



FOUNDER HOLDINGS LIMITED
方正控股有限公司

(Incorporated in Bermuda with limited liability)

2005

Interim Report





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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive directors

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

Independent non-executive directors

Dr Hu Hung Lick, Henry
Mr Li Fat Chung
Ms Wong Lam Kit Yee

COMMITTEES

Audit Committee

Mr Li Fat Chung (*Chairman*)
Dr Hu Hung Lick, Henry
Ms Wong Lam Kit Yee

Remuneration Committee

Mr Cheung Shuen Lung (*Chairman*)
Mr Li Fat Chung
Ms Wong Lam Kit Yee

COMPANY SECRETARY

Ms Tang Yuk Bo, Yvonne

QUALIFIED ACCOUNTANT

Mr Fung Man Yin, Sammy

AUTHORISED REPRESENTATIVES

Mr Cheung Shuen Lung
Professor Wei Xin

AUDITORS

Ernst & Young
Certified Public Accountants

LEGAL ADVISERS

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 and 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

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MANAGEMENT DISCUSSION AND ANALYSIS

The board of directors (the “Board”) of Founder Holdings Limited (the “Company”) is pleased to present the unaudited condensed consolidated interim financial statements of the Company and its subsidiaries (collectively the “Group”) for the six months ended 30 June 2005, together with the comparative figures for the corresponding period in 2004. These condensed consolidated interim financial statements have not been audited, but have been reviewed by the Company’s audit committee.

OVERALL PERFORMANCE

The Group reported an unaudited consolidated profit after tax and minority interests for the six months ended 30 June 2005 of approximately HK\$12.3 million (2004 (Restated): loss of HK\$0.3 million). The Group’s turnover for this interim period increased by 29.4% to approximately HK\$1,131.8 million (2004: HK\$874.9 million). For the two semi-annual periods under review, gross profit percentage dropped from 14.1% in 2004 to 10.9% in 2005 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. Despite the significant increase in sales in the first half of the current year, the selling and distribution costs and the administrative expenses were more or less maintained at prior period’s level. The increase in the other operating expenses was mainly due to an exceptional write-back of other receivables in prior period.

Basic earnings per share for this interim period was HK1.1 cents (2004 (Restated): basic loss per share of HK0.03 cents).

OPERATING REVIEW AND PROSPECTS

(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 decreased by 19.5% to approximately HK\$227.5 million (2004: HK\$282.6 million) while its segmental results recorded a loss of approximately HK\$10.4 million (2004: profit of HK\$12.6 million).

In the first half of the current year, this business segment recorded a loss because the Group has allocated more resources for new product development and market exploration. Based on our prize-award technology, Founder Apabi Digital Right Management System, a series of new products, such as e-Library, e-Book and e-Government Document, has been developed. Our e-Library System has been applied to more than 1,000 e-libraries. Over 400 publishing houses have cooperated with us for the production of e-books using our digital network publishing total solutions, Founder Apabi e-Book Solutions. As at 31 July 2005, we have produced over 165,000 e-books which are being offered to the retail market through more than 20 portals. In addition, we have worked with four manufacturing partners for the development of e-book readers. Besides our traditional graphic arts and e-publishing software solutions for the needs of newspaper and publishing houses, our new product, Founder EasiPrint Digital Printing System, was also well received by the market. More and more partners have joined our franchising digital printing shops. Recently, we have established a subsidiary in Belgium to capture the European market for our graphic arts and e-publishing software solutions. Although we are still in the investing stage of the above new businesses and products, we are confident that the costs incurred now will bring us a fruitful return in the coming 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 3.5% to approximately HK\$89.7 million (2004: HK\$86.7 million) while its segment results recorded a loss of approximately HK\$4.7 million (2004: HK\$10.7 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 further narrowed down. As resulted from further restructuring of our operational team and business units and control of operating expenses, the loss of this business sector narrowed down by 56% if compared to last year's corresponding period. The management will closely monitor the performance of this business sector and will take all necessary actions to minimise its loss.

(C) Distribution of information products

The turnover of the distribution business of information products for the period increased by 62.4% to approximately HK\$810.1 million (2004: HK\$498.7 million) while its segmental profit increased by 62.4% to approximately HK\$4.8 million (2004: HK\$2.9 million). Despite having achieved an encouraging growth in the sales of information products, the Group is facing with severe competition and declining profit margin. More and more working capital is required to substantiate the continuous growth of our distribution business.

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 channel; and
3. tight control on operating costs, trade receivables and inventories.

Besides the headquarters in Beijing, the Group has established 14 branch offices/representative offices in various major cities of the PRC. In June 2005, our subsidiary, Beijing Founder Century Information System Co., Ltd., was ranked the 5th (2004: 6th) place among the top 200 information product distributors in the PRC by Computer Partner World (電腦商報) of the PRC. In addition, it was ranked the 6th and 7th places by China Information World (中國計算機報) in 2005 among the PRC's top 100 largest and top 100 dominant information product distributors respectively.

