

Interim Report 2006



FOUNDER HOLDINGS LIMITED

方正控股有限公司

(Incorporated in Bermuda with limited liability)

Stock Code : 0418

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 Lau Fai Lawrence

AUTHORISED REPRESENTATIVES

Mr Cheung Shuen Lung
Professor Wei Xin

AUDITORS

Ernst & Young
Certified Public Accountants

LEGAL ADVISERS

Norton Rose
Morrison & Foerster

PRINCIPAL BANKERS

Agricultural Bank of China
China Merchants Bank
DBS Bank (Hong Kong) Limited
Hang Seng Bank Limited
Industrial and Commercial Bank of China (Asia) 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

COMPANY WEBSITE

www.founder.com.hk



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 2006, together with the comparative figures for the corresponding period in 2005. These condensed consolidated interim financial statements have not been audited, but have been reviewed by the Company’s audit committee.

OVERALL PERFORMANCE

The Group recorded an unaudited consolidated loss attributable to ordinary equity holders of the parent of HK\$32.6 million for the six months ended 30 June 2006 (Six months ended 30 June 2005 (“1H2005”): profit of HK\$12.3 million). The Group recorded a moderate increase in turnover during the period by approximately 24.4% to HK\$1,407.7 million (1H2005: HK\$1,131.8 million). For the two interim periods under review, gross profit ratio dropped from 10.9% in 1H2005 to 9.6% for the current period as a result of the increase in turnover of the distribution business of information products which had a much lower gross profit percentage if compared to the business of software development and systems integration. The increase in sales in the current period led to the increase in the selling and distribution costs of approximately 17.6% while administrative expenses have decreased approximately by 11.2%.

Basic loss per share attributable to ordinary equity holders of the parent for the period was HK2.90 cents (1H2005: basic earnings per share of HK1.10 cents).

OPERATING REVIEW AND PROSPECTS

(A) Software development and systems integration for media sector

The turnover of the software development and systems integration business for the media sector for the current period has decreased by 22.7% to HK\$175.9 million (1H2005: HK\$227.5 million) while its segment results recorded a loss of HK\$31.6 million (1H2005: HK\$10.4 million).

The decrease in turnover is mainly because of the delay in the recognition of revenue of certain systems integration contracts during the period under review. As a result, for the current interim period under review, this business segment has been loss making. However, the gross profit ratio for the media sector has increased from 1H2005’s 34.6% to 41.7% for the current interim period. In addition, if the gain on 1H2005’s deemed partial disposal of Founder International Inc. and its subsidiary of HK\$10.7 million is excluded from the segment results for 1H2005, segment loss for the current period recorded an increase of approximately 50.2% compared with the last interim period.

Besides the delay in the completion of certain systems integration contracts on hand, the need to further support the product development and market exploration of our prize-award winning technology, Founder Apabi DRM System and a series of related products such as e-Library, e-Document, e-Book and e-Chop also required the Group to allocate more resources and efforts for the business. At present, more than 80% of the provincial public libraries in the People’s Republic of China (the “PRC”) use our e-Library system and our self-

Management Discussion and Analysis

developed DRM system is well recognised and awarded for its unique function in protecting property rights and more than 400 publishing houses in the PRC have adopted our Apabi DRM technology in the production of e-books. As at March 2006, more than 210,000 e-books have been produced using our Apabi e-Book Solution. In May 2006, the Group has cooperated with more than 500 publishing houses, traditional book stores and web book stores for the formation of “Apabi e-Book Sales Alliance” and the Group is expecting a further growth in the alliance in the future for offering direct sales and services to the readers through our e-Book portal “apabi.com”. Our e-library System also has been applied to more than 1,300 libraries and 450 universities in the PRC and overseas. Besides our traditional graphic arts and publishing software solutions for the needs of newspapers and publishing houses, EasiPrint Digital Printing System (印捷數碼印刷系統) is also well established in the digital printing sector in the PRC and over 100 partners have joined us as franchised digital printing shops over different provinces in the PRC with a customers base spanning more than 30 major cities and provinces in the PRC.

