK\$0.68 per share as at 31 December 2000.

The Group had a total cash and bank balance of approximately HK\$213 million as at 30 June 2001. After deducting bank loans and overdrafts of approximately HK\$176 million, the Group recorded a net cash balance of approximately HK\$37 million. As at 30 June 2001, the Group had a working capital ratio of 1.82 (31 December 2000: 1.84) and a long term debt to equity ratio of 0.006 (31 December 2000: 0.005) with equity being defined as the total of capital and reserves.

Charges on assets

At 30 June 2001 all the land and buildings in Hong Kong and certain investment properties of the Group and fixed deposits of approximately HK\$45 million were pledged to banks to secure banking facilities.

Treasury policies

The Group adopts conservative treasury policies and controls tightly over its cash and risk management. Cash is generally placed in short term deposits denominated in Hong Kong dollars.

Contingent liabilities

At 30 June 2001 the Group did not have any significant contingent liabilities.

DIRECTORS' INTERESTS IN SHARES

At 30 June 2001, the interests of the directors in the share capital of EC-Founder (Holdings) Company Limited, the Company's associated corporation, as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") were as follows:

Name of director	Number of ordinary shares held and nature of interest
	Personal
Cheung Shuen Lung	36,890,100
Wei Xin	3,956,000
Zhang Zhao Dong	3,956,000
Lei Hon Sang	21,890,100
Xiao Jianguo	8,703,300
	<u>75,395,500</u>

In addition to the above, Cheung Shuen Lung has non-beneficial personal equity interests in certain subsidiaries held for the benefit of the Company, solely for the purpose of complying with the minimum company membership requirements.

Save as disclosed above and as disclosed below under the heading "Directors' rights to acquire shares", none of the directors or their associates had any personal, family, corporate or other interests in the securities of the Company or any of its associated corporations as defined in the SDI Ordinance.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Pursuant to the Company's share option scheme, the Company has granted options on the Company's ordinary shares in favour of certain directors, the details of which were as follows:

Name of director	Number of share options at 31 December 2000 and outstanding at end of period	Exercise period of share options	Exercise price of share options <i>HK\$</i>
Wang Xuan	10,800,000	31.3.2000 to 6.12.2005	1.397
Cheung Shuen Lung	9,360,000	31.3.2000 to 6.12.2005	1.397
	<u>20,160,000</u>		

During the six months ended 30 June 2001, EC-Founder (Holdings) Company Limited, the Company's associated corporation, has granted options on its ordinary shares pursuant to its share option scheme in favour of certain directors, the details of which were as follows:

Name of director	Number of share options granted during the period and outstanding at end of period	Exercise period of share options	Exercise price of share options <i>HK\$</i>
Cheung Shuen Lung	2,000,000	18.05.2001 to 17.05.2011	0.45
Wei Xin	2,000,000	18.05.2001 to 17.05.2011	0.45
Lei Hon Sang	2,000,000	18.05.2001 to 17.05.2011	0.45
	<u>6,000,000</u>		

Save as disclosed 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 arrangements to enable the directors to acquire such rights in any other body corporate.

SUBSTANTIAL SHAREHOLDERS

At 30 June 2001, the following interests of 10% or more of the share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance:

Name of shareholder	Number of shares held	%
Peking University	393,402,210	35.01
Peking University Founder Group Corporation ("Peking Founder")	393,402,210	35.01

Note: Peking Founder is wholly owned by Peking University. The interests disclosed under Peking University represent its deemed interests in the shares of the Company by virtue of its interest in Peking Founder.

Saved as disclosed above, no person had registered an interest in the share capital of the Company that was required to be recorded pursuant to Section 16(1) of the SDI Ordinance.

PURCHASE, SALE OR REDEMPTION 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 2001.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

In the opinion of the directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited during the 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 but are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Company's bye-laws.

The Company has established an audit committee in accordance with paragraph 14 of the Code of Best Practice throughout the accounting period covered by these unaudited condensed consolidated interim financial statements. The audit committee comprises two independent non-executive directors. These unaudited condensed consolidated interim financial statements for the six months ended 30 June 2001 of the Company now reported on have been reviewed by the audit committee.