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 not granted any share options during the current period.

In the first half of the current year, the moderate increase in the headcount for the Group's media and distribution businesses in the PRC was totally offset by the decrease in the headcount for the Group's non-media business and the disposal of the Group's media business in Japan in June 2005. At 30 June 2005, the number of employees of the Group was approximately 1,830 (31 December 2004: 2,020).

FINANCIAL REVIEW

Liquidity, financial resources and capital commitments

At 30 June 2005, the Group recorded total assets of HK\$1,049.6 million which were financed by liabilities of HK\$630.5 million, minority interests of HK\$92.1 million and equity of HK\$327.0 million. The Group's net asset value per share as at 30 June 2005 amounted to HK\$0.29 (31 December 2004: HK\$0.28).

The Group had a total cash and bank balance of HK\$265.9 million as at 30 June 2005. After deducting total borrowings of HK\$7.8 million, the Group recorded a net cash balance of HK\$258.1 million as at 30 June 2005 as compared to HK\$307.6 million as at 31 December 2004. The Group's borrowings, which are subject to little seasonality, consist of mainly short-term revolving trust receipt loans. As at 30 June 2005, the Group's gearing ratio, measured on the basis of total borrowings as a percentage of total shareholders' equity, was 0.02 (31 December 2004: 0.05) while the Group's working capital ratio was 1.46 (31 December 2004: 1.41).

At 30 June 2005, 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.

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.

MANAGEMENT DISCUSSION AND ANALYSIS

Contracts

At 30 June 2005, the major contracts in hand for the software development and systems integration business of the Group amounted to approximately HK\$154.9 million (31 December 2004: HK\$229.4 million), which are all expected to be completed within one year time.

Material acquisitions and disposals of subsidiaries and associates

On 7 February 2005, Founder (Hong Kong) Limited ("Founder HK"), a wholly-owned subsidiary of the Group, entered into a conditional sale and purchase agreement with Founder Information (Hong Kong) Limited ("Founder Information"), a subsidiary of the Company's controlling shareholder Peking University Founder Group Corporation ("Peking Founder"), and Peking Founder to dispose of its entire equity interest in True Luck Group Limited ("True Luck") and to assign the loan of JPY70 million due to Founder HK by True Luck to Founder Information at a total cash consideration of JPY693,520,600. The disposal was completed in June 2005 and a gain of approximately HK\$25.2 million was recorded.

On 22 July 2004, Founder International Inc. ("Founder Inc."), a then non-wholly owned subsidiary of the Group, entered into a subscription agreement (the "Subscription Agreement") with Media Champion Holdings Limited ("Media Champion"), a company wholly-owned by Mr Guan Xiang Hong, the president and an executive director of Founder Inc. Pursuant to the Subscription Agreement, Founder Inc. issued 537 new shares at JPY300,000 per share to Media Champion in June 2005. A gain of approximately HK\$4.0 million was recorded for the deemed disposal.

In February 2005, an investor invested into a wholly-owned subsidiary of Founder Inc., diluting its interest in such subsidiary from 100% to 50%. A gain of approximately HK\$4.1 million was recorded for the deemed disposal.

Charges on assets

At 30 June 2005, all the Group's land and buildings and investment properties in Hong Kong of approximately HK\$37.6 million and fixed deposits of approximately HK\$59.6 million were pledged to banks to secure banking facilities granted.

Contingent liabilities

At 30 June 2005, the Group did not have any significant contingent liabilities.

CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	For the six months ended 30 June	
		2005 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000 (Restated)
REVENUE	3	1,131,791	874,912
Cost of sales		(1,008,677)	(751,224)
Gross profit		123,114	123,688
Other income and gains	4	55,591	27,443
Selling and distribution costs		(82,556)	(81,222)
Administrative expenses		(61,338)	(60,823)
Other operating expenses, net		(23,640)	(12,310)
Finance costs	5	(490)	(165)
Share of profits and losses of:			
Associates		6,572	2,664
Jointly-controlled entity		—	(17)
PROFIT/(LOSS) BEFORE TAX	6	17,253	(742)
Tax	7	(956)	(164)
PROFIT/(LOSS) FOR THE PERIOD		<u>16,297</u>	<u>(906)</u>
ATTRIBUTABLE TO:			
Equity holders of the parent		12,312	(284)
Minority interests		3,985	(622)
		<u>16,297</u>	<u>(906)</u>
EARNINGS/(LOSS) PER SHARE — Basic	8	<u>1.10 cents</u>	<u>(0.03 cents)</u>

