



INTERIM
REPORT

2007



FOUNDER HOLDINGS LIMITED
方正控股有限公司

(Incorporated in Bermuda with limited liability)

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Corporate Information

BOARD OF DIRECTORS

Executive directors

Mr Zhang Zhao Dong (*Chairman*)
Professor Xiao Jian Guo (*Deputy Chairman*)
Mr Liu Xiao Kun (*President*)
Professor Wei Xin
Mr Chen Geng
Mr Xie Ke Hai

Independent non-executive directors

Mr Li Fat Chung
Dr Hu Hung Lick, Henry
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 Zhang Zhao Dong (*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
Professor Wei Xin

AUDITORS

Ernst & Young
Certified Public Accountants

LEGAL ADVISERS

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 HM08
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 WEBSITES

www.founder.com.hk
www.irasia.com/listco/hk/founder/index.htm

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 2007, together with the comparative figures for the corresponding period in 2006. 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 equity holders of the parent of HK\$51.2 million for the six months ended 30 June 2007 (Six months ended 30 June 2006: HK\$32.6 million). The Group recorded a significant decrease in turnover during the current interim period by approximately 80.1% to HK\$279.9 million (Six months ended 30 June 2006: HK\$1,407.7 million) and an increase in gross profit ratio from 9.65% for the six months ended 30 June 2006 to 24.83% for the current interim period as a result of the partial disposal of the distribution business of information products during the second half of 2006 which had a much lower gross profit percentage if compared to the business of software development and systems integration.

Basic loss per share attributable to equity holders of the parent for the period was HK4.56 cents (Six months ended 30 June 2006: HK2.90 cents).

Operating Review and Prospects

(a) Software development and systems integration for media sector (“Media Business”)

The turnover of the software development and systems integration business for the media sector for the current period has decreased by 4.3% to HK\$168.3 million (Six months ended 30 June 2006: HK\$175.9 million) while its segment results recorded a loss of HK\$36.9 million (Six months ended 30 June 2006: HK\$31.6 million).

Similar to the six months ended 30 June 2006, the Media Business is faced with the delay in the recognition of revenue of certain systems integration contracts during the period under review. However, the Media Business has been able to maintain its gross profit ratio for the current interim period at 41.61% (Six months ended 30 June 2006: 41.67%).

The increase in segment loss for the Media Business can also be attributed to the need to allocate further resources for the product development and market exploration for the business of our Beijing Founder Apabi Technology Co., Ltd. (“Apabi Business”). Although the Apabi Business has gained a large market share in the PRC’s e-Library, e-Document, e-Book and e-Chop business sectors, the Group believes that more resources would be required for the future development of the Apabi Business before it could contribute to the Group’s overall operation. At present, the Apabi Business operates an e-Book portal, www.idoican.com.cn (愛讀愛看網站) for various e-newspapers and e-magazines in the PRC.

Management Discussion and Analysis

In addition to the traditional graphic arts and electronic 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.

Besides the systems integration business for the media customers, the Media Business is actively exploring the opportunity to integrate vertically into the digital printing hardware and consumables business. The Group believes that the provision of its own printing hardware and consumables to the customers will allow the Media Business to provide a fuller spectrum of services to its customers with better quality, compatibility and lower costs.

(b) Software development and systems integration for non-media sector (“Non-Media Business”)

The turnover of the Non-Media Business for the period decreased by 0.6% to HK\$108.8 million (Six months ended 30 June 2006: HK\$109.4 million) while its segment results recorded a loss of HK\$14.3 million (Six months ended 30 June 2006: HK\$2.6 million).

The increase in segment loss is mainly because of the delay in the completion for certain of the systems integration contracts. During the current interim period, the Non-Media Business was mainly focused on the systems integration business for the finance and securities industries and government bureaus in the PRC. The major products and services offered by the Non-Media Business include various solutions for the banking, insurance and securities industries, call center solutions, security and identity verification systems, documents imaging systems and fingerprint related security solutions.

