



EC-FOUNDER (HOLDINGS) COMPANY LIMITED

**方正數碼(控股)有限公司**

*(Incorporated in Bermuda with limited liability)*



**Interim Report 2005**



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## BOARD OF DIRECTORS

### Executive directors

Mr Zhang Zhao Dong (*Chairman*)  
Mr Cheung Shuen Lung  
Professor Wei Xin  
Mr Xia Yang Jun  
Mr Xie Ke Hai

### Non-executive director

Mr Yung Chih Shin, Richard (*Honorary Chairman*)

### Independent non-executive directors

Mr Li Fat Chung  
Ms Wong Lam Kit Yee  
Ms Cao Qian

## COMMITTEES

### Audit Committee

Mr Li Fat Chung (*Chairman*)  
Ms Wong Lam Kit Yee  
Ms Cao Qian

### 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 Lau Fai Lawrence

## AUTHORISED REPRESENTATIVES

Mr Zhang Zhao Dong  
Mr Cheung Shuen Lung

## AUDITORS

Ernst & Young  
Certified Public Accountants

## LEGAL ADVISERS

Norton Rose  
Morrison & Foerster

## PRINCIPAL BANKERS

BNP Paribas Hong Kong Branch  
Bank of China (Hong Kong) Limited  
Belgian Bank

## 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

Tengis Limited  
Ground Floor  
Bank of East Asia Harbour View Centre  
56 Gloucester Road, Wanchai  
Hong Kong

## LISTING INFORMATION

Main board of The Stock Exchange of Hong Kong Limited  
Stock Code: 0618  
Board lot: 2,000 shares

## INVESTOR RELATIONS

Public Relations Department  
EC-Founder (Holdings) Company Limited  
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## INTERIM RESULTS

The board of directors (the “Board”) of EC-Founder (Holdings) Company 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

Following the continuous effort in restructuring and streamlining the Group’s business since 2003, the Group’s operating results has recorded a continuous growth for this reporting period. The turnover for the period ended 30 June 2005 has increased by 53.7% to approximately HK\$817.2 million (Six months ended 30 June 2004: HK\$531.7 million) and the gross profit for the period has increased by 11.3% to HK\$36.9 million (Six months ended 30 June 2004: HK\$33.2 million). Gross profit ratio has dropped from 6.2% to 4.5% for the periods ended 30 June 2004 and 2005 respectively mainly due to the discontinuance of other business segments having higher gross profit margin as compared to the distribution of information products business which had a much lower gross profit margin.

The profit attributable to shareholders for the period ended 30 June 2005 was approximately HK\$10.0 million (Six months ended 30 June 2004 (Restated): HK\$0.5 million).

The improvement in operating results for the period was mainly due to:

- (a) segment results of the distribution of information products business has increased by HK\$1.9 million to HK\$4.8 million;
- (b) tremendous decrease of segment loss of provision of software solutions and services business after its disposal and termination in late 2004; and
- (c) increase in share of profits of associates by HK\$4.7 million to HK\$7.5 million.

Basic earnings per share for the period ended 30 June 2005 was HK0.90 cents (Six months ended 30 June 2004 (Restated): HK0.05 cents).

## OPERATING REVIEW AND PROSPECTS

### Distribution of information products (“Distribution Business”)

The Group recorded a turnover of HK\$817.2 million for the Distribution Business for the six months ended 30 June 2005 which was 62.3% higher than that of the six months ended 30 June 2004 and segment results also increased to HK\$4.8 million (Six months ended 30 June 2004: HK\$2.9 million). However, the gross profit ratio for the Distribution Business for this interim reporting period has dropped to 4.5% from 2004’s twelve-month average gross profit ratio of 5.4%.

The Distribution Business is mainly focused on the distribution of information technology products such as switches, networking products, servers, storage devices, workstations and notebook computers of a number of internationally famed and branded information product manufacturers such as HP, 華為3COM, Netgear, Apple and IBM. The increase in turnover for the period was mainly attributable to the continued expansion in the distribution network in the PRC. At present, the Distribution Business has established a nationwide distribution channel and network with branch offices/representative offices spanning 14 major cities in the PRC (as at 30 June 2004: 12 branch offices/representative offices).

The Distribution Business was ranked the 5th place in 2005 by Computer Partner World (電腦商報) of the PRC among the top 200 information products distribution enterprises in the PRC's information products distribution business. In addition, the Distribution Business was ranked the 6th and 7th places by China Information World (中國計算機報) in 2005 as one of PRC's top 100 largest and top 100 dominant information products distributors respectively.