By Order of the Board

Wang Xuan

Chairman

18 September 2001

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

		Unaudited	
		Six months ended	
		30 June	
		2001	2000
	<i>Notes</i>	HK\$'000	<i>HK\$'000</i>
TURNOVER	2	909,727	883,116
Cost of sales		<u>(793,351)</u>	<u>(661,719)</u>
Gross profit		116,376	221,397
Other income		25,708	6,368
Selling and distribution costs		(112,535)	(67,354)
Administrative expenses		(95,099)	(82,461)
Other operating expenses		<u>(42,482)</u>	<u>(21,683)</u>
PROFIT/(LOSS) FROM OPERATING ACTIVITIES	3	(108,032)	56,267
Finance costs	4	(5,792)	(5,001)
Share of profits and losses of:			
Jointly-controlled entities		93	(66)
Associates		<u>(7,938)</u>	<u>(618)</u>
PROFIT/(LOSS) BEFORE TAX		(121,669)	50,582
Tax	5	<u>(662)</u>	<u>(2)</u>
PROFIT/(LOSS) BEFORE MINORITY INTERESTS		(122,331)	50,580
Minority interests		<u>2,504</u>	<u>407</u>
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		<u>(119,827)</u>	<u>50,987</u>
EARNINGS/(LOSS) PER SHARE	6		
— Basic		<u>(10.7) cents</u>	<u>4.6 cents</u>
— Diluted		<u>N/A</u>	<u>4.5 cents</u>

CONDENSED CONSOLIDATED STATEMENT OF RECOGNISED GAINS AND LOSSES

	Unaudited	
	Six months ended	
	30 June	
	2001	2000
	HK\$'000	HK\$'000
Exchange differences on translation of the financial statements of foreign entities	<u>(4,923)</u>	<u>604</u>
Net gains/(losses) not recognised in the profit and loss account	(4,923)	604
Net profit/(loss) for the period attributable to shareholders	<u>(119,827)</u>	<u>50,987</u>
Total recognised gains/(losses)	<u>(124,750)</u>	<u>51,591</u>

CONDENSED CONSOLIDATED BALANCE SHEET

		Unaudited	Audited
		30 June	31 December
		2001	2000
	<i>Notes</i>	HK\$'000	<i>HK\$'000</i>
NON-CURRENT ASSETS			
Fixed assets		114,372	109,722
Deferred development costs		1,011	1,215
Interest in a jointly-controlled entity		5,556	5,463
Interests in associates		99,460	112,918
Long term investment		—	1,647
		220,399	230,965
CURRENT ASSETS			
Inventories		306,884	382,864
Trade receivables	8	387,028	345,871
Prepayments, deposits and other receivables		94,932	165,848
Pledged time deposits		45,029	42,009
Cash and cash equivalents		167,628	316,556
		1,001,501	1,253,148
CURRENT LIABILITIES			
Trade payables	9	129,642	287,513
Tax payable		751	1,502
Other payables and accruals		245,914	234,826
Interest-bearing bank borrowings		172,717	158,213
		549,024	682,054
NET CURRENT ASSETS		452,477	571,094
TOTAL ASSETS LESS CURRENT LIABILITIES		672,876	802,059
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings		3,588	3,992
		669,288	798,067
Minority interests		25,593	29,622
		643,695	768,445
CAPITAL AND RESERVES			
Issued capital		112,380	112,380
Reserves	10	531,315	656,065
		643,695	768,445

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Unaudited Six months ended 30 June 2001 HK\$'000
Net cash outflow from operating activities	(83,769)
Net cash outflow from returns on investments and servicing of finance	(3,953)
Net tax paid	(1,069)
Net cash outflow from investing activities	(10,813)
NET CASH OUTFLOW BEFORE FINANCING ACTIVITIES	(99,604)
Net cash outflow from financing activities	(44,464)
DECREASE IN CASH AND CASH EQUIVALENTS	(144,068)
Cash and cash equivalents at beginning of period	315,360
Effect of foreign exchange rate changes, net	(3,664)
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>167,628</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS	
Cash and bank balances	147,442
Time deposits	20,186
	<u>167,628</u>

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. Basis of preparation and accounting policies

These unaudited condensed consolidated interim financial statements have not been audited by the Company's auditors but have been reviewed by the Company's audit committee.

