



2002 Interim Report



FOUNDER HOLDINGS LIMITED
方正控股有限公司

(Incorporated in Bermuda with limited liability)



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CORPORATE INFORMATION

Board of Directors

Executive directors

Mr Cheung Shuen Lung (*Chairman*)
Professor Wei Xin
Mr Zhang Zhao Dong
Professor Xiao Jianguo

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

Legal Adviser

Koo and Partners

Auditors

Ernst & Young
Certified Public Accountants

Share Registrars and Transfer Office

Principal registrars:

Butterfield Fund Services (Bermuda) Limited
Rosebank Centre
14 Bermudiana Road
Hamilton
Bermuda

Hong Kong branch share registrars and transfer office:

Computershare Hong Kong Investor Services Limited
Suite 1712-1716
17th Floor, Hopewell Centre
183 Queen's Road East
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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 (collectively the "Group") for the six months ended 30 June 2002, together with the comparative figures for the corresponding period in 2001. 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.

Consolidated turnover of the Group amounted to HK\$659.0 million for the six months ended 30 June 2002, representing a decrease of 28% as compared with the corresponding six months ended 30 June 2001 (HK\$909.7 million). Consolidated loss attributable to shareholders amounted to HK\$54.5 million for the six months ended 30 June 2002, compared with a loss of HK\$119.8 million for the corresponding six months ended 30 June 2001. Basic loss per share for this interim period was HK4.9 cents (2001: basic loss per share of HK10.7 cents).

Interim Dividend

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2002 (2001: Nil).

Overall Performance

The Group's unaudited consolidated loss after tax and minority interests for the period was narrowed by 54% to HK\$54.5 million (2001: HK\$119.8 million). The Group recorded a drop in turnover during the period by 28% to HK\$659.0 million (2001: HK\$909.7 million). For the two semi-annual periods under review, gross profit percentage improved to 19.3% (2001: 12.8%). The implementation of cost control measures since the last quarter of 2001 resulted in reduction of selling and distribution costs and administrative expenses by 39% and 21% respectively if compared with the corresponding period in 2001.

Operating Review And Prospects

(A) Software development and systems integration

Media sector

The turnover of the software development and systems integration business in the media sector for the period decreased by 12% to HK\$281.6 million (2001: HK\$319.3 million) while its contribution to loss from operating activities for the period recorded a loss of HK\$3.5 million (2001: profit of HK\$3.5 million).

The situation of holding-up or decreasing capital expenditure for new systems and/or up-grading demands by our customers as a result of the slowdown of the overall global economy in 2001 has extended to the first half of 2002, thus led to the drop in turnover and the setback of the performance of this sector. During the period, the Group has continued to introduce a number of new products to its customers and has established a nationwide agency network in the PRC for the distribution of our publishing software and related peripheral products. We have strengthened the promotion campaign of our network publishing solutions, Founder Apabi eBook Solutions, through nationwide seminars and exhibitions to promote its application in eLibrary. Through our efforts in the past few years, we have also established our leading position in the Chinese broadcasting control system and have expanded our customer base on news management system for television stations in the PRC.



Non-media sector

The turnover of the software development and systems integration business in the non-media sector for the period decreased by 13% to HK\$131.6 million (2001: HK\$151.7 million) while its loss from operating activities for the period was narrowed substantially by 94% to HK\$4.3 million (2001: HK\$74.7 million).

During the first half of 2002, market competition in the systems integration business for the banking and security industries in the PRC was still severe, thus resulted in drop in profitability. Since the last quarter of 2001, we have started to restructure the management and operation of our non-media business. We have tightened the control over contract management and implemented a number of cost control programs. We have streamlined our operational team and reduced its headcount by nearly 60%. All our efforts have resulted in the substantial reduction in operating expenses and the improvement in the performance of our non-media business in the period under review.

Since the second quarter of 2002, we have seen a slow recovery of the market in light of the increasing volume of contracts offered by customers for bidding. We expect that our performance will further improve in the near future.

(B) Distribution of information products

The turnover of the distribution business of information products for the period decreased by 44% to HK\$245.7 million (2001: HK\$438.8 million) as the corporate demand for information products was still low. Its loss from operating activities for the period was narrowed by 30% to HK\$20.1 million (2001: HK\$28.8 million).

In the first half of 2002, great efforts were made by the management to clear up excessive inventories accumulated from last year and to chase up settlement from overdue debtors, thus resulted in the substantial improvement in inventories and trade receivables in term of reduction in amount and improvement in aging. Logistic process was also strengthened to reduce costs and to enhance our efficiency.