In June 2006, the Group’s flagship software development arm, Beijing Founder Electronics Co., Ltd., was awarded one of the ten most valuable software enterprise (十大最具價值軟件企業) in the PRC and our EasiPrint Digital Printing System (印捷數碼印刷系統) was awarded one of the software product with the most value-adding potential (最具增值潛力軟件產品) in the PRC in the 10th China International Software Exhibition (二零零六年第十屆中國國際軟件博覽會) and in September 2006, the Group’s well-renowned publishing software, FIT (飛騰集成排版軟件) was awarded one of the ten most innovative software product (中國十大創新軟件產品) in the PRC in The 2nd China (Nanjing) International Software Product Expo (第二屆中國(南京)國際軟件產品博覽會).

(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 22.0% to HK\$109.4 million (1H2005: HK\$89.7 million) while its segment results recorded a loss of HK\$2.6 million (1H2005: HK\$4.7 million).

After the implementation of a number of cost control measures and streamlining of operations, the non-media sector has been able to narrow the loss during the period. During the current interim period, the non-media sector was mainly focused on the systems integration business for the finance and securities industries and government bureaus in the PRC.

In June 2006, the Group’s non-media operating arm, Beijing Founder Order Computer System Co., Ltd. (“Founder Order”), was ranked one of the top 30 systems integrators in the PRC by the Computer Partner World (電腦商報). In addition, Founder Order was ranked one of the top three systems integrators for the PRC’s finance and securities industries by Smart Partner (計算機產品與流通) in June 2006. In addition to being a CISCO gold certified partner, Founder Order is also a state-certified high-tech enterprise and first-class systems integrator with certifications in ISO9000 and CMML2. Building on the years of robust business and technical development and coupled with the topnotch quality assurance system and well-structured R&D system, the Group has created a solid base for the expansion and rejuvenation of the non-media sector in the future.

Management Discussion and Analysis



(C) *Distribution of information products*

The turnover of the distribution business of information products for the period increased by 41.6% to HK\$1,157.2 million (1H2005: HK\$817.2 million) while its segmental results for the period recorded a profit of HK\$8.8 million (1H2005: HK\$4.8 million). The improvement in the performance of the distribution business was mainly attributable to:

- a. increase in the range of products from suppliers such as HP and Huawei-3Com;
- b. continued effort to enrich the number of suppliers, new suppliers such as SGI and CommScope have been added to the distribution business' vendor list during the second half of 2005; and
- c. deeper and closer working relationship with the vendors for greater understanding of the market situation so as to develop more business opportunities with the vendors and downstream customers of second tier distributors and systems integrators.

During the period under review, 4 major cities, namely Chong Qing, Zheng Zhou, Kun Ming and Chang Sha have been added to the distribution channel and network of the distribution business. At present, the distribution business operates its nation-wide distribution channel and network in 19 major cities in the PRC. In June 2006, our subsidiary, Beijing Founder Century Information System Co., Ltd., was ranked the 4th place (31 December 2005: 5th), 5th place (31 December 2005: 7th) and top 10 among the top 200 information products distributors, top 100 dominant information products distributors and top 10 most excellent information products distributors in the PRC respectively.

In light of the strong growth in business size, the Group is also dedicated for stricter and stronger financial and internal management. Despite the austerity measures taken by the PRC government in regulating the economy, the distribution business has been able to maintain its growth and outperformed the general business investment activities and economic situations in the PRC during the period under review through better and deeper understanding of its product structure, imposing stricter risk and cost controls, provisioning of company-wide staff development and training and continuous development and assessment of the distribution channel and network. To fuel for future growth, the distribution business is dedicated to widen its products range and has recently become one of the PRC distributors for Sony's storage devices and Microsoft's major products.

With the Group's endeavours to further strengthening its position in the PRC's information products distribution business, the Group will continue to look for alliance with other international information products suppliers and investment opportunities.

Management Discussion and Analysis

FINANCIAL REVIEW

Liquidity, financial resources and capital commitments

At 30 June 2006, the Group recorded total assets of HK\$1,301.6 million which were financed by liabilities of HK\$855.0 million, minority interests of HK\$108.8 million and equity of HK\$337.8 million. The Group's net asset value per share as at 30 June 2006 amounted to HK\$0.30 (31 December 2005: HK\$0.33).