Despite having obtained an encouraging growth in the sales of information products, the Group's operation in the Distribution Business is faced with severe competition and recorded a descending trend of gross profit ratio for the six months ended 30 June 2005 of 4.52% as compared with the gross profit ratio for the first half and second half of 2004 of 5.50% and 5.35% respectively. However, the Group's continuous effort to control operating costs was proved to be successful, total selling and administrative expenses of the Distribution Business for the six months ended 30 June 2005 compared to the first half and second half of 2004 has recorded an increase of 31.0% and decrease of 7.5% respectively. On the other hand, total selling and administrative expenses as a percentage of total turnover of the Distribution Business improved to 3.78% from 2004's first half and second half of 4.7% and 4.8% respectively. As a result, the Group is able to maintain its profitability in the Distribution Business.

To sustain a high rate of growth in the Distribution Business, more working capital will be required to support the distribution chain. The control on operating costs, trade accounts receivable and payables, and inventories will be vital to the future growth of the Distribution Business. In addition, the Group believes that the continuous exploration and co-operation with international information products manufacturers would help the Group to expand its present product range and level of recognition among the information products distributors in the PRC.

## **Software solutions and services business ("Software Business")**

### ***The Software Business***

In view of the poor operating performance in the past, the Software Business was disposed of and terminated during the second half of 2004. As a result, no turnover was recorded for the six months ended 30 June 2005 and segment loss for the Software Business has decreased by 95.3% to approximately HK\$0.2 million (Six months ended 30 June 2004: HK\$3.6 million).

### ***Employee and remuneration policies***

As at 30 June 2005, the Group had 354 employees. These employees almost all work in the Mainland China. The Company has also established share option schemes and share options are granted at the Directors' discretion to motivate and reward the employees with outstanding performance.

## FINANCIAL REVIEW

### Liquidity, financial resources and capital commitments

As at 30 June 2005, the Group recorded total assets of approximately HK\$611.8 million (31 December 2004: HK\$561.3 million) which were financed by liabilities of approximately HK\$416.6 million (31 December 2004: HK\$376.0 million) and equity of approximately HK\$195.2 million (31 December 2004: HK\$185.3 million). The Group's net asset value as at 30 June 2005 was approximately HK\$195.2 million (31 December 2004: HK\$185.3 million).

The Group had total cash and bank balance of approximately HK\$147.3 million as at 30 June 2005 (31 December 2004: HK\$189.7 million). The Group had no bank loan and overdraft as at 30 June 2005 (31 December 2004: Nil), hence the Group recorded a net cash balance of approximately HK\$147.3 million as at 30 June 2005 (31 December 2004: HK\$189.7 million). As at 30 June 2005, the Group's current ratio was 1.37 (31 December 2004: 1.41) and the Group had no long-term debt as at 30 June 2005 (31 December 2004: Nil).

As at 30 June 2005, the Group did not have any material capital expenditure commitments (31 December 2004: Nil).

### 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 and United States dollars.

### Exposure to fluctuations in exchange rates and related hedges

Most of the Group's payables are denominated in Hong Kong dollars and United States dollars and the turnover of the Group are mainly denominated in Renminbi and United States dollars. As the exchange rates of Renminbi and United States dollars against Hong Kong dollars 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.

### Charges on assets

As at 30 June 2005, bank deposits of approximately HK\$37.6 million were pledged to banks to secure general banking facilities granted.

### Contingent liabilities

The Group did not have any significant contingent liabilities as at 30 June 2005.

# CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	For the six months ended 30 June	
		2005 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000 (Restated)
REVENUE	3	817,205	531,711
Cost of sales		(780,256)	(498,522)
Gross profit		36,949	33,189
Other income and gains	4	554	1,742
Selling and distribution costs		(15,377)	(19,710)
Administrative expenses		(17,724)	(16,970)
Other operating expenses, net		(1,284)	(449)
Finance costs	5	(61)	(45)
Share of profits of associates		7,483	2,779
PROFIT BEFORE TAX	6	10,540	536
Tax	7	(590)	(3)
PROFIT ATTRIBUTABLE TO SHAREHOLDERS		9,950	533
EARNINGS PER SHARE — Basic	8	0.90 cents	0.05 cents