CONDENSED CONSOLIDATED BALANCE SHEET

	Notes	30 June 2005 (Unaudited) HK\$'000	31 December 2004 (Audited) HK\$'000 (Restated)
NON-CURRENT ASSETS			
Fixed assets:			
Property, plant and equipment		55,489	66,887
Investment properties		19,150	15,710
Goodwill		7,055	7,055
Interests in associates		44,954	38,633
Deferred tax assets		2,366	2,366
Total non-current assets		<u>129,014</u>	<u>130,651</u>
CURRENT ASSETS			
Inventories		164,793	162,094
Systems integration contracts		30,630	55,826
Trade and bills receivables	10	383,265	329,543
Prepayments, deposits and other receivables		74,058	83,179
Available-for-sale financial assets		2,003	1,742
Pledged deposits		59,558	61,849
Cash and cash equivalents		206,287	261,612
Total current assets		<u>920,594</u>	<u>955,845</u>
CURRENT LIABILITIES			
Trade and bills payables	11	366,701	358,522
Tax payable		498	700
Other payables and accruals		255,565	301,951
Interest-bearing bank borrowings		7,784	15,932
Total current liabilities		<u>630,548</u>	<u>677,105</u>
NET CURRENT ASSETS		<u>290,046</u>	<u>278,740</u>
		<u>419,060</u>	<u>409,391</u>
CAPITAL AND RESERVES			
Equity attributable to equity holders of the parent:			
Share capital		112,380	112,380
Other reserves	12	944,978	1,013,905
Accumulated losses	12	(730,374)	(810,690)
		<u>326,984</u>	<u>315,595</u>
Minority interests	12	<u>92,076</u>	<u>93,796</u>
		<u>419,060</u>	<u>409,391</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Notes	For the six months ended 30 June	
		2005 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000 (Restated)
Total equity at 1 January			
As previously reported as equity		315,595	341,984
As previously reported separately as minority interests		93,796	86,667
		409,391	428,651
Changes in equity during the period:			
Exchange differences on translating foreign operations	12	(1,807)	731
Net income/(expense) recognised directly in equity		(1,807)	731
Deemed partial disposal of subsidiaries	12	16,850	—
Disposal of subsidiaries	12	(21,671)	—
Partial disposal of a subsidiary	12	—	143
Disposal of a jointly-controlled entity	12	—	(3)
Profit/(loss) for the period	12	16,297	(906)
Total recognised income and expense for the period		9,669	(35)
Total equity at 30 June		419,060	428,616
Total recognised income and expense for the period attributable to:			
Equity holders of the parent		11,389	457
Minority interests		(1,720)	(492)
		9,669	(35)

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	For the six months ended 30 June	
	2005 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	(91,698)	(81,738)
NET CASH INFLOW/(OUTFLOW) FROM INVESTING ACTIVITIES	44,381	(2,744)
NET CASH OUTFLOW FROM FINANCING ACTIVITIES	(8,148)	(579)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(55,465)	(85,061)
Cash and cash equivalents at beginning of period	258,079	277,956
Effect of foreign exchange rate changes, net	67	1,390
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>202,681</u>	<u>194,285</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	164,611	183,215
Non-pledged time deposits with original maturity of less than three months when acquired	<u>38,070</u>	<u>11,070</u>
	<u>202,681</u>	<u>194,285</u>

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

The condensed consolidated interim financial statements are prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting”. The accounting policies and basis of preparation adopted in the preparation of the interim financial statements are the same as those used in the annual financial statements for the year ended 31 December 2004, except in relation to the following new and revised Hong Kong Financial Reporting Standards (“HKFRSs”, which also include HKASs and Interpretations) that affect the Group and are adopted for the first time for the current period’s financial statements:

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 11	Construction Contracts
HKAS 12	Income Taxes
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 20	Accounting for Government Grants and Disclosure of Government Assistance
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings Per Share
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 40	Investment Property
HKFRS 2	Share-based Payment
HK(SIC)-Int 21	Income Taxes — Recovery of Revalued Non-depreciable Assets
HK-Int 4	Leases — Determination of the Length of Lease Term in respect of Hong Kong Land Leases

The adoption of HKASs 1, 2, 7, 8, 10, 11, 12, 16, 18, 19, 20, 21, 23, 24, 27, 28, 32, 33, 37, 39 and HK-Int 4 has had no material impact on the accounting policies of the Group and the method of computation in the Group’s condensed consolidated financial statements. In summary,

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES *(continued)*

- (a) HKAS 1 has affected certain presentations in the condensed consolidated balance sheet, condensed consolidated income statement and condensed consolidated statement of changes in equity, including the followings:
- investment properties, which were previously included in fixed assets, are now presented separately on the face of the condensed consolidated balance sheet;
 - taxes of jointly-controlled entity and associates attributable to the Group, which were previously included in the tax charge on the condensed consolidated income statement, are now included in the share of profits and losses of jointly-controlled entity and associates, respectively; and
 - minority interests are now included in the equity section of the condensed consolidated balance sheet.
- (b) HKAS 24 has affected the identification of related parties and some other related-party disclosures.