The Group had a total cash and bank balance of HK\$322.0 million as at 30 June 2006. After deducting total bank borrowings of HK\$39.4 million, the Group recorded a net cash balance of HK\$282.6 million as at 30 June 2006 as compared to HK\$446.8 million as at 31 December 2005. The Group's borrowings, which are subject to little seasonality, consist of mainly short term bank loans, revolving trust receipt loans and obligation under finance lease, of which approximately HK\$39.0 million (31 December 2005: HK\$40.6 million) was repayable within one year and approximately HK\$0.4 million (31 December 2005: Nil) was repayable within two to five years. As at 30 June 2006, the Group's gearing ratio, measured on the basis of total borrowings as a percentage of total shareholders' equity, was 0.12 (31 December 2005: 0.11) while the Group's working capital ratio was 1.35 (31 December 2005: 1.39).

At 30 June 2006, the Group did not have any material capital expenditure commitments (31 December 2005: 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, 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, Renminbi and United States dollars while the sales of the Group are mainly denominated in Renminbi and United States dollars. As the exchange rates of United States dollars against Hong Kong dollars and Renminbi were relatively stable during the period under review, the Group's exposure to fluctuations in exchange rates is considered minimal and no financial instruments have been used for hedging purposes.

Contracts

At 30 June 2006, the major contracts in hand for the software development and systems integration business amounted to approximately HK\$531.6 million (31 December 2005: HK\$148.1 million).



Management Discussion and Analysis

Charges on assets

At 30 June 2006, certain of the Group's land and buildings and investment properties in Hong Kong of approximately HK\$50.4 million and bank deposits of approximately HK\$92.3 million were pledged to banks to secure banking facilities granted.

Contingent liabilities

At 30 June 2006, the Group did not have any significant contingent liabilities.

EMPLOYEES AND REMUNERATION POLICIES

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.

As at 30 June 2006, the Group had approximately 2,034 employees (31 December 2005: 1,830). These employees almost all work in the Mainland China.

Condensed Consolidated Income Statement

For the six months ended 30 June 2006

	Notes	For the six months ended 30 June	
		2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
REVENUE	2	1,407,731	1,131,791
Cost of sales		(1,271,916)	(1,008,677)
Gross profit		135,815	123,114
Other income and gains	3	17,354	55,591
Selling and distribution costs		(97,096)	(82,556)
Administrative expenses		(54,485)	(61,338)
Other expenses, net		(32,605)	(23,640)
Finance costs	4	(1,070)	(490)
Share of profits and losses of associates		6,090	6,572
PROFIT/(LOSS) BEFORE TAX	5	(25,997)	17,253
Tax	6	(1,134)	(956)
PROFIT/(LOSS) FOR THE PERIOD		(27,131)	16,297
Attributable to:			
Equity holders of the parent		(32,634)	12,312
Minority interests		5,503	3,985
		(27,131)	16,297
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT— Basic	7	(2.90 cents)	1.10 cents

Condensed Consolidated Balance Sheet

30 June 2006



	Notes	30 June 2006 (Unaudited) HK\$'000	31 December 2005 (Audited) HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment		67,428	63,329
Investment properties		24,740	23,110
Goodwill		7,055	7,055
Interests in associates		49,699	44,184
Total non-current assets		148,922	137,678
CURRENT ASSETS			
Inventories		196,654	171,076
Systems integration contracts		51,090	44,743
Trade and bills receivables	9	451,437	360,297
Prepayments, deposits and other receivables		129,350	119,312
Equity investments at fair value through profit or loss		2,108	1,981
Pledged deposits		92,252	72,536
Cash and cash equivalents		229,743	414,886
Total current assets		1,152,634	1,184,831
CURRENT LIABILITIES			
Trade and bills payables	10	490,524	438,263
Other payables and accruals		324,041	371,726
Interest-bearing bank and other borrowings		38,956	40,614
Tax payable		1,009	1,012
Total current liabilities		854,530	851,615
NET CURRENT ASSETS		298,104	333,216
TOTAL ASSETS LESS CURRENT LIABILITIES		447,026	470,894
NON-CURRENT LIABILITIES			
Finance lease payables		450	—
Net assets		446,576	470,894
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital		112,380	112,380
Reserves		225,412	255,873
		337,792	368,253
Minority interests		108,784	102,641
Total equity		446,576	470,894