# CONDENSED CONSOLIDATED BALANCE SHEET

		30 June 2005 (Unaudited) HK\$'000	31 December 2004 (Audited) HK\$'000
	Notes		
<b>NON-CURRENT ASSETS</b>			
Fixed assets		5,640	6,324
Goodwill		2,892	2,892
Interests in associates		30,455	22,972
Total non-current assets		<u>38,987</u>	<u>32,188</u>
<b>CURRENT ASSETS</b>			
Inventories		118,702	108,010
Trade and bills receivables	10	276,603	195,356
Prepayments, deposits and other receivables		30,245	36,076
Pledged deposits		37,585	32,805
Cash and cash equivalents		109,667	156,907
Total current assets		<u>572,802</u>	<u>529,154</u>
<b>CURRENT LIABILITIES</b>			
Trade and bills payables	11	334,029	308,548
Other payables and accruals		82,229	67,479
Tax payable		380	—
Total current liabilities		<u>416,638</u>	<u>376,027</u>
<b>NET CURRENT ASSETS</b>		<u>156,164</u>	<u>153,127</u>
		<u>195,151</u>	<u>185,315</u>
<b>CAPITAL AND RESERVES</b>			
Share capital		110,056	110,056
Other reserves	12	674,634	674,748
Accumulated losses	12	(589,539)	(599,489)
		<u>195,151</u>	<u>185,315</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		185,315	176,126
Changes in equity during the period:			
Exchange differences on translating foreign operations	12	(114)	470
Net income/(expense) recognised directly in equity		(114)	470
Profit attributable to shareholders	12	9,950	533
Total recognised income and expense for the period		9,836	1,003
Total equity at 30 June		195,151	177,129

# 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	(40,921)	(28,892)
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	(6,319)	(8,839)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(47,240)	(37,731)
Cash and cash equivalents at beginning of period	156,907	142,070
Effect of foreign exchange rate changes, net	—	99
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>109,667</u>	<u>104,438</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	107,185	101,532
Non-pledged time deposits with original maturity of less than three months when acquired	<u>2,482</u>	<u>2,906</u>
	<u>109,667</u>	<u>104,438</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 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
HKFRS 2	Share-based Payment

The adoption of HKASs 1, 2, 7, 8, 10, 12, 16, 17, 18, 19, 20, 21, 23, 24, 27, 28, 32, 33, 37 and 39 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,

- (a) HKAS 1 has affected certain presentations in the condensed consolidated balance sheet and condensed consolidated income statement. Taxes of 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 of associates.
- (b) HKAS 24 has affected the identification of related parties and some other related-party disclosures.

# NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

## 1. ACCOUNTING POLICIES *(Continued)*

The adoption of HKFRS 2 has resulted in a change in the accounting policy for share-based payments. 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 binomial 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.

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.

## 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.

# NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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

### (a) Effect on equity as at 30 June 2004

	<b>Retained earnings</b> (Unaudited) HK\$'000
Amortisation of goodwill — increase in equity	<u>321</u>

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

	<b>For the six months ended 30 June 2004</b> (Unaudited) HK\$'000
Impairment of goodwill previously eliminated against consolidated reserves — decrease in other operating expenses, net	43,500
Amortisation of goodwill — decrease in other operating expenses, net	<u>321</u>
Total effect for the period	<u>43,821</u>
Increase in earnings per share — Basic	<u>3.98 cents</u>

## 3. SEGMENT INFORMATION

The Group's operating business 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 Group is principally engaged in (i) the distribution of information products; and (ii) the provision of software solutions and services (discontinued during prior year).

# NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

## 3. SEGMENT INFORMATION *(Continued)*

The summary details of discontinued operation are as follows:

### (a) Disposal of EC-Founder Co., Ltd. — Provision of software solutions and services business

On 20 October 2004, Founder Data Corporation International Limited, a wholly-owned subsidiary of the Company, entered into a conditional disposal agreement with 方正軟件(蘇州)有限公司 (Founder Software (Suzhou) Company Limited\*) (“Founder Suzhou”), 上海方正信息安全技術有限公司 (Shanghai Founder Information Security Technology Company Limited\*) (“Shanghai Founder”), associates of Peking University Founder Group Corporation (“Peking Founder”) which is a substantial shareholder of the Company, and Peking Founder to dispose of its entire equity interest in EC-Founder Co., Ltd. to Founder Suzhou and Shanghai Founder and to waive the entire outstanding balances on current accounts owed by EC-Founder Co., Ltd. to the Group at a total cash consideration of RMB13.4 million (equivalent to approximately HK\$12.6 million). The disposal was completed on 3 December 2004.