These unaudited condensed consolidated interim financial statements have been prepared in accordance with Statement of Standard Accounting Practice ("SSAP") 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants except that the comparative figures of the condensed consolidated cash flow statement have not been presented as the Company has taken advantage of the transitional provisions set out in Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The accounting policies used in the preparation of these unaudited condensed consolidated interim financial statements are consistent with those used in the Company's annual financial statements for the year ended 31 December 2000, except that certain of the accounting policies have been changed after the adoption of the recently issued SSAP 30 "Business Combinations" which is effective for the accounting periods commencing on or after 1 January 2001. SSAP 30 prescribes the treatment of business combinations, including how to determine the date of acquisition, the fair value of the assets and liabilities acquired, and the treatment of goodwill on acquisitions. According to the transitional provisions as set out in SSAP 30, the Group has elected not to restate goodwill previously eliminated against reserves. Therefore, goodwill arising on acquisitions prior to 1 January 2001 is held in reserves and will be charged to the profit and loss account at the time of disposal of the relevant subsidiaries, or at such time as the goodwill is determined to be impaired. Any goodwill arising on acquisitions after 1 January 2001 will be capitalised and amortised over its estimated useful life. Any negative goodwill arising on acquisitions after 1 January 2001 will be presented as a deduction from assets and will be released to the profit and loss account based on an analysis of the circumstances from which the balance resulted.

2. Segmental information

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

An analysis of the Group's turnover and contribution to loss from operating activities by principal activity and geographical area of operations for the six months ended 30 June 2001 is as follows:

	Unaudited		Unaudited	
	Six months ended		Six months ended	
	30 June 2001		30 June 2000	
	Contribution		Contribution	
	to loss from		to profit from	
	operating		operating	
	Turnover	activities	Turnover	activities
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
By activity:				
Software development and systems integration				
— Media sector	319,276	5,118	262,181	4,616
— Non-media sector	151,668	(74,449)	278,490	59,935
	470,944	(69,331)	540,671	64,551
Distribution of information products	438,783	(28,814)	342,445	2,210
Unallocated corporate and other expenses	—	(9,887)	—	(10,494)
	909,727	(108,032)	883,116	56,267
By geographical area:				
The People's Republic of China (the "PRC"):				
— Hong Kong	159,522	1,861	54,127	(1,006)
— Elsewhere	703,349	(98,145)	800,295	72,311
Other countries	46,856	(1,861)	28,694	(4,544)
Unallocated corporate and other expenses	—	(9,887)	—	(10,494)
	909,727	(108,032)	883,116	56,267

3. Profit/(loss) from operating activities

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

	Unaudited	
	Six months ended	
	30 June	
	2001	2000
	HK\$'000	HK\$'000
Depreciation of fixed assets	9,902	8,439
Loss on disposal of fixed assets	303	297
Loss on disposal of branch operations	—	8,249
Loss on disposal of a jointly-controlled entity	—	3,398
Provision for diminution in value of a long term investment	1,647	—
Gain on deemed disposal of a subsidiary	(1,916)	—
	<u>9,902</u>	<u>12,183</u>

4. Finance costs

	Unaudited	
	Six months ended	
	30 June	
	2001	2000
	HK\$'000	HK\$'000
Interest on bank loans and overdrafts	5,792	5,001

5. Tax

	Unaudited	
	Six months ended	
	30 June	
	2001	2000
	HK\$'000	HK\$'000
Group:		
Outside Hong Kong	318	2
Share of tax attributable to associates	344	—
	<u>662</u>	<u>2</u>

No Hong Kong profits tax has been provided as no assessable profits are arising in Hong Kong during the period (Six months ended 30 June 2000: Nil).

Beijing Founder Electronics Company Limited, a wholly owned PRC subsidiary of the Group, is subject to PRC profits tax at 10% for the three fiscal years commenced on 1 January 2001 and ending on 31 December 2003. Beijing Founder Order Computer System Company Limited ("Founder Order"), a wholly owned PRC subsidiary of the Group, is exempted from PRC profits tax for the three fiscal years commenced in 1999 and ending on 31 December 2001 and, thereafter, will be taxable at 50% of its standard tax rate in the fourth to sixth years, inclusive. At present, the standard tax rate applicable to Founder Order is 15%. No provision for PRC profits tax has been made as the relevant PRC subsidiaries have incurred losses during the period.

Taxes on profits assessable elsewhere have been calculated at the applicable rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

There was no significant unprovided deferred tax in respect of the period (Six months ended 30 June 2000: Nil).

6. Earnings/(loss) per share

The calculation of basic loss per share for the six months ended 30 June 2001 is based on the unaudited net loss attributable to shareholders for the period of approximately HK\$119,827,000 (Six months ended 30 June 2000: profit of approximately HK\$50,987,000) and the weighted average of approximately 1,123,800,000 (Six months ended 30 June 2000: approximately 1,108,928,000) ordinary shares in issue during the period.