(c) Distribution of information products

The distribution business of information products was partially disposed of in July 2006 as a result of the Company's partial disposal of 21.85% equity interest in EC-Founder which became the Group's 33.00% owned associated company.

During the current interim period, EC-Founder's turnover increased by 6.9% to HK\$1,237.4 million (Six months ended 30 June 2006: HK\$1,157.2 million) while its profit attributable to equity holders of the parent for the current interim period was HK\$10.4 million (Six months ended 30 June 2006: HK\$11.0 million).

Management Discussion and Analysis

Financial Review

Liquidity, financial resources and capital commitments

At 30 June 2007, the Group recorded total assets of HK\$762.9 million which were financed by liabilities of HK\$397.8 million, minority interests of HK\$5.7 million and equity of HK\$359.4 million. The Group's net asset value per share as at 30 June 2007 amounted to HK\$0.32 (31 December 2006: HK\$0.36).

The Group had a total cash and bank balance of HK\$230.5 million as at 30 June 2007. After deducting total bank borrowings of HK\$10.6 million, the Group recorded a net cash balance of HK\$219.9 million as at 30 June 2007 as compared to HK\$265.6 million as at 31 December 2006. The Group's borrowings, which are subject to little seasonality, consist of mainly short term revolving trust receipt loans. As at 30 June 2007, the Group's gearing ratio, measured on the basis of total borrowings as a percentage of total shareholders' equity, was 0.03 (31 December 2006: Nil) while the Group's working capital ratio was 1.40 (31 December 2006: 1.58).

At 30 June 2007 and 31 December 2006, 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, 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 2007, the major contracts in hand for the software development and systems integration business amounted to approximately HK\$290.1 million (31 December 2006: HK\$187.5 million).

Charges on assets

At 30 June 2007, certain of the Group's land and buildings and investment properties in Hong Kong of approximately HK\$54.5 million and bank deposits of approximately HK\$40.3 million were pledged to banks to secure banking facilities granted.

Management Discussion and Analysis

Contingent liabilities

At 30 June 2007, 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 2007, the Group had 1,815 employees (31 December 2006: 1,603).

Condensed Consolidated Income Statement

For the six months ended 30 June 2007

		For the six months ended 30 June	
		2007	2006
		(Unaudited)	(Unaudited)
	Notes	HK\$'000	HK\$'000
REVENUE	2	279,879	1,407,731
Cost of sales		<u>(210,372)</u>	<u>(1,271,916)</u>
Gross profit		69,507	135,815
Other income and gains	3	18,777	17,354
Selling and distribution costs		(75,215)	(97,096)
Administrative expenses		(40,809)	(54,485)
Other expenses, net		(27,151)	(32,605)
Finance costs	4	(121)	(1,070)
Share of profits and losses of associates		<u>3,928</u>	<u>6,090</u>
LOSS BEFORE TAX	5	(51,084)	(25,997)
Tax	6	<u>(64)</u>	<u>(1,134)</u>
LOSS FOR THE PERIOD		<u>(51,148)</u>	<u>(27,131)</u>
Attributable to:			
Equity holders of the parent		(51,193)	(32,634)
Minority interests		<u>45</u>	<u>5,503</u>
		<u>(51,148)</u>	<u>(27,131)</u>
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
– BASIC	7	<u>(4.56 cents)</u>	<u>(2.90 cents)</u>

Condensed Consolidated Balance Sheet

30 June 2007

	<i>Notes</i>	30 June 2007 (Unaudited) HK\$'000	31 December 2006 (Audited) HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment		71,294	67,769
Intangible assets		5,859	–
Investment properties		25,360	25,360
Interests in associates		104,279	95,446
Total non-current assets		<u>206,792</u>	<u>188,575</u>
CURRENT ASSETS			
Inventories		26,004	34,609
Systems integration contracts		101,980	70,735
Trade and bills receivables	9	137,462	181,022
Prepayments, deposits and other receivables		57,296	49,087
Equity investments at fair value through profit or loss		2,868	2,350
Pledged deposits		40,273	35,581
Cash and cash equivalents		190,229	230,057
Total current assets		<u>556,112</u>	<u>603,441</u>
CURRENT LIABILITIES			
Trade and bills payables	10	106,539	95,295
Other payables and accruals		280,627	287,836
Interest-bearing bank borrowings		10,624	–
Tax payable		64	4
Total current liabilities		<u>397,854</u>	<u>383,135</u>
NET CURRENT ASSETS		<u>158,258</u>	<u>220,306</u>
Net assets		<u>365,050</u>	<u>408,881</u>
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital		112,380	112,380
Reserves		246,976	290,913
		<u>359,356</u>	<u>403,293</u>
Minority interests		<u>5,694</u>	<u>5,588</u>
Total equity		<u>365,050</u>	<u>408,881</u>