The principal activity of EC-Founder Co., Ltd. was the provision of software solutions and services in the PRC.

### (b) Discontinued operation of Beijing AdTargeting Inc. (“Beijing ADT”) — Provision of software solutions and services business

On 15 October 2004, the Company and Beijing ADT entered into a termination agreement with a subsidiary of a then shareholder which held 8.47% of the shares of the Company, to terminate the advertising sales representative agreement. Pursuant to the termination agreement, the subsidiary of the then shareholder paid an ex gratia payment of approximately RMB4.9 million (equivalent to approximately HK\$4.6 million) to the Company.

The principal activity of Beijing ADT was the provision of internet advertising agency services.

*\* For identification purpose only*

# NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

## 3. SEGMENT INFORMATION (Continued)

The following table presents revenue and results for the Group's primary segments for the six months ended 30 June 2005 and 2004.

	Distribution of information products		Provision of software solutions and services (Discontinued)		Corporate		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 (Restated)
Revenue:								
External sales	<u>817,205</u>	<u>503,656</u>	<u>—</u>	<u>28,055</u>	<u>—</u>	<u>—</u>	<u>817,205</u>	<u>531,711</u>
Segment results	<u>4,783</u>	<u>2,945</u>	<u>(167)</u>	<u>(3,561)</u>	<u>(2,052)</u>	<u>(1,968)</u>	<u>2,564</u>	<u>(2,584)</u>
Interest income							554	386
Finance costs							(61)	(45)
Share of profits of associates							<u>7,483</u>	<u>2,779</u>
Profit before tax							<u>10,540</u>	<u>536</u>
Tax							<u>(590)</u>	<u>(3)</u>
Profit attributable to shareholders							<u>9,950</u>	<u>533</u>

## 4. OTHER INCOME AND GAINS

	For the six months ended 30 June	
	2005 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000
Interest income	554	386
Gross rental income	—	156
Government grants	—	1,184
Others	—	16
	<u>554</u>	<u>1,742</u>

# NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

## 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>61</u>	<u>45</u>

## 6. PROFIT BEFORE TAX

Profit before tax was determined after charging the following:

	For the six months ended 30 June	
	2005 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000
Depreciation	845	1,746
Provision and write-off of doubtful trade receivables	1,240	193
Provision and write-off of obsolete inventories	1,867	263
Loss on disposal of fixed assets	<u>44</u>	<u>255</u>

## 7. TAX

	For the six months ended 30 June	
	2005 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000
Current — Hong Kong profits tax	—	3
Current — The People's Republic of China (the "PRC") corporate income tax	<u>590</u>	—
Total tax charge for the period	<u>590</u>	<u>3</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 had been provided at a rate of 17.5% on the estimated assessable profits arising in Hong Kong during prior period.

Beijing Founder Century Information System Co., Ltd. ("PRC Century"), a wholly-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%.



# NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

## 7. TAX (Continued)

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 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 amounted to approximately HK\$1,073,000 (2004: HK\$1,477,000) is included in "Share of profits of associates" on the face of the condensed consolidated income statement.

## 8. EARNINGS PER SHARE

The calculation of basic earnings per share for the period is based on the unaudited profit attributable to shareholders of approximately HK\$9,950,000 (2004 (Restated): HK\$533,000), and the weighted average number of 1,100,562,040 (2004: 1,100,562,040) ordinary shares in issue during the period.

Diluted earnings 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.

## 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:

	<b>30 June 2005 (Unaudited) HK\$'000</b>	31 December 2004 (Audited) HK\$'000
Within 6 months	<b>259,622</b>	178,545
7-12 months	<b>15,898</b>	15,306
13-24 months	<b>1,083</b>	1,435
Over 24 months	<b>—</b>	70
	<b><u>276,603</u></b>	<b><u>195,356</u></b>

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 fellow subsidiaries and related companies of approximately HK\$4,476,000 (2004: HK\$1,896,000) and HK\$1,544,000 (2004: 1,094,000) respectively, which are repayable on similar credit terms to those offered to the major customers of the Group.

# NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

## 11. TRADE AND BILLS PAYABLES

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

	<b>30 June 2005 (Unaudited) HK\$'000</b>	31 December 2004 (Audited) HK\$'000
Within 6 months	<b>332,801</b>	306,497
7-12 months	<b>524</b>	1,970
Over 12 months	<b>704</b>	81
	<b><u>334,029</u></b>	<u>308,548</u>

## 12. RESERVES

	<b>Share premium account (Unaudited) HK\$'000</b>	<b>Contributed surplus (Unaudited) HK\$'000</b>	<b>Exchange fluctuation reserve (Unaudited) HK\$'000</b>	<b>Total (Unaudited) HK\$'000</b>	<b>Retained earnings/ (accumulated losses) (Unaudited) HK\$'000</b>
At 1 January 2004	154,699	471,656	(111)	626,244	(560,174)
Impairment of goodwill remaining eliminated against contributed surplus	—	43,500	—	43,500	(43,500)
Exchange realignment	—	—	470	470	—
Profit attributable to shareholders	—	—	—	—	533
At 30 June 2004 and 1 July 2004	154,699	515,156	359	670,214	(603,141)
Impairment of goodwill remaining eliminated against contributed surplus	—	5,000	—	5,000	(5,000)
Realisation upon disposal of a subsidiary	—	—	(316)	(316)	—
Exchange realignment	—	—	(150)	(150)	—
Profit attributable to shareholders	—	—	—	—	8,652
At 31 December 2004 and 1 January 2005	<b>154,699</b>	<b>520,156</b>	<b>(107)</b>	<b>674,748</b>	<b>(599,489)</b>
Exchange realignment	—	—	(114)	(114)	—
Profit attributable to shareholders	—	—	—	—	9,950
At 30 June 2005	<b><u>154,699</u></b>	<b><u>520,156</u></b>	<b><u>(221)</u></b>	<b><u>674,634</u></b>	<b><u>(589,539)</u></b>

# NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

## 13. RELATED PARTY TRANSACTIONS

- (a) 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. During the period, rental and management fee expenses of approximately HK\$959,000 (six months ended 30 June 2004: HK\$2,146,000) 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. The balance due to Peking Founder included in other payables and accruals as at 30 June 2005 was approximately HK\$1,044,000 (31 December 2004: HK\$478,000). The balance due from Peking Founder included in prepayments, deposits and other receivables as at 31 December 2004 was approximately HK\$319,000.
- (b) During the period, products of approximately HK\$7,065,000 (six months ended 30 June 2004: HK\$7,337,000) were sold to fellow subsidiaries. The sales of products were made according to published prices and conditions similar to those offered to other customers of the Group. Details of the Group's trade receivables balances with its fellow subsidiaries as at the balance sheet date are included in note 10 to the condensed consolidated interim financial statements.
- (c) During the period, products of approximately HK\$51,941,000 (six months ended 30 June 2004: HK\$22,518,000) were purchased from a company in which one director of a subsidiary was a shareholder. The purchase prices were determined based on actual costs incurred. The balance due from the related company included in prepayments, deposits and other receivables as at 30 June 2005 was approximately HK\$6,548,000 (31 December 2004: HK\$4,220,000).
- (d) During the period, software of approximately HK\$1,410,000 (six months ended 30 June 2004: Nil) was purchased from a then fellow subsidiary. The directors considered that the transaction was conducted at rates agreed between the Group and the then fellow subsidiary.
- (e) As at 30 June 2005, Peking Founder guaranteed banking facilities given by the PRC banks to the Group of approximately HK\$336,050,000 (30 June 2004: HK\$306,475,000) which were utilised to the extent of approximately HK\$264,964,000 (30 June 2004: HK\$255,495,000).
- (f) 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 the Company, prior to the disposal of shares of the Company by the shareholder, for the provision of advertising agency services.
- (g) In the opinion of the directors, the executive directors of the Company represented the key management personnel of the Group. During the period, no compensation was paid to the key management personnel (six months ended 30 June 2004: Nil).

## 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 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 the Company:

Name of director	Number of shares held, capacity and nature of interest			Total	Percentage of the Company's issued share capital
	Directly beneficially owned	Through controlled corporation	As trustee (Note 1)		
Mr Cheung Shuen Lung	36,890,100	—	60,671,600	97,561,700	8.86
Mr Zhang Zhao Dong	3,956,000	—	60,671,600	64,627,600	5.87
Professor Wei Xin	3,956,000	—	60,671,600	64,627,600	5.87
Mr Yung Chih Shin, Richard (Note 2)	—	87,680,000	—	87,680,000	7.97

#### Notes:

- 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 the Company.
- Mr Yung Chih Shin, Richard is interested in these shares through Ricwinco Investment Limited ("Ricwinco"), a company which is beneficially owned by Mr Yung Chih Shin, Richard.