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2006

	Attributable to equity holders of the parent										
	Issued share capital	Share premium account	Contributed surplus	Capital reserve	Land and buildings revaluation reserve	Exchange fluctuation reserve	General reserve	Retained earnings/ (accumulated losses)	Total	Minority interests	Total equity
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2006	112,380	27,660	867,910	3,685	601	4,319	44,799	(693,101)	368,253	102,641	470,894
Exchange realignment	—	—	—	—	—	2,173	—	—	2,173	640	2,813
Total income recognised directly in equity	—	—	—	—	—	2,173	—	—	2,173	640	2,813
Loss for the period	—	—	—	—	—	—	—	(32,634)	(32,634)	5,503	(27,131)
Total income and expense for the period	—	—	—	—	—	2,173	—	(32,634)	(30,461)	6,143	(24,318)
At 30 June 2006	112,380	27,660	867,910	3,685	601	6,492	44,799	(725,735)	337,792	108,784	446,576
At 1 January 2005	112,380	27,660	867,910	74,942	601	(387)	43,179	(810,690)	315,595	93,796	409,391
Exchange realignment	—	—	—	—	—	(766)	—	—	(766)	(1,041)	(1,807)
Total expense recognised directly in equity	—	—	—	—	—	(766)	—	—	(766)	(1,041)	(1,807)
Deemed partial disposal of subsidiaries	—	—	—	—	—	(157)	—	—	(157)	17,007	16,850
Disposal of subsidiaries	—	—	—	(81,909)	—	3,253	—	78,656	—	(21,671)	(21,671)
Profit for the period	—	—	—	—	—	—	—	12,312	12,312	3,985	16,297
Transfer to capital reserve	—	—	—	10,652	—	—	—	(10,652)	—	—	—
Total income and expense for the period	—	—	—	(71,257)	—	2,330	—	80,316	11,389	(1,720)	9,669
At 30 June 2005	112,380	27,660	867,910	3,685	601	1,943	43,179	(730,374)	326,984	92,076	419,060

Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2006

For the six months ended
30 June

	2006 <i>(Unaudited)</i> HK\$'000	2005 <i>(Unaudited)</i> HK\$'000
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	(160,085)	(91,698)
NET CASH INFLOW/(OUTFLOW) FROM INVESTING ACTIVITIES	(27,678)	44,381
NET CASH OUTFLOW FROM FINANCING ACTIVITIES	(2,214)	(8,148)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(189,977)	(55,465)
Cash and cash equivalents at beginning of period	412,874	258,079
Effect of foreign exchange rate changes, net	3,416	67
CASH AND CASH EQUIVALENTS AT END OF PERIOD	226,313	202,681
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	212,718	164,611
Non-pledged time deposits with original maturity of less than three months when acquired	13,595	38,070
	226,313	202,681

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 2005, 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 21 Amendment	The Effects of Changes in Foreign Exchange Rates – Net Investment in a Foreign Operation
HKAS 39 Amendment	The Fair Value Option
HKAS 39 & HKFRS 4 Amendments	Financial Instruments: Recognition and Measurement and Insurance Contracts – Financial Guarantee Contracts
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease

The adoption of the new and revised HKFRSs has had no material impact on the accounting policies of the Group and the method of computation in the Group’s condensed consolidated interim financial statements.

Notes to Condensed Consolidated Interim Financial Statements

2. SEGMENT INFORMATION

The Group's operating businesses are structured and managed separately according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services 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 2006 and 2005.

	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	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Segment revenue:														
Sales to external customers	175,864	227,539	109,444	89,713	1,118,088	810,053	—	—	4,335	4,486	—	—	1,407,731	1,131,791
Intersegment sales	—	—	—	—	39,106	7,152	—	—	—	—	(39,106)	(7,152)	—	—
Total	175,864	227,539	109,444	89,713	1,157,194	817,205	—	—	4,335	4,486	(39,106)	(7,152)	1,407,731	1,131,791
Segments results	(31,586)	(10,373)	(2,615)	(4,721)	8,788	4,783	(7,842)	(5,306)	574	621			(32,681)	(14,996)
Interest income and unallocated gains													1,664	26,167
Finance costs													(1,070)	(490)
Share of profits and losses of associates													6,090	6,572
Profit/(loss) before tax													(25,997)	17,253
Tax													(1,134)	(956)
Profit/(loss) for the period													(27,131)	16,297