(C) Provision of e-commerce services

Our associate, EC-Founder (Holdings) Company Limited ("EC-Founder"), positions itself as a software solution and service provider on the following business sectors: (a) information security, (b) geographic information system, (c) e-finance and (d) enterprise/government information.

The turnover of the software business of EC-Founder was almost doubled in the period under review if compared with last corresponding period as its products and company's brand name have been well recognised by the market since last year's initial launch of its products. During the first half of 2002, EC-Founder has completed exhibition shows in more than 50 cities in the PRC to promote its information security products. It has also completed the project of "Key Client Service System" for China Construction Bank and a number of geographic information system projects for a large clientele such as oil and petroleum, telecommunication service provider, and government forest management bureau.

During the period, EC-Founder has disposed of its loss making business in relation to the manufacture and distribution of semi-conductors. If the loss of this discontinued business of approximately HK\$20 million was not accounted for, the net loss of EC-Founder relating to its continuing business for the period in fact narrowed by 42% to approximately HK\$13 million if compared with the corresponding period in 2001.



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.

Share options may be granted to the directors and employees of the Group to subscribe for shares in the Company in accordance with the terms and conditions of the share option scheme approved by the shareholders of the Company at the annual general meeting held on 24 May 2002.

Following the streamlining of the workforce of the Group in the first quarter of the current year, the number of employees of the Group fell by 21% from 2,520 as at 31 December 2001 to 1,987 as at 30 June 2002.

Financial Review

Liquidity, financial resources and capital commitments

As at 30 June 2002, the Group recorded total assets of HK\$930.2 million which were financed by liabilities of HK\$574.0 million and equity of HK\$356.2 million. The Group's net asset value per share as at 30 June 2002 amounted to HK\$0.32 per share as compared to HK\$0.36 per share as at 31 December 2001.

The Group had a total cash and bank balance of HK\$220.0 million as at 30 June 2002. After deducting bank borrowings of HK\$63.4 million, the Group recorded a net cash balance of HK\$156.6 million as compared to HK\$125.5 million as at 31 December 2001. The Group's borrowings, which are subject to little seasonality, consist of mainly short term bank loans and revolving trust receipt loans. As at 30 June 2002, the Group's gearing ratio, measured on the basis of total borrowings as a percentage of total shareholders' equity, was 0.18 (31 December 2001: 0.44) while the Group's working capital ratio was 1.38 (31 December 2001:1.37).

As at 30 June 2002, 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 and Renminbi. Surplus cash is generally placed in short term deposits denominated in Hong Kong dollars.

Exposure to fluctuations in exchange rates and related hedges

Most of the Group's borrowings are denominated in Hong Kong dollars, Renminbi and United States dollars while the sales of the Group are mainly denominated in Hong Kong dollars and Renminbi. 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 2002, the major contracts in hand for the software development and systems integration business amounted to approximately HK\$321 million, which are all expected to be completed within one year's time.

Material acquisitions and disposals of subsidiaries and associates

During the current period under review, the Group had not acquired any subsidiaries and associates. On 8 April 2002, the shares of the Group's 49% associate, PUC Founder (MSC) Berhad, were listed on the Malaysian Exchange of Securities of Dealing and Automated Quotation Berhad. Two million new ordinary shares were offered to the public and were oversubscribed by 5.5 times. The Group's interest in the share capital of PUC Founder (MSC) Berhad after the initial public offer was diluted to 35.9% and the Group recorded a gain on the deemed disposal amounting to HK\$3.7 million.

As announced on 10 December 2001, the Group has entered into a heads of agreement in relation to the establishment of a joint venture company in the PRC to engage in the business of systems integration and the development and distribution of computer-related hardware and software. Since none of the pre-conditions of the agreement was satisfied on or before the prescribed time, the agreement has therefore been terminated on 3 July 2002.

Charges on assets

At 30 June 2002, all the Group's land and buildings and investment properties in Hong Kong and fixed deposits in total of HK\$69.1 million were pledged to certain banks in Hong Kong to secure banking facilities granted.

Contingent liabilities

At 30 June 2002, the Group did not have any significant contingent liabilities.