The diluted loss per share for the six months ended 30 June 2001 is not shown as the impact of the outstanding share options was anti-dilutive.

The calculation of diluted earnings per share for the six months ended 30 June 2000 is based on the unaudited net profit attributable to shareholders for the period of approximately HK\$50,987,000 and the weighted average of approximately 1,108,928,000 ordinary shares in issue during the period, as used in the calculation of the basic earnings per share, and the weighted average of approximately 13,403,000 ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options outstanding during the period.

7. Dividends

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2001 (Six months ended 30 June 2000: Nil).

8. Trade receivables

	Unaudited	Audited
	30 June	31 December
	2001	2000
	HK\$'000	HK\$'000
Trade receivables	<u>387,028</u>	<u>345,871</u>

Trading terms with customers are largely on credit, except for new customers, where payment in advance is normally required. Invoices are normally payable within 30 to 90 days of issuance. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are regularly reviewed by senior management.

The aged analysis of trade receivables is as follows:

	Unaudited	Audited
	30 June	31 December
	2001	2000
	HK\$'000	HK\$'000
1- 6 months	313,733	301,043
7-12 months	55,638	28,497
13-24 months	17,657	14,898
Over 24 months	—	1,433
	<u>387,028</u>	<u>345,871</u>

9. Trade payables

	Unaudited	Audited
	30 June	31 December
	2001	2000
	HK\$'000	HK\$'000
Trade payables	<u>129,642</u>	<u>287,513</u>

The aged analysis of trade payables is as follows:

	Unaudited	Audited
	30 June	31 December
	2001	2000
	HK\$'000	HK\$'000
1- 6 months	80,481	225,791
7-12 months	15,966	60,545
13-24 months	31,663	1,036
Over 24 months	1,532	141
	<u>129,642</u>	<u>287,513</u>

10. Reserves

	Share premium account	Contributed surplus	Capital reserve	Land and building revaluation reserve	Exchange fluctuation reserve	General reserve	Accumulated losses	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 31 December 2000								
and beginning of period	27,660	582,334	62,680	601	2,453	42,866	(62,529)	656,065
Loss for the period	–	–	–	–	–	–	(119,827)	(119,827)
Transfer to general reserve	–	–	–	–	–	65	(65)	–
Transfer to capital reserve	–	–	1,916	–	–	–	(1,916)	–
Exchange realignments	–	–	–	–	(4,923)	–	–	(4,923)
	<u>27,660</u>	<u>582,334</u>	<u>64,596</u>	<u>601</u>	<u>(2,470)</u>	<u>42,931</u>	<u>(184,337)</u>	<u>531,315</u>
At 30 June 2001								

The contributed surplus of the Group originally represented the difference between the nominal value of the shares and the share premium account of Founder (Hong Kong) Limited acquired pursuant to the Group reorganisation on 31 March 2000, over the nominal value of the Company's shares issued in exchange therefor.

The capital reserve of the Group arose from the increase in non-distributable reserve of a subsidiary.

In accordance with the relevant Taiwan regulations, each of the Group's Taiwan subsidiaries is required to transfer not less than 10% of its profit after tax, as determined in accordance with Taiwan accounting standards and regulations, to a general reserve. During the period, a Taiwan subsidiary transferred approximately TW\$0.3 million (HK\$0.07 million), which represented 10% of its profit after tax, to the general reserve.

11. Related party transactions

The Group had the following transactions with related parties during the period:

	<i>Notes</i>	Unaudited	
		Six months ended	
		30 June	
		2001	2000
		HK\$'000	HK\$'000
Rental expenses paid to Peking University Founder Group Corporation ("Peking Founder")	(i)	7,063	7,065
Bank guarantee given by Peking Founder	(ii)	94,170	122,460
Sales of technical knowhow to a company in which two directors of the Company were directors	(iii)	20,122	—
Sales of stocks to associates	(iv)	—	<u>47,560</u>

Notes:

- (i) The expenses were paid in accordance with the terms of the agreements governing such transactions.
- (ii) The guarantee is given to PRC banks for the loans granted to a subsidiary.
- (iii) In the opinion of the directors, the transaction was conducted at current market price as determined between the two parties.
- (iv) The sales of stocks were made according to the published prices and conditions similar to those offered to other customers of the Group.

12. Contingent liabilities

The Group did not have any significant contingent liabilities at the balance sheet date.