The impact of adopting the other HKFRSs is summarised as follows:

(a) HKAS 17 — Leases

In prior periods, leasehold land and buildings held for own use were stated at cost or valuation less accumulated depreciation and any impairment losses.

Upon the adoption of HKAS 17, the Group's leasehold interest in land and buildings should be separated into leasehold land and leasehold buildings. The leasehold land should be classified as an operating lease, because the title of the land is not expected to pass to the Group by the end of the lease term, and should be reclassified from fixed assets to prepaid land premiums/land lease payments, while leasehold buildings continue to be classified as part of property, plant and equipment. Prepaid land premiums/land lease payments under operating leases are initially stated at cost and subsequently amortised on the straight-line basis over the lease term. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as finance lease in property, plant and equipment.

In the opinion of the directors, the leasehold land and buildings of the Group cannot be allocated reliably between the land and buildings elements, therefore, the entire lease payments are included in the cost of land and buildings and are amortised over the shorter of the lease terms and useful lives.

Save as disclosed above, this change in accounting policy has had no effect on the interim financial statements.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES *(continued)*

(b) HKAS 40 — Investment Property

In prior periods, changes in the fair values of investment properties were dealt with as movements in the investment property revaluation reserve. If the total of this reserve was insufficient to cover a deficit on a portfolio basis, the excess of the deficit was charged to the income statement. Any subsequent revaluation surplus was credited to the income statement to the extent of the deficit previously charged.

Upon the adoption of HKAS 40, gains or losses arising from changes in the fair values of investment properties are recognised in the income statement in the year in which they arise. Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year of the retirement or disposal.

The adoption of HKAS 40 has had no material effect on the interim financial statements because the Group's investment properties had a net revaluation deficit position as at 30 June 2005, 31 December 2004 and 2003 and the changes in valuation of the Group's investment properties during the six months ended 30 June 2005 and 2004 and the year ended 31 December 2004 would be recognised in the income statement irrespective of whether the old policy or the new policy is applied.

(c) HKFRS 2 — Share-based Payment

In prior periods, no recognition and measurement of share-based transactions in which employees (including directors) were granted share options over shares in the Company was required until such options were exercised by employees, at which time the share capital and share premium were credited with the proceeds received.

Upon the adoption of HKFRS 2, when employees (including directors) render services as consideration for equity instruments ("equity-settled transactions"), the cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which the instruments are granted. The fair value is determined by an external valuer using a binominal model. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company, if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the "vesting date"). The cumulative expense recognised for equity-settled transactions at each balance sheet date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES *(continued)*

(c) HKFRS 2 — Share-based Payment *(continued)*

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

The adoption of this accounting policy did not have any impact to the interim financial statements as all outstanding options as at 30 June 2005 and 2004 and 31 December 2004 were either (i) granted to employees on or before 7 November 2002; or (ii) granted after 7 November 2002 but were vested already before the effective date of this HKFRS, under which the new recognition and measurement policies are not applied.

(d) HK(SIC)-Int 21 — Income Taxes — Recovery of Revalued Non-depreciable Assets

In prior periods, deferred tax arising on the revaluation of investment properties was recognised based on the tax rate that would be applicable upon the sale of the investment properties.

Upon the adoption of HK(SIC)-Int 21, deferred tax arising on the revaluation of the Group's investment properties is determined depending on whether the properties will be recovered through use or through sale. The Group has determined that its investment properties will be recovered through use, and accordingly the profits tax rate has been applied to the calculation of deferred tax.

The adoption of HK(SIC)-Int 21 has had no material effect on the interim financial statements.

2. SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES

As disclosed in the audited consolidated financial statements of the Company for the year ended 31 December 2004, the Group had elected to early adopt the following HKFRSs:

- HKFRS 3 "Business Combinations"
- HKAS 36 "Impairment of Assets"
- HKAS 38 "Intangible Assets"

The results for the six months ended 30 June 2004 have been restated in accordance with the new HKFRSs.

(a) Effect on equity as at 30 June 2004

	Retained earnings <i>(Unaudited)</i> HK\$'000
Amortisation of goodwill — increase in equity	639

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

2. SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES (continued)

(b) Effect on loss after tax for the six months ended 30 June 2004

	Equity holders of the parent (Unaudited) HK\$'000	Minority interests (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
Amortisation of goodwill — decrease in other operating expenses, net	<u>639</u>	<u>145</u>	<u>784</u>
Decrease in loss per share — Basic			<u>0.06 cents</u>

3. SEGMENT INFORMATION

The Group's operating businesses are structured and managed separately according to the nature of their operations and the products they provide. Each of the Group's business segments represents a strategic business unit that offers products which are subject to risks and returns that are different from those of the other business segments. The following table presents revenue and results for the Group's primary segments for the six months ended 30 June 2005 and 2004.