By Order of the Board
Cheung Shuen Lung
Chairman

Hong Kong, 24 September 2002

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

		Unaudited Six months ended 30 June	
	Notes	2002 HK\$'000	2001 HK\$'000
TURNOVER	2	658,990	909,727
Cost of sales		(531,871)	(793,351)
Gross profit		127,119	116,376
Other revenue and gains		18,571	25,708
Selling and distribution costs		(68,340)	(112,535)
Administrative expenses		(75,177)	(95,099)
Other operating expenses		(42,226)	(42,482)
LOSS FROM OPERATING ACTIVITIES	3	(40,053)	(108,032)
Finance costs	4	(3,695)	(5,792)
Share of profits and losses of:			
Jointly-controlled entity		668	93
Associates		(12,618)	(7,938)
LOSS BEFORE TAX		(55,698)	(121,669)
Tax	5	(536)	(662)
LOSS BEFORE MINORITY INTERESTS		(56,234)	(122,331)
Minority interests		1,707	2,504
NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		(54,527)	(119,827)
LOSS PER SHARE	6		
— Basic		(4.9) cents	(10.7) cents

CONDENSED CONSOLIDATED BALANCE SHEET

		Unaudited 30 June 2002 HK\$'000	Audited 31 December 2001 HK\$'000
NON-CURRENT ASSETS			
Fixed assets		93,877	103,082
Intangible assets		3,660	3,991
Long term investment		—	—
Interest in a jointly-controlled entity		7,502	6,834
Interests in associates		70,400	81,273
		175,439	195,180
CURRENT ASSETS			
Inventories		263,209	303,366
Trade receivables	7	196,482	231,061
Prepayments, deposits and other receivables		70,207	54,192
Short term investments		4,942	5,754
Pledged time deposits		42,253	42,759
Cash and cash equivalents		177,690	263,647
		754,783	900,779
CURRENT LIABILITIES			
Trade and bills payables	8	186,720	112,213
Tax payables		459	92
Other payables and accruals		298,440	368,528
Interest-bearing bank borrowings		60,676	177,801
		546,295	658,634
NET CURRENT ASSETS		208,488	242,145
TOTAL ASSETS LESS CURRENT LIABILITIES		383,927	437,325
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings		2,694	3,139
MINORITY INTERESTS		381,233	434,186
		25,020	25,850
		356,213	408,336
CAPITAL AND RESERVES			
Issued capital		112,380	112,380
Reserves		243,833	295,956
		356,213	408,336

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Unaudited	
	Six months ended 30 June	
	2002	2001
	HK\$'000	HK\$'000
Net cash inflow/(outflow) from operating activities	8,590	(90,630)
Net cash outflow from investing activities	(8,035)	(8,974)
Net cash outflow from financing activities	(87,707)	(44,464)
DECREASE IN CASH AND CASH EQUIVALENTS	(87,152)	(144,068)
Cash and cash equivalents at beginning of period	263,460	315,360
Effect of foreign exchange rate changes, net	1,382	(3,664)
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>177,690</u>	<u>167,628</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	177,558	147,442
Time deposits	132	20,186
	<u>177,690</u>	<u>167,628</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2002

	Issued capital (Unaudited) HK\$'000	Share premium account (Unaudited) HK\$'000	Contributed surplus (Unaudited) HK\$'000	Capital reserve (Unaudited) HK\$'000	Land and building 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 2002	112,380	27,660	613,445	64,754	601	(4,801)	42,999	(448,702)	408,336
Loss for the period	—	—	—	—	—	—	—	(54,527)	(54,527)
Transfer to capital reserve	—	—	—	3,685	—	—	—	(3,685)	—
Exchange realignments	—	—	—	—	—	2,404	—	—	2,404
At 30 June 2002	<u>112,380</u>	<u>27,660</u>	<u>613,445</u>	<u>68,439</u>	<u>601</u>	<u>(2,397)</u>	<u>42,999</u>	<u>(506,914)</u>	<u>356,213</u>

For the six months ended 30 June 2001

	Issued capital (Unaudited) HK\$'000	Share premium account (Unaudited) HK\$'000	Contributed surplus (Unaudited) HK\$'000	Capital reserve (Unaudited) HK\$'000	Land and building 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 2001	112,380	27,660	582,334	62,680	601	2,453	42,866	(62,529)	768,445
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)
At 30 June 2001	<u>112,380</u>	<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>643,695</u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. Basis of preparation and accounting policies

The unaudited condensed consolidated interim financial statements of the Group had 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 (the "HKSA") and Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). The accounting policies 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 2001, except that the Group has adopted the following new or revised SSAPs issued by the HKSA which are effective for accounting periods commencing on or after 1 January 2002 and the accounting policy as disclosed below under the heading "Change in accounting policy in 2002":

SSAP 1 (Revised)	:	"Presentation of financial statements"
SSAP 11 (Revised)	:	"Foreign currency translation"
SSAP 15 (Revised)	:	"Cash flow statements"
SSAP 33	:	"Discontinuing operations"
SSAP 34	:	"Employee benefits"

A summary of their major effects is as follows:

SSAP 1 (Revised) prescribes the basis for the presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. The main revision to this SSAP is to change the requirements from presenting a statement of recognised gains and losses to a statement of changes in equity. The condensed consolidated statement of changes in equity for the current period and the comparative figures have been presented in accordance with this revised SSAP.