Notes to Condensed Consolidated Interim Financial Statements

3. OTHER INCOME AND GAINS

	For the six months ended 30 June	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Bank interest income	1,664	975
Gross rental income	505	717
Government grants	8,630	8,683
Gain on disposal of subsidiaries	—	25,192
Gain on deemed partial disposal of subsidiaries	—	10,652
Revaluation surplus on land and buildings	2,419	2,709
Fair value gains on investment properties	1,630	3,440
Others	2,506	3,223
	<u>17,354</u>	<u>55,591</u>

4. FINANCE COSTS

	For the six months ended 30 June	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Interest on bank loans and overdrafts	1,034	490
Interest on finance lease	36	—
	<u>1,070</u>	<u>490</u>

5. PROFIT/(LOSS) BEFORE TAX

The Group's profit/(loss) before tax is arrived at after charging/(crediting):

	For the six months ended 30 June	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Depreciation	6,303	6,966
Loss/(gain) on disposal of items of property, plant and equipment	26	(17)
Provision and write-off of doubtful trade debts and other receivables	9,284	5,118
Provision and write-off of obsolete inventories	1,997	4,101
	<u>17,610</u>	<u>16,268</u>

Notes to Condensed Consolidated Interim Financial Statements

6. TAX

	For the six months ended 30 June	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Current — Hong Kong	9	—
Current — Elsewhere	1,125	956
Total tax charge for the period	1,134	956

Hong Kong profits tax has been provided at a rate of 17.5% on the estimated assessable profits arising in Hong Kong during the period. 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 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.

The corporate income tax provision in the People's Republic of China (the "PRC") 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.

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 share of tax attributable to associates amounting to approximately HK\$751,000 (2005: HK\$1,232,000) is included in "Share of profits and losses of associates" on the face of the condensed consolidated income statement.

7. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic earnings/(loss) per share amounts is based on the unaudited loss for the period attributable to equity holders of the parent of approximately HK\$32,634,000 (2005: profit of HK\$12,312,000), and the weighted average number of approximately 1,123,800,000 (2005: 1,123,800,000) ordinary shares in issue during the period.

Diluted earnings/(loss) per share for the six months ended 30 June 2006 and 2005 have not been disclosed as the impact of the outstanding share options was anti-dilutive.

Notes to Condensed Consolidated Interim Financial Statements

8. INTERIM DIVIDEND

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2006 (2005: Nil).

9. 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 three 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. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

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

	30 June 2006 (Unaudited) HK\$'000	31 December 2005 (Audited) HK\$'000
Within 6 months	387,989	326,949
7 — 12 months	47,230	18,775
13 — 24 months	14,765	13,201
Over 24 months	1,453	1,372
	451,437	360,297

Included in the Group's trade and bills receivables are amounts due from the Group's related companies and associates of approximately HK\$3,121,000 (2005: HK\$1,585,000) and HK\$2,643,000 (2005: HK\$2,970,000), respectively, which are repayable on similar credit terms to those offered to the major customers of the Group.

10. TRADE AND BILLS PAYABLES

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

	30 June 2006 (Unaudited) HK\$'000	31 December 2005 (Audited) HK\$'000
Within 6 months	477,011	433,201
7 — 12 months	5,410	1,326
13 — 24 months	6,178	1,935
Over 24 months	1,925	1,801
	490,524	438,263

Included in the Group's trade and bills payables are amounts due to the Group's related companies and associates of approximately HK\$1,823,000 (2005: HK\$3,318,000) and HK\$171,000 (2005: HK\$349,000), respectively, which are repayable on similar credit terms to those obtained from major suppliers of the Group.

Notes to Condensed Consolidated Interim Financial Statements

11. 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	
		2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Purchase of goods from a company in which one director of a subsidiary was a shareholder	(i)	—	51,941
Service fee paid to an associate of 北大方正集團有限公司 (Peking University Founder Group Company Limited*) ("Peking Founder"), a substantial shareholder of the Company	(ii)	462	—
Banking facilities guarantees given by Peking Founder	(iii)	356,843	336,050
Bank loan guarantee given by Peking Founder	(iv)	38,840	—
Banking facilities guarantee given by a subsidiary of Peking Founder	(v)	19,420	—

* For identification purpose only

Notes:

- (i) The purchase prices were determined based on actual costs incurred.
- (ii) These transactions were conducted on the basis of rate agreed between the Company and the related company.
- (iii) The banking facilities guarantees were given to PRC banks for the credit facilities granted to subsidiaries of the Company and utilised to the extent of approximately HK\$314,405,000 (2005: HK\$264,964,000).
- (iv) The bank loan guarantee was given to a PRC bank for the loan granted to a subsidiary of the Company.
- (v) The banking facilities guarantee was given to a PRC bank for the credit facilities granted to a subsidiary of the Company and was not utilised as at 30 June 2006.