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2007

	Attributable to equity holders of the parent											
	Issued share capital (Unaudited) HK\$'000	Share premium account (Unaudited) HK\$'000	Contributed surplus (Unaudited) HK\$'000	Capital reserve (Unaudited) HK\$'000	Land and buildings revaluation reserve (Unaudited) HK\$'000	Exchange fluctuation reserve (Unaudited) HK\$'000	General reserve (Unaudited) HK\$'000	Accumulated losses (Unaudited) HK\$'000	Total (Unaudited) HK\$'000	Minority interests (Unaudited) HK\$'000	Total equity (Unaudited) HK\$'000	
	At 1 January 2007	112,380	27,660	867,910	3,685	1,598	11,876	44,818	(666,634)	403,293	5,588	408,881
	Exchange realignment	-	-	-	-	-	7,256	-	-	7,256	61	7,317
Total income recognised directly in equity	-	-	-	-	-	7,256	-	-	7,256	61	7,317	
Loss for the period	-	-	-	-	-	-	-	(51,193)	(51,193)	45	(51,148)	
Total income and expense for the period	-	-	-	-	-	7,256	-	(51,193)	(43,937)	106	(43,831)	
At 30 June 2007	112,380	27,660	867,910	3,685	1,598	19,132	44,818	(717,827)	359,356	5,694	365,050	
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	

Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2007

	For the six months ended 30 June	
	2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	(31,017)	(160,085)
NET CASH INFLOW/(OUTFLOW) FROM INVESTING ACTIVITIES	33,903	(27,678)
NET CASH INFLOW/(OUTFLOW) FROM FINANCING ACTIVITIES	10,624	(2,214)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	13,510	(189,977)
Cash and cash equivalents at beginning of period	168,174	412,874
Effect of foreign exchange rate changes, net	4,956	3,416
CASH AND CASH EQUIVALENTS AT END OF PERIOD	186,640	226,313
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	136,733	212,718
Non-pledged time deposits with original maturity of less than three months when acquired	49,907	13,595
	186,640	226,313

Notes to Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2007

1. Accounting Policies

The unaudited 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 2006, 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 Amendment	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 <i>Financial Reporting in Hyperinflationary Economies</i>
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment

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

For the six months ended 30 June 2007

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 2007 and 2006.

	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	
	2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000
Segment revenue:														
Sales to external customers	168,311	175,864	108,821	109,444	-	1,118,088	-	-	2,747	4,335	-	-	279,879	1,407,731
Intersegment sales	-	-	-	-	-	39,106	-	-	-	-	-	(39,106)	-	-
Total	168,311	175,864	108,821	109,444	-	1,157,194	-	-	2,747	4,335	-	(39,106)	279,879	1,407,731
Segments results	(36,927)	(31,586)	(14,267)	(2,615)	-	8,788	(5,598)	(7,842)	92	574	-	-	(56,700)	(32,681)
Interest income													1,809	1,664
Finance costs													(121)	(1,070)
Share of profits and losses of associates													3,928	6,090
Loss before tax													(51,084)	(25,997)
Tax													(64)	(1,134)
Loss for the period													(51,148)	(27,131)

Turnover and operating results for the six months ended 30 June 2006 also include that of EC-Founder (Holdings) Company Limited ("EC-Founder"), the then subsidiary of the Group.