SSAP 11 (Revised) prescribes the basis for the translation of foreign currency transactions and financial statements. The principal impact of this revised SSAP on the interim financial statements is that the profit and loss accounts of subsidiaries, associates and jointly-controlled entity operating in Mainland China and overseas are translated at an average rate for the period on consolidation, rather than translated at the applicable rates of exchange ruling at the balance sheet date as was previously required. This SSAP is required to be applied retrospectively. The Group has adopted the transitional provision of this SSAP that, where the calculation of a prior year adjustment is impractical, these changes in policy are applied only to current and future financial statements. The effect of this change on current period's results is not significant.

SSAP 15 (Revised) prescribes the provision of information about the historical changes in cash and cash equivalents by means of a cash flow statement which classifies cash flows during the period into operating, investing and financing activities. The condensed consolidated cash flow statement for the current period and the comparative figures have been presented in accordance with this revised SSAP.

SSAP 33 prescribes the basis for reporting information about discontinuing/discontinued operations. This SSAP has had no major impact on these condensed consolidated interim financial statements.

SSAP 34 prescribes the accounting treatment and disclosures for employee benefits. This SSAP has had no major impact on these condensed consolidated interim financial statements.

Change in accounting policy in 2002

In prior years, cost of inventories was determined on the first-in, first-out basis. Upon a review of the nature of the Group's business, the Board determined during the period that it would be more appropriate for the Group to adopt the weighted average costing method to determine the cost of inventories. The Board estimates that the change in accounting policy has no significant impact on the current period's and prior year's inventory values of the Group and, as such, a prior year adjustment as required by SSAP 2 "Net profit or loss for the period, fundamental errors and changes in accounting policies" has not been incorporated in the condensed consolidated interim financial statements.

2. Turnover and segment information

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

(a) Business segments

The following table presents revenue and results of the Group's business segments for the six months ended 30 June 2002 and 2001:

Group	Software development and systems integration for media business		Software development and systems integration for non-media business		Distribution of information products		Corporate and others		Consolidated	
	2002 (Unaudited) HK\$'000	2001 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000	2001 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000	2001 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000	2001 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000	2001 (Unaudited) HK\$'000
Segment revenue:										
Sales to external customers	<u>281,562</u>	<u>319,276</u>	<u>131,633</u>	<u>151,668</u>	<u>245,695</u>	<u>438,783</u>	<u>100</u>	<u>—</u>	<u>658,990</u>	<u>909,727</u>
Segment results	<u>(3,540)</u>	<u>3,491</u>	<u>(4,338)</u>	<u>(74,661)</u>	<u>(20,128)</u>	<u>(28,814)</u>	<u>(12,730)</u>	<u>(9,887)</u>	<u>(40,736)</u>	<u>(109,871)</u>
Interest income									<u>683</u>	<u>1,839</u>
Loss from operating activities									<u>(40,053)</u>	<u>(108,032)</u>
Finance costs									<u>(3,695)</u>	<u>(5,792)</u>
Share of profits and losses of:										
Jointly-controlled entity									<u>668</u>	<u>93</u>
Associates									<u>(12,618)</u>	<u>(7,938)</u>
Loss before tax									<u>(55,698)</u>	<u>(121,669)</u>
Tax									<u>(536)</u>	<u>(662)</u>
Loss before minority interests									<u>(56,234)</u>	<u>(122,331)</u>
Minority interests									<u>1,707</u>	<u>2,504</u>
Net loss from ordinary activities attributable to shareholders									<u>(54,527)</u>	<u>(119,827)</u>

(b) Geographical segments

The following table presents revenue and results of the Group's geographical segments for the six months ended 30 June 2002 and 2001:

	Hong Kong		Elsewhere in the PRC		Overseas		Corporate and others		Eliminations		Consolidated	
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Segment revenue:												
Sales to external customers	73,679	159,522	544,754	703,349	40,457	46,856	100	-	-	-	658,990	909,727
Intersegment sales	98,507	194,145	-	-	-	-	-	-	(98,507)	(194,145)	-	-
	<u>172,186</u>	<u>353,667</u>	<u>544,754</u>	<u>703,349</u>	<u>40,457</u>	<u>46,856</u>	<u>100</u>	<u>-</u>	<u>(98,507)</u>	<u>(194,145)</u>	<u>658,990</u>	<u>909,727</u>
Segment results	<u>7,858</u>	<u>697</u>	<u>(28,213)</u>	<u>(98,765)</u>	<u>(7,651)</u>	<u>(1,916)</u>	<u>(12,730)</u>	<u>(9,887)</u>	<u>-</u>	<u>-</u>	<u>(40,736)</u>	<u>(109,871)</u>

3. Loss from operating activities

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

	Unaudited Six months ended 30 June	
	2002 HK\$'000	2001 HK\$'000
Depreciation of fixed assets	9,068	9,902
Amortisation of trademark	475	-
Loss on disposal of fixed assets	2,394	303
Loss on disposal of a subsidiary	535	-
Provision for diminution in value of a long term investment	-	1,647
Gain on deemed disposal of an associate	(3,685)	-
Gain on deemed disposal of a subsidiary	-	(1,916)
	<u>-</u>	<u>(1,916)</u>

4. Finance costs

	Unaudited Six months ended 30 June	
	2002 HK\$'000	2001 HK\$'000
Interest on bank loans and overdrafts	<u>3,695</u>	<u>5,792</u>

5. Tax

	Unaudited	
	Six months ended 30 June	
	2002	2001
	HK\$'000	HK\$'000
Group:		
Outside Hong Kong	415	318
Share of tax attributable to associates	121	344
	<hr/>	<hr/>
Tax charge for the period	536	662
	<hr/> <hr/>	<hr/> <hr/>

No Hong Kong profits tax has been provided as no assessable profits are arising in Hong Kong during the period (2001: Nil).

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 (2001: Nil).

6. Loss per share

The calculation of basic loss per share for the six months ended 30 June 2002 is based on the unaudited net loss attributable to shareholders for the period of approximately HK\$54,527,000 (2001: approximately HK\$119,827,000) and the weighted average of approximately 1,123,800,000 (2001: approximately 1,123,800,000) ordinary shares in issue during the period.

The diluted loss per share for the six months ended 30 June 2002 and 2001 have not been calculated as the impact of the outstanding share options was anti-dilutive.

7. Trade 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 1 month, extending up to 3 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 regularly reviewed by senior management.

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

	Unaudited	Audited
	30 June	31 December
	2002	2001
	HK\$'000	HK\$'000
1-6 months	147,793	168,852
7-12 months	21,584	30,905
13-24 months	20,507	24,854
Over 24 months	6,598	6,450
	<hr/>	<hr/>
	196,482	231,061
	<hr/> <hr/>	<hr/> <hr/>

8. Trade and bills payables

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

	Unaudited 30 June 2002 HK\$'000	Audited 31 December 2001 HK\$'000
1-6 months	156,886	43,751
7-12 months	21,493	39,552
13-24 months	5,673	27,825
Over 24 months	2,668	1,085
	<u>186,720</u>	<u>112,213</u>

9. Related party transactions

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

	<i>Notes</i>	Unaudited Six months ended 30 June 2002 HK\$'000	2001 HK\$'000
Rental expenses paid to Peking University Founder Group Corporation ("Peking Founder")	<i>(i)</i>	7,071	7,063
Sales of technical knowhow to a company in which three (2001: two) directors of the Company were directors	<i>(ii)</i>	—	20,122
Sales of goods to a company in which three (2001: two) directors of the Company were directors	<i>(iii)</i>	9,560	—
Purchases of goods from a company in which three (2001: two) directors of the Company were directors	<i>(iv)</i>	1,747	—
Bank loan guarantees given by Peking Founder	<i>(v)</i>	47,145	94,170
Bank facilities guarantees given by Peking Founder	<i>(vi)</i>	67,491	—

Notes:

- (i)* The rental expenses were paid in accordance with the terms of the agreement governing such transaction.
- (ii)* The transaction was conducted at prices determined between the two parties.
- (iii)* The sales of goods were made according to the published prices and conditions similar to those offered to other customers of the Group.
- (iv)* The directors consider that the purchases of goods were made according to the published prices and conditions similar to those offered to other customers of the related company.
- (v)* The bank loan guarantees were given to PRC banks for the loans granted to a subsidiary.
- (vi)* The bank facilities guarantees were given to PRC banks for the credit facilities granted to a subsidiary.