Notes to Condensed Consolidated Interim Financial Statements

11. RELATED PARTY TRANSACTIONS (continued)

(I) Transactions with related parties (continued)

(b) On 10 January 2006, the Group entered into lease agreements with Peking Founder to lease from Peking Founder certain office premises in Beijing, the PRC, effective from 1 January 2006 to 31 December 2008. On 14 March 2006, 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 April 2006, of a total area of 240.45 square metres of the leased premises (the "Terminated Area"). Since then, Founder Order is not 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\$6,632,000 (six months ended 30 June 2005: HK\$11,327,000) 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, Beijing Founder Electronics Co., Ltd. ("Founder Electronics"), a wholly-owned PRC subsidiary of the Company, entered into an agreement (the "Japan Software Agreement") with a subsidiary of Peking Founder, for the sale of printing software developed by Founder Electronics and the provision of other related services to the related company.

During the period, sale of products and provision of product related services in an aggregate amount of approximately HK\$4,569,000 (six months ended 30 June 2005: Nil) to the related company were made by the Group. The directors considered that the sale of products and provision of services were made in accordance with the terms of the Japan Software Agreement.

(d) On 5 January 2006, EC-Founder (Holdings) Company Limited ("EC-Founder"), a 54.85% owned subsidiary of the Company, entered into a master agreement with Peking Founder to govern the sale of information products to Peking Founder and its subsidiaries (collectively "Peking Founder Group") for a term of three years from 1 January 2006 to 31 December 2008. During the period, products of approximately HK\$360,000 (six months ended 30 June 2005: Nil) were sold to Peking Founder Group. The sales of products were made according to published prices and conditions similar to those offered to other customers of the Group.

(e) On 5 January 2006, the Company entered into a master agreement with EC-Founder to govern the purchase of information products from EC-Founder and its subsidiaries for a term of three years from 1 January 2006 to 31 December 2008.

(f) On 7 February 2005, Founder (Hong Kong) Limited ("Founder HK"), a wholly-owned subsidiary of the Company, 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.

(g) 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.

Notes to Condensed Consolidated Interim Financial Statements

11. RELATED PARTY TRANSACTIONS *(continued)*

(II) Outstanding balances with related parties

- (a) The balance due to Peking Founder included in other payables and accruals as at 30 June 2006 is approximately HK\$2,404,000 (31 December 2005: HK\$10,089,000). The balance is unsecured, interest-free and has no fixed terms of repayment.
- (b) The balance due to a company in which three directors of the Company were directors included in other payables and accruals as at 30 June 2006 was approximately HK\$8,146,000 (31 December 2005: HK\$8,101,000). The balance is unsecured, interest-free and has no fixed terms of repayment.
- (c) The balances due from a subsidiary and an associate of Peking Founder included in prepayments, deposits and other receivables as at 30 June 2006 are approximately HK\$4,822,000 (31 December 2005: HK\$3,807,000) and HK\$558,000 (31 December 2005: HK\$552,000) respectively. The balance due to an associate of Peking Founder included in other payables and accruals as at 30 June 2006 is approximately HK\$194,000 (31 December 2005: HK\$1,498,000). The balances are unsecured, interest-free and have no fixed terms of repayment.
- (d) Details of the Group's trade balances with its associates and related companies as at the balance sheet date are disclosed in notes 9 and 10 to the condensed consolidated interim financial statements.