On 31 July 2006, the Group's interest in EC-Founder decreased to below 50% and then becomes an associated company of the Group. The results of EC-Founder was consolidated into the income statement of the Group up to the date of partial disposal and was equity accounted for thereafter.

Notes to Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2007

3. Other Income and Gains

	For the six months ended 30 June	
	2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000
Bank interest income	1,809	1,664
Gross rental income	623	505
Government grants	14,438	8,630
Revaluation surplus on land and buildings	-	2,419
Fair value gains on investment properties	-	1,630
Others	1,907	2,506
	<u>18,777</u>	<u>17,354</u>

4. Finance Costs

	For the six months ended 30 June	
	2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000
Interest on bank loans and overdrafts	121	1,034
Interest on finance lease	-	36
	<u>121</u>	<u>1,070</u>

Notes to Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2007

5. Loss Before Tax

The Group's loss before tax is arrived at after charging:

	For the six months ended 30 June	
	2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000
Depreciation	6,500	6,303
Loss on disposal of items of property, plant and equipment	14	26
Impairment of trade and other receivables	2,857	9,284
Provision and write-off of obsolete inventories	4,135	1,997

6. Tax

	For the six months ended 30 June	
	2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000
Current – Hong Kong	–	9
Current – Elsewhere	64	1,125
Total tax charge for the period	64	1,134

No provision for Hong Kong profits tax has been made for the period as the relevant subsidiaries either did not generate any assessable profits arising in Hong Kong or have available tax losses brought forward from prior periods to offset the assessable profits generated 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.

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.

Notes to Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2007

6. Tax *(Continued)*

北京方正阿帕比技术有限公司 (Beijing Founder Apabi Technology Co., Ltd. *) ("PRC Apabi"), a wholly owned subsidiary of the Group in the People's Republic of China (the "PRC"), is exempted from PRC corporate income tax for the three fiscal years which commenced in 2006 and ending on 31 December 2008, 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 Apabi is 15%. No provision for PRC corporate income tax has been made for the period as the relevant PRC subsidiaries were either under their tax exemption period or had sufficient tax losses brought forward to offset against the assessable profits arising during the period. The PRC corporate income tax provision in respect of operations in the PRC was calculated at the applicable tax rates on the estimated assessable profits for prior period based on existing legislation, interpretations and practices in respect thereof.

On 16 March 2007, the National People's Congress approved the PRC Corporate Income Tax Law (the "New Corporate Income Tax Law"), which will become effective on 1 January 2008. The New Corporate Income Tax Law introduces a wide range of changes which include, but are not limited to, the unification of the income tax rate for domestic-invested and foreign-invested enterprises at 25%. Detailed implementation and administrative requirements relating to the New Corporate Income Tax Law have not yet to be announced. These detailed requirements include regulations concerning the computation of taxable income, as well as specific preferential tax treatments and their transitional provisions. The Group will further evaluate the impact of the New Corporate Income Tax Law on its operating results and financial position of future periods as more detailed requirements are issued.

The share of tax attributable to associates amounting to approximately HK\$979,000 (2006: HK\$751,000) is included in "Share of profits and losses of associates" on the face of the condensed consolidated income statement.

7. Loss per share Attributable to Ordinary Equity Holders of the Parent

The calculation of basic loss per share amounts is based on the unaudited loss for the period attributable to equity holders of the parent of approximately HK\$51,193,000 (2006: HK\$32,634,000), and the weighted average number of approximately 1,123,800,000 (2006: 1,123,800,000) ordinary shares in issue during the period.

Diluted loss per share for the six months ended 30 June 2007 and 2006 have not been disclosed as the impact of the outstanding share options did not have a dilutive effect for both periods presented.

8. Interim Dividend

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2007 (2006: Nil).