The interests of the directors in the share options of the Company 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 and underlying shares of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

## 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, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

### SHARE OPTION SCHEMES

On 24 May 2002, the Company adopted a share option scheme (the "2002 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").

The share option schemes adopted by the Company 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			
<b>1991 Scheme</b>						
<b>Other employees</b>						
In aggregate	2,700,000	—	2,700,000	18.5.2001	15.12.2001 to 14.12.2006	0.450
<b>2001 Scheme</b>						
<b>Directors</b>						
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	4,000,000	—	4,000,000			
<b>Other employees</b>						
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	5,900,000	(1,600,000)	4,300,000			

## SHARE OPTION SCHEMES (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			
<b>2002 Scheme</b>						
<b>Directors</b>						
Mr Zhang Zhao Dong	8,000,000	—	8,000,000	6.2.2004	7.2.2004 to 5.2.2014	0.381
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
Subtotal	<u>24,000,000</u>	<u>—</u>	<u>24,000,000</u>			
<b>Other employees of Founder Holdings Limited, the ultimate holding company of the Company</b>						
In aggregate	<u>16,500,000</u>	<u>—</u>	<u>16,500,000</u>	2.1.2004	3.1.2004 to 31.12.2013	0.340
<b>Other employees of the Group</b>						
In aggregate	<u>21,500,000</u>	<u>(11,000,000)</u>	<u>10,500,000</u>	2.1.2004	3.1.2004 to 31.12.2013	0.340
Total under the 2002 Scheme	<u><u>62,000,000</u></u>	<u><u>(11,000,000)</u></u>	<u><u>51,000,000</u></u>			

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

\*\* The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

## SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES

At 30 June 2005, the following interests of 5% or more of the issued share capital of the Company were 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	Notes	Capacity and nature of interest	Number of shares held	Percentage of the Company's issued share capital
Peking University Founder Group Corporation ("Peking Founder")	1	Through a controlled corporation	603,609,000	54.85
Founder Holdings Limited ("FHL")		Directly beneficially owned	603,609,000	54.85
Peking University Education Foundation		Directly beneficially owned	93,240,000	8.47
Peking University Education Foundation		Beneficiary of a trust	2,330,000	0.21
Ricwinco Investment Limited	2	Directly beneficially owned	87,680,000	7.97
F2 Consultant Limited	3	Owned as nominee	60,671,600	5.51
HSBC International Trustee Limited	4	Through a controlled corporation	60,500,000	5.50
Sun Hung Kai Properties Limited	4	Through a controlled corporation	60,500,000	5.50
Sunco Resources Limited	4	Through a controlled corporation	60,500,000	5.50
SUNeVision Holdings Ltd.	4	Through a controlled corporation	60,500,000	5.50
Hugh Profit Investments Ltd.	4	Through a controlled corporation	60,500,000	5.50
Well Drive Holdings Limited		Directly beneficially owned	60,500,000	5.50

### SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES *(Continued)*

#### Notes:

1. Peking Founder is deemed to be interested in 603,609,000 shares of the Company under the SFO by virtue of its interest in FHL.
2. Mr Yung Chih Shin, Richard is interested in these shares through Ricwinco Investment Limited.
3. F2 Consultant Limited holds the shares of the Company as nominee on behalf of the directors of FDC who are acting in their capacity as the trustees of a discretionary trust for the employees of FDC and its subsidiaries.
4. Each of HSBC International Trustee Limited, Sun Hung Kai Properties Limited, Sunco Resources Limited, SUNeVision Holdings Ltd. and Hugh Profit Investments Ltd. is deemed to be interested in 60,500,000 shares of the Company under the SFO by virtue of its, direct or indirect, interests in Well Drive Holdings Limited.

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 AND 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; (ii) establishment of a remuneration committee under code provision B.1.1 of the Code; and (iii) the chairman of the Board should attend the annual general meeting under code provision E.1.2 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.



### 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.

- (iii) The chairman of the Board had not attended the annual general meeting of the Company held on 27 May 2005. The chairman will endeavour to attend all future annual general meetings of the Company unless unexpected or special circumstances prevent him from doing so.

### 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  
**EC-FOUNDER (HOLDINGS) COMPANY LIMITED**  
**Zhang Zhao Dong**  
*Chairman*

Hong Kong  
23 September 2005