	Software development and systems integration for media business		Software development and systems integration for non-media business		Distribution of information products		Corporate		Others		Eliminations		Consolidated	
	2005 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000
Revenue:														
External sales	227,539	282,562	89,713	86,678	810,053	498,738	—	—	4,486	6,934	—	—	1,131,791	874,912
Intersegment sales	—	2,215	—	—	7,152	4,918	—	—	—	—	(7,152)	(7,133)	—	—
Total	<u>227,539</u>	<u>284,777</u>	<u>89,713</u>	<u>86,678</u>	<u>817,205</u>	<u>503,656</u>	<u>—</u>	<u>—</u>	<u>4,486</u>	<u>6,934</u>	<u>(7,152)</u>	<u>(7,133)</u>	<u>1,131,791</u>	<u>874,912</u>
Segments results	<u>(10,373)</u>	<u>12,640</u>	<u>(4,721)</u>	<u>(10,694)</u>	<u>4,783</u>	<u>2,945</u>	<u>(5,306)</u>	<u>(8,300)</u>	<u>621</u>	<u>(884)</u>			<u>(14,996)</u>	<u>(4,293)</u>
Interest income and unallocated gains													26,167	1,069
Finance costs													(490)	(165)
Share of profits and losses of:													6,572	2,664
Associates													—	(17)
Jointly-controlled entity													—	(17)
Profit/(loss) before tax													17,253	(742)
Tax													(956)	(164)
Profit/(loss) for the period													<u>16,297</u>	<u>(906)</u>

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

4. OTHER INCOME AND GAINS

	For the six months ended 30 June	
	2005 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000
Interest income	975	1,069
Gross rental income	717	1,079
Government grants	8,683	10,899
Gain on disposal of subsidiaries	25,192	—
Gain on deemed partial disposal of subsidiaries	10,652	—
Gain on disposal of a jointly-controlled entity	—	4,348
Revaluation surplus on:		
Investment properties	3,440	1,262
Land and buildings	2,709	1,806
Others	3,223	6,980
	<u>55,591</u>	<u>27,443</u>

5. FINANCE COSTS

	For the six months ended 30 June	
	2005 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000
Interest on bank loans and overdrafts	<u>490</u>	<u>165</u>

6. PROFIT/(LOSS) BEFORE TAX

Profit/(loss) before tax was determined after charging/(crediting) the following:

	For the six months ended 30 June	
	2005 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000
Depreciation	6,966	6,952
Loss/(gain) on disposal of fixed assets	(17)	301
Provision and write-off/(reversal and write-back) of doubtful trade debts and other receivables	5,118	(6,053)
Provision and write-off of obsolete inventories	4,101	40
Loss on partial disposal of a subsidiary	—	762
	<u>16,068</u>	<u>2,002</u>

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

7. TAX

	For the six months ended 30 June	
	2005 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000 (Restated)
Current — Hong Kong profits tax	—	3
Current — Overseas profits tax	340	161
Current — The People's Republic of China (the "PRC") corporate income tax	616	—
Total tax charge for the period	<u>956</u>	<u>164</u>

No provision for Hong Kong profits tax has been made as the relevant Hong Kong subsidiaries did not generate any assessable profits arising in Hong Kong during the period. Hong Kong profits tax has been provided at a rate of 17.5% on the estimated assessable profits arising in Hong Kong during prior 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 Century Information System Co., Ltd. ("PRC Century"), a 54.85% owned PRC subsidiary of the Group, is exempted from PRC corporate income tax for the three fiscal years which commenced in 2002 and ended on 31 December 2004, 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 PRC Century is 15%.

The PRC corporate income tax provision in respect of operations in the PRC is calculated at the applicable tax rates on the estimated assessable profits for the period based on existing legislation, interpretations and practices in respect thereof. No provision for PRC corporate income tax had been provided in prior period as the relevant PRC subsidiaries were either under their tax exemption periods or had sufficient tax losses brought forward to offset against the assessable profits arising during prior period.

Share of tax attributable to associates amounting to approximately HK\$1,232,000 (2004: HK\$1,543,000) is included in "Share of profits and losses of associates" on the face of the condensed consolidated income statement.

8. EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings/(loss) per share for the period is based on the unaudited profit attributable to equity holders of the parent of approximately HK\$12,312,000 (2004 (Restated): loss of HK\$284,000), and the weighted average number of approximately 1,123,800,000 (2004: 1,123,800,000) ordinary shares in issue during the period.

Diluted earnings/(loss) per share for the six months ended 30 June 2005 and 2004 have not been disclosed as the impact of the outstanding share options was anti-dilutive.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

9. INTERIM DIVIDEND

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2005 (2004: Nil).