(III) Compensation of key management personnel of the Group

	For the six months ended	
	30 June	
	2006 <i>(Unaudited)</i> HK\$'000	2005 <i>(Unaudited)</i> HK\$'000
Short-term employee benefits	1,512	1,465
Post-employment benefits	33	30
Total compensation paid to key management personnel	<u>1,545</u>	<u>1,495</u>

12. CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities as at 30 June 2006 (31 December 2005: Nil).

13. POST BALANCE SHEET EVENT

On 26 May 2006, the Company entered into an agreement with Shining Wisdom Group Limited, an independent third party, to dispose of 240,425,000 shares of EC-Founder of HK\$0.1 each held by the Company, representing approximately 21.85% of the issued share capital of EC-Founder, for a cash consideration of approximately HK\$68.5 million. Further details of the transaction were set out in the announcement of the Company dated 26 May 2006 and the circular of the Company dated 16 June 2006. The disposal was completed on 31 July 2006.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 30 June 2006, the interests and short positions 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 ordinary shares held, capacity and nature of interest	Percentage of the associated corporation's issued share capital
	Directly beneficially owned	
Mr Cheung Shuen Lung	36,890,100	3.35
Professor Xiao Jian Guo	8,703,300	0.79
Professor Wei Xin	3,956,000	0.36
Mr Zhang Zhao Dong	3,956,000	0.36

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 2006, 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.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save as disclosed under the section "Directors' interests and short positions in shares and underlying shares" above and the section "Share option schemes" below, at no time during the period were rights to acquire benefits by means of the acquisition of shares in the Company granted to any director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

Other Information

SHARE OPTION SCHEMES

Share option scheme of the Company

On 24 May 2002, the Company adopted a share option 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 following share options were outstanding under the share option scheme at 1 January 2006 and at the end of the period:

Name or category of participant	Number of share options			Date of grant of share options*	Exercise period of share options	Exercise price of share options**
	At 1 January 2006	Lapsed during the period	At 30 June 2006			
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	32,000,000	—	32,000,000			
Other employees						
In aggregate	51,500,000	(19,500,000)	32,000,000	2.1.2004	3.1.2004 to 31.12.2013	0.840
Total	83,500,000	(19,500,000)	64,000,000			

Notes to the reconciliation of the share options outstanding during the period:

* 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 *(continued)*

Share option schemes of EC-Founder

On 24 May 2002, EC-Founder, a subsidiary of the Company, adopted a 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 2006 and at the end of the period:

Name or category of participant	Number of share options			Date of grant of share options*	Exercise period of share options	Exercise price of share options** HK\$
	At 1 January 2006	Lapsed during the period	At 30 June 2006			
1991 Scheme						
<i>Other employees</i>						
In aggregate	2,700,000	—	2,700,000	18.5.2001	15.12.2001 to 14.12.2006	0.450
2001 Scheme						
<i>Directors</i>						
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			
<i>Other employees</i>						
In aggregate	300,000	—	300,000	18.5.2001	18.5.2001 to 17.5.2011	0.450
Total under the 2001 Scheme	4,300,000	—	4,300,000			

Other Information

SHARE OPTION SCHEMES (continued)

Share option schemes of EC-Founder (continued)

Name or category of participant	Number of share options			Date of grant of share options*	Exercise period of share options	Exercise price of share options**
	At 1 January 2006	Lapsed during the period	At 30 June 2006			
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	24,000,000	—	24,000,000			
Other employees						
In aggregate	27,000,000	(5,500,000)	21,500,000	2.1.2004	3.1.2004 to 31.12.2013	0.340
Total under the 2002 Scheme	51,000,000	(5,500,000)	45,500,000			

Notes to the reconciliation of the share options outstanding during the period:

* 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.

Other Information

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES

At 30 June 2006, the following interest 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:

Name	Capacity and nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital
北京北大資產經營有限公司 (Peking University Asset Management Company Limited*) (Note)	Through a controlled corporation	367,179,610	32.67
北大方正集團有限公司 (Peking University Founder Group Company Limited*) ("Peking Founder")	Directly beneficially owned	<u>367,179,610</u>	<u>32.67</u>

* For identification purpose only

Note: Peking University Asset Management Company Limited was deemed to be interested in the 367,179,610 shares under the SFO by virtue of its interest in Peking Founder.

Save as disclosed above, as at 30 June 2006, no person, other than the directors of the Company, whose interests are set out in the section "Directors' interests and short positions in shares and underlying shares" above, 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, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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



Other Information

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has 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 deviation in respect of the rotation of directors under code provision A.4.2 of the Code.

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. However, according to the then 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 were approved by the shareholders in the special general meeting held on 4 January 2006. Since then the Company has complied with all code provisions of the Code.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as the Company’s code of conduct for dealing in securities of the Company by the directors. Having made specific enquiry of the Company’s directors, all the directors confirmed that they have complied with the required standard as 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 2006 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
22 September 2006