* For identification purpose only

Notes to Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2007

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. Trade and bills receivables are settled in accordance with the terms of the respective contracts. 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 2007 (Unaudited) HK\$'000	31 December 2006 (Audited) HK\$'000
Within 6 months	81,304	155,925
7 – 12 months	46,605	12,232
13 – 24 months	8,100	12,033
Over 24 months	1,453	832
	<u>137,462</u>	<u>181,022</u>

Included in the Group's trade and bills receivables are amounts due from the Group's related companies and associates of approximately HK\$1,214,000 (2006: HK\$61,000) and HK\$2,529,000 (2006: HK\$2,579,000), 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

For the six months ended 30 June 2007

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 2007 (Unaudited) HK\$'000	31 December 2006 (Audited) HK\$'000
Within 6 months	95,494	90,693
7 – 12 months	7,944	938
13 – 24 months	1,120	2,525
Over 24 months	<u>1,981</u>	<u>1,139</u>
	<u>106,539</u>	<u>95,295</u>

Included in the Group's trade and bills payables are amounts due to the Group's related companies and associates of approximately HK\$2,944,000 (2006: HK\$5,521,000) and HK\$20,337,000 (2006: HK\$11,647,000), respectively, which are repayable on similar credit terms to those obtained from major suppliers of the Group.

Notes to Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2007

11. Related Party Transactions

(I) Transactions with related parties

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

		For the six months ended 30 June	
		2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000
	Notes		
Sales of goods to subsidiaries 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	(i)	730	–
Agency fee received from a company in which one director of the Company was a director and Peking Founder and its subsidiary have beneficial interests	(i)	542	–
Service fee paid to an associate of Peking Founder	(i)	–	462
Banking facilities guarantees given by Peking Founder	(ii)	20,540	356,843
Bank loan guarantee given by Peking Founder	(iii)	–	38,840
Banking facilities guarantee given by a subsidiary of Peking Founder	(iv)	20,540	19,420

Notes:

- (i) These transactions were conducted on the basis of rate agreed between the Company and the related companies.
- (ii) 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\$20,540,000 (2006: HK\$314,405,000).
- (iii) The bank loan guarantee was given to a PRC bank for the loan granted to a subsidiary of the Company.
- (iv) 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 2007 (2006: Nil).

Notes to Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2007

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\$5,523,000 (six months ended 30 June 2006: HK\$6,632,000) 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\$2,214,000 (six months ended 30 June 2006: HK\$4,569,000) 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 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. For the six months ended 30 June 2006, products of approximately HK\$360,000 were sold to Peking Founder Group prior to the partial disposal of shares of EC-Founder by the 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 (collectively "EC-Founder Group") for a term of three years from 1 January 2006 to 31 December 2008. On 15 November 2006, the Company entered into the supplemental agreement with EC-Founder to amend the cap amounts. The supplemental agreement is superseded by the revised supplemental agreement which was entered into between the Company and EC-Founder on 5 December 2006. During the period, products of approximately HK\$33,964,000 (six months ended 30 June 2006: Nil) were purchased from EC-Founder Group after the partial disposal of shares of EC-Founder by the Group in July 2006.

Notes to Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2007

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 2007 is approximately HK\$3,172,000 (31 December 2006: HK\$1,431,000). The balance is unsecured, interest-free and has no fixed terms of repayment.
- (b) The balance due to a company in which one (2006: three) director of the Company was a director and Peking Founder and its subsidiary have beneficial interests included in other payables and accruals as at 30 June 2007 was approximately HK\$5,916,000 (31 December 2006: HK\$4,173,000). The balance is unsecured, interest-free and has no fixed terms of repayment.
- (c) The balance due from a subsidiary of Peking Founder included in prepayments, deposits and other receivables as at 30 June 2007 was approximately HK\$992,000 (31 December 2006: Nil). The balances due to a subsidiary and an associate of Peking Founder included in other payables and accruals as at 30 June 2007 were approximately HK\$6,288,000 (31 December 2006: Nil) and HK\$205,000 (31 December 2006: HK\$199,000) respectively. The balance due from a subsidiary of Peking Founder included in prepayments, deposits and other receivables as at 30 June 2007 was HK\$728,000 (31 December 2006: HK\$4,332,000). The balances are unsecured, interest-free and have no fixed terms of repayment.
- (d) The balance due to Beijing Founder International Co., Limited ("Beijing Founder International"), a subsidiary of True Luck Group Limited which is a subsidiary of Peking Founder, included in other payables and accruals as at 30 June 2007 was approximately HK\$770,000 (31 December 2006: HK\$2,096,000). The balance due from Beijing Founder International included in systems integration contracts as at 30 June 2007 is approximately HK\$10,270,000 (31 December 2006: HK\$9,970,000). The balances are unsecured, interest-free and have no fixed terms of repayment.
- (e) The balances due from associates of the Company were included in prepayments, deposits and other receivables and interests in associates as at 30 June 2007 were approximately HK\$2,269,000 (31 December 2006: Nil) and HK\$4,157,000 (31 December 2006: HK\$1,175,000), respectively. The balances are unsecured, interest-free and have no fixed terms of repayment.
- (f) 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.