10. 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, net of provision for impairment, as at the balance sheet date is as follows:

	30 June 2005 (Unaudited) HK\$'000	31 December 2004 (Audited) HK\$'000
Within 6 months	332,069	298,256
7 — 12 months	44,376	21,906
13 — 24 months	6,002	8,914
Over 24 months	818	467
	<u>383,265</u>	<u>329,543</u>

A provision is made when there is objective evidence that the Group will not be able to collect the amounts due according to the original terms of the receivables.

Included in the Group's trade and bills receivables are amounts due from the associates and related companies of the Group of approximately HK\$1,768,000 (2004: HK\$1,980,000) and HK\$2,968,000 (2004: HK\$1,094,000), respectively, which are repayable on similar credit terms to those offered to the major customers of the Group.

11. TRADE AND BILLS PAYABLES

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

	30 June 2005 (Unaudited) HK\$'000	31 December 2004 (Audited) HK\$'000
Within 6 months	360,054	349,429
7 — 12 months	3,148	6,716
13 — 24 months	1,143	1,469
Over 24 months	2,356	908
	<u>366,701</u>	<u>358,522</u>

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

12. RESERVES

	Share premium account <i>(Unaudited)</i> <i>HK\$'000</i>	Contributed surplus <i>(Unaudited)</i> <i>HK\$'000</i>	Capital reserve <i>(Unaudited)</i> <i>HK\$'000</i>	Land and buildings revaluation reserve <i>(Unaudited)</i> <i>HK\$'000</i>	Exchange fluctuation reserve <i>(Unaudited)</i> <i>HK\$'000</i>	General reserve <i>(Unaudited)</i> <i>HK\$'000</i>	Total <i>(Unaudited)</i> <i>HK\$'000</i>	Retained earnings/ (accumulated losses) <i>(Unaudited)</i> <i>HK\$'000</i>	Minority interests <i>(Unaudited)</i> <i>HK\$'000</i>
At 1 January 2004	27,660	802,515	68,439	601	(1,154)	43,122	941,183	(711,579)	86,667
Exchange realignment	—	—	—	—	731	—	731	—	—
Partial disposal of a subsidiary	—	—	—	—	13	—	13	—	130
Disposal of a jointly-controlled entity	—	—	—	—	(3)	—	(3)	—	—
Loss for the period	—	—	—	—	—	—	—	(284)	(622)
At 30 June 2004 and 1 July 2004	27,660	802,515	68,439	601	(413)	43,122	941,924	(711,863)	86,175
Exchange realignment	—	—	—	—	466	—	466	—	13
Deemed partial disposal of subsidiaries	—	—	—	—	—	—	—	—	5,595
Disposal of a subsidiary	—	—	—	—	(440)	—	(440)	—	—
Share of general reserve of associates	—	—	—	—	—	27	27	—	—
Impairment of goodwill remaining eliminated against contributed surplus	—	65,395	—	—	—	—	65,395	(65,395)	—
Profit/(loss) for the period	—	—	—	—	—	—	—	(26,899)	2,013
Transfer to general reserve	—	—	—	—	—	30	30	(30)	—
Transfer to capital reserve	—	—	6,503	—	—	—	6,503	(6,503)	—
At 31 December 2004 and 1 January 2005	27,660	867,910	74,942	601	(387)	43,179	1,013,905	(810,690)	93,796
Exchange realignment	—	—	—	—	(766)	—	(766)	—	(1,041)
Deemed partial disposal of subsidiaries	—	—	—	—	(157)	—	(157)	—	17,007
Disposal of subsidiaries	—	—	(81,909)	—	3,253	—	(78,656)	78,656	(21,671)
Profit for the period	—	—	—	—	—	—	—	12,312	3,985
Transfer to capital reserve	—	—	10,652	—	—	—	10,652	(10,652)	—
At 30 June 2005	27,660	867,910	3,685	601	1,943	43,179	944,978	(730,374)	92,076

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

13. RELATED PARTY TRANSACTIONS

(I) Transactions with related parties

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

	Notes	For the six months ended 30 June	
		2005 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000
Purchase of goods from a company in which one director of a subsidiary was a shareholder	(i)	51,941	22,518
Bank facilities guarantees given by Peking University Founder Group Corporation ("Peking Founder"), a substantial shareholder of the Company	(ii)	<u>336,050</u>	<u>306,475</u>

Notes:

- (i) The purchase prices were determined based on actual costs incurred.
- (ii) The bank facilities guarantees were given to PRC banks for the credit facilities granted to a subsidiary and utilised to the extent of approximately HK\$264,964,000 (2004: HK\$255,495,000).
- (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. On 21 July 2005, Beijing Founder Order Computer System Co., Ltd. ("Founder Order"), a wholly-owned PRC subsidiary of the Group, entered into a supplemental agreement with Peking Founder, to cease the lease, with effect from 1 January 2005, of a total area of 497.13 square metres of the leased premises (the "Terminated Area") from Peking Founder. Since then, Founder Order has not been obliged to pay relevant portion of the rental and management fee in respect of the Terminated Area under the original lease agreement but would continue to lease the remaining area of the premises from Peking Founder at the same terms under the original lease agreement. During the period, rental and management fee expenses of approximately HK\$11,327,000 (2004: HK\$13,168,000) were paid by the Group to Peking Founder. The directors considered that the rental and management fee expenses were paid in accordance with the terms of the lease agreements.
- (c) On 7 February 2005, Founder (Hong Kong) Limited ("Founder HK"), a wholly-owned subsidiary of the Group, entered into a conditional sale and purchase agreement with Founder Information (Hong Kong) Limited ("Founder Information"), a subsidiary of Peking Founder, and Peking Founder to dispose of its entire equity interest in True Luck Group Limited ("True Luck") and to assign the loan of JPY70 million due to Founder HK by True Luck to Founder Information at a total cash consideration of JPY693,520,600. The disposal was completed on 30 June 2005.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

13. RELATED PARTY TRANSACTIONS (continued)

(I) Transactions with related parties (continued)

- (d) On 22 July 2004, Founder International Inc. ("Founder Inc."), a then non-wholly owned subsidiary of the Group, entered into a subscription agreement (the "Subscription Agreement") with Media Champion Holdings Limited ("Media Champion"), a company wholly-owned by Mr Guan Xiang Hong, the president and an executive director of Founder Inc. Pursuant to the Subscription Agreement, Founder Inc. issued 333 new shares to Media Champion on 24 September 2004 and 537 shares to Media Champion on 9 June 2005. The subscription price was JPY300,000 per share.
- (e) For the six months ended 30 June 2004, the Group received commission income of approximately HK\$1,877,000 from a subsidiary of a then shareholder which held 8.47% of the shares of EC-Founder (Holdings) Company Limited ("EC-Founder"), a 54.85% owned subsidiary of the Group, prior to the disposal of shares of EC-Founder by the shareholder, for the provision of advertising agency services.

(II) Outstanding balances with related parties

	Due from related parties		Due to related parties	
	30 June 2005 (Unaudited) HK\$'000	31 December 2004 (Audited) HK\$'000	30 June 2005 (Unaudited) HK\$'000	31 December 2004 (Audited) HK\$'000
Peking Founder	346	1,321	8,489	13,622
A company in which one director of a subsidiary is a shareholder	<u>8,404</u>	<u>6,858</u>	<u>17</u>	<u>857</u>

(III) Compensation of key management personnel of the Group

	For the six months ended 30 June	
	2005 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000
Short-term employee benefits	895	1,010
Post-employment benefits	<u>30</u>	<u>30</u>
Total compensation paid to key management personnel	<u>925</u>	<u>1,040</u>

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

14. CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities as at 30 June 2005 (31 December 2004: Nil).

15. COMPARATIVE FIGURES

As further explained above in note 1 to these unaudited condensed consolidated interim financial statements, due to the adoption of new HKFRSs during the current period, the accounting treatment and presentation of certain items in the financial statements have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been restated and reclassified to conform with the current period's presentation.

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

At 30 June 2005, the interests of the directors in the share capital and underlying shares 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 Issuers (the "Model Code"), were as follows:

Long positions in ordinary shares of associated corporations:

EC-Founder, a subsidiary of the Company

Name of director	Number of 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	8,703,000	—	8,703,000	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 incorporated in the British Virgin Islands with limited liability and 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.

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, as at 30 June 2005, none of the directors had registered an interest or short position in the shares or 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.

OTHER INFORMATION

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save as disclosed under the section "Directors' interests 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.

SHARE OPTION SCHEMES

Share option schemes of the Company

On 24 May 2002, the Company adopted a new share option scheme (the "New Scheme") in compliance with Chapter 17 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (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 2005 and at the end of the period:

Name/category of participant	Number of share options			Date of grant*	Exercise period	Exercise price** HK\$
	At 1 January 2005	Lapsed during the period	At 30 June 2005			
Old Scheme						
Other employees						
In aggregate	<u>700,000</u>	<u>(100,000)</u>	<u>600,000</u>	16.4.1999	16.4.1999 to 6.12.2005	0.912
New Scheme						
Directors						
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	8,000,000	—	8,000,000	5.2.2004	6.2.2004 to 4.2.2014	1.104
Subtotal	<u>32,000,000</u>	<u>—</u>	<u>32,000,000</u>			
Other employees						
In aggregate	<u>58,000,000</u>	<u>(6,500,000)</u>	<u>51,500,000</u>	2.1.2004	3.1.2004 to 31.12.2013	0.840
Total under the New Scheme	<u><u>90,000,000</u></u>	<u><u>(6,500,000)</u></u>	<u><u>83,500,000</u></u>			

SHARE OPTION SCHEMES (continued)**Share option schemes of the Company** (continued)

* 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.