10. Contingent liabilities

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

11. Comparative amounts

As further explained in note 1 to these interim financial statements, due to the adoption of certain new and revised SSAPs during the current period, certain comparative amounts have been reclassified to conform with the current period's presentation.

OTHER INFORMATION

Directors' Interests in Shares

At 30 June 2002, the interests of the directors in the share capital of EC-Founder, 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	Nature of interest	Number of ordinary shares held
Cheung Shuen Lung	Personal	36,890,100
Wei Xin	Personal	3,956,000
Zhang Zhao Dong	Personal	3,956,000
Xiao Jianguo	Personal	8,703,300
Lei Hon Sang	Personal	21,890,100
		<u>75,395,500</u>

In addition to the above, Mr 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 headings "Directors' rights to acquire shares" and "Share option scheme", 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

EC-Founder has granted options on its ordinary shares pursuant to its share option scheme in favour of certain directors of the Company, the details of which are as follows:

Name of director	Number of share options at 1 January 2002 and outstanding at 30 June 2002	Date of grant of share options	Exercise period of share options	Exercise price of share options HK\$
Cheung Shuen Lung	2,000,000	18.5.2001	18.5.2001 to 17.5.2011	0.45
Wei Xin	2,000,000	18.5.2001	18.5.2001 to 17.5.2011	0.45
Lei Hon Sang	2,000,000	18.5.2001	18.5.2001 to 17.5.2011	0.45
	<u>6,000,000</u>			

Apart from as disclosed above and under the heading "Share option scheme" below, at no time during the period were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them, or was the Company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

Share Option Scheme

(a) Share option scheme of the Company

On 24 May 2002, the Company adopted a new share option scheme (the "New Scheme") whereby, the directors may, at their discretion, invite any eligible employees (including executive directors), any non-executive directors, shareholders, suppliers and customers of the Group and any other parties having contributed or may contribute to the development of the Group to take up options to subscribe for shares of the Company. As at 30 June 2002, the Company did not grant any options under the New Scheme.

Meanwhile, the share option scheme adopted by Founder (Hong Kong) Limited which was replaced by the share option scheme of the Company pursuant to a scheme of arrangement with effect from 31 March 2000 (the "Old Scheme") ceased to operate on 24 May 2002. However, the options granted under the Old Scheme will remain in full force and effect. The following share options were outstanding under the Old Scheme during the period:

Name or category of participant	Number of share options at 1 January 2002 and outstanding at 30 June 2002	Date of grant of share options	Exercise period of share options	Exercise price of share options HK\$
Directors				
Wang Xuan	10,800,000	6.8.1996	21.12.1998* to 6.12.2005	1.397
Cheung Shuen Lung	9,360,000	6.8.1996	21.12.1998* to 6.12.2005	1.397
Sub-total	<u>20,160,000</u>			
Other employees				
In aggregate	900,000	16.4.1999	16.4.1999 to 6.12.2005	0.912
In aggregate	10,000,000	1.11.1999	1.11.1999 to 6.12.2005	1.944
Sub-total	<u>10,900,000</u>			
Total	<u><u>31,060,000</u></u>			

(b) Share option scheme of Founder International Inc.

The following share options were outstanding under the share option scheme adopted by Founder International Inc., a subsidiary of the Company, at 1 January 2002 and at the end of period:

Category of participant	Number of share options			Date of grant of share options	Exercise period of share options	Exercise price of share options JPY
	At 1 January 2002	Lapsed during the period	At 30 June 2002			
Other employees In aggregate	<u>60</u>	<u>(2)</u>	<u>58</u>	16.12.2000	17.12.2000* to 16.12.2010	4,720,000

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

The financial impact of the Company's share options granted is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon exercise of the Company's share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled or which lapse prior to their exercise date are deleted from the outstanding options.

Substantial Shareholders

At 30 June 2002, the following interest of 10% or more of the share capital of the Company was 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	Percentage of the Company's share capital
Peking Founder	367,179,610	32.67

Save 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, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2002.



Code of Best Practice

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

The Company has an audit committee which was established in accordance with the requirements of the Code. The audit committee comprises the two independent non-executive directors of the Company. These unaudited condensed consolidated interim financial statements for the six months ended 30 June 2002 of the Group now reported on have been reviewed by the audit committee.