Notes to Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2007

11. Related Party Transactions *(Continued)*

(III) Compensation of key management personnel of the Group

	For the six months ended	
	30 June	
	2007	2006
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Short-term employee benefits	682	1,512
Post-employment benefits	30	33
Total compensation paid to key management personnel	712	1,545

12. Contingent Liabilities

The Group did not have any significant contingent liabilities as at 30 June 2007 (31 December 2006: Nil).

Other Information

Directors' Interests and Short Positions in Shares and Underlying Shares

At 30 June 2007, 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 (Holdings) Company Limited ("EC-Founder"), an associate of the Company

Name of director	Number of ordinary shares held, capacity and nature of interest Directly beneficially owned	Percentage of the associated corporation's issued share capital
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

Other Information

Directors' Interests and Short Positions in Shares and Underlying Shares

(Continued)

Long positions in underlying shares of associated corporations:

EC-Founder

Name of director	Number of share options at 1 January 2007 and 30 June 2007	Date of grant of share options	Exercise period of share options	Exercise price of share options HK\$ per share
Mr Zhang Zhao Dong	8,000,000	6.2.2004	7.2.2004 to 5.2.2014	0.381
Professor Wei Xin	2,000,000	18.5.2001	18.5.2001 to 17.5.2011	0.450
Professor Wei Xin	8,000,000	6.2.2004	7.2.2004 to 5.2.2014	0.381
Mr Liu Xiao Kun	5,500,000	2.1.2004	3.1.2004 to 31.12.2013	0.340
	<u>23,500,000</u>			

The interests of the directors in the share options of the Company are separately disclosed under the section "Share option scheme" below.

Save as disclosed above, as at 30 June 2007, 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 scheme" 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 Scheme

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 2007 and at the end of the period:

Name or category of participant	Number of share options outstanding as at 1 January 2007 and 30 June 2007	Date of grant of share options*	Exercise period of share options	Exercise price of share options** <i>HK\$ per share</i>
Directors				
Mr Cheung Shuen Lung#	8,000,000	5.2.2004	6.2.2004 to 4.2.2014	1.104
Professor Xiao Jian Guo	8,000,000	5.2.2004	6.2.2004 to 4.2.2014	1.104
Professor Wei Xin	8,000,000	5.2.2004	6.2.2004 to 4.2.2014	1.104
Mr Zhang Zhao Dong	8,000,000	5.2.2004	6.2.2004 to 4.2.2014	1.104
Subtotal	<u>32,000,000</u>			
Other employees				
In aggregate	25,500,000	2.1.2004	3.1.2004 to 31.12.2013	0.840
Total	<u>57,500,000</u>			

Other Information

Share Option Scheme *(Continued)*

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.
- # Mr Cheung Shuen Lung resigned as the director of the Company on 23 April 2007.

Substantial Shareholders' and Other Persons' Interests in Shares

At 30 June 2007, 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*) <i>(Note)</i>	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 2007, 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.

Other Information

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.

Compliance with the Code on Corporate Governance Practices

The Company has complied with all the code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules throughout the accounting period covered by the interim report.

Model Code for Securities Transactions

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules. 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 2007 of the Group now reported have been reviewed by the audit committee.

By Order of the Board
FOUNDER HOLDINGS LIMITED
Zhang Zhao Dong
Chairman

Hong Kong
21 September 2007