Share option schemes of EC-Founder

On 24 May 2002, EC-Founder, a subsidiary of the Company, 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 2005 and at the end of the period:

Name/category of participant	Number of share options			Date of grant*	Exercise period	Exercise price** HK\$
	At 1 January 2005	Lapsed during the period	At 30 June 2005			
1991 Scheme						
Other employees						
In aggregate	<u>2,700,000</u>	<u>—</u>	<u>2,700,000</u>	18.5.2001	15.12.2001 to 14.12.2006	0.450
2001 Scheme						
Directors						
Mr Cheung Shuen Lung	2,000,000	—	2,000,000	18.5.2001	18.5.2001 to 17.5.2011	0.450
Professor Wei Xin	2,000,000	—	2,000,000	18.5.2001	18.5.2001 to 17.5.2011	0.450
Subtotal	<u>4,000,000</u>	<u>—</u>	<u>4,000,000</u>			
Other employees						
In aggregate	1,900,000	(1,600,000)	300,000	18.5.2001	18.5.2001 to 17.5.2011	0.450
Total under the 2001 Scheme	<u>5,900,000</u>	<u>(1,600,000)</u>	<u>4,300,000</u>			

OTHER INFORMATION

SHARE OPTION SCHEMES (continued)

Share option schemes of EC-Founder (continued)

Name/category of participant	Number of share options			Date of grant*	Exercise period	Exercise price** HK\$
	At 1 January 2005	Lapsed during the period	At 30 June 2005			
2002 Scheme						
Directors						
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	<u>24,000,000</u>	<u>—</u>	<u>24,000,000</u>			
Other employees						
In aggregate	38,000,000	(11,000,000)	27,000,000	2.1.2004	3.1.2004 to 31.12.2013	0.340
Total under the 2002 Scheme	<u>62,000,000</u>	<u>(11,000,000)</u>	<u>51,000,000</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 EC-Founder's share capital.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES

At 30 June 2005, 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 in ordinary shares of the Company:

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

Save as disclosed above, as at 30 June 2005, no person, other than the directors of the Company, whose interests are set out in the section "Directors' interests in shares and underlying shares" above, 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.

PURCHASE, SALE OR REDEMPTION OF SHARES

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

CODE ON CORPORATE GOVERNANCE PRACTICES

In the opinion of the directors, the Company complied with the code provisions as set out in Appendix 14 of the Listing Rules (the "Code") throughout the accounting period covered by the interim report, except for deviations in respect of (i) the service term and the rotation of directors under code provisions A.4.1 and A.4.2 of the Code; and (ii) establishment of a remuneration committee under code provision B.1.1 of the Code.

- (i) Under code provision A.4.1 of the Code, non-executive directors should be appointed for a specific term and be subject to re-election. Under code provision A.4.2 of the Code, all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment, and every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

None of the existing non-executive directors of the Company was appointed for a specific term when they were appointed, which constitutes a deviation from code provision A.4.1 of the Code. To comply with code provision A.4.1 of the Code, the Company has entered into service contracts with all existing non-executive directors for a fixed term of one year on 30 June 2005.

Furthermore, according to the Bye-laws of the Company, one third of the directors are subject to retirement by rotation at each annual general meeting and the Chairman or Managing Director of the Company is not subject to retirement by rotation, which constitutes a deviation from code provision A.4.2 of the Code. To comply with code provision A.4.2 of the Code, relevant amendments to the Bye-laws of the Company will be proposed for the shareholders' approval at the forthcoming general meeting.

OTHER INFORMATION

CODE ON CORPORATE GOVERNANCE PRACTICES *(continued)*

- (ii) Under code provision B.1.1 of the Code, a remuneration committee should be established with specific written terms of reference which deal clearly with its authority and duties.

To comply with code provision B.1.1 of the Code, the Company has established a remuneration committee and adopted its own terms of reference on 30 June 2005.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as the Company's code of conduct for dealings in securities of the Company by the directors. Based on specific enquiry of the Company's directors, the directors have complied with the required standard set out in the Model Code throughout the accounting period covered by the interim report.

AUDIT COMMITTEE

The Company has an audit committee which was established in compliance with Rule 3.21 of the Listing Rules for the purpose of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises the three independent non-executive directors of the Company. These unaudited condensed consolidated interim financial statements for the six months ended 30 June 2005 of the Group now reported have been reviewed by the audit committee.

By Order of the Board
FOUNDER HOLDINGS LIMITED
Cheung Shuen Lung
Chairman

Hong Kong
23 September 2005