



INTERIM
REPORT

2008



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: 00418
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 2008, together with the comparative figures for the corresponding period in 2007. The 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\$5.5 million for the six months ended 30 June 2008 (six months ended 30 June 2007: HK\$51.2 million). The Group recorded a significant increase in turnover during the current interim period by approximately 70.5% to HK\$477.2 million (six months ended 30 June 2007: HK\$279.9 million) and a slight decrease in gross profit ratio from 24.83% for the six months ended 30 June 2007 to 22.94% for the current interim period.

Basic loss per share attributable to equity holders of the parent for the current interim period was HK0.48 cents (six months ended 30 June 2007: HK4.56 cents).

Operating Review

(A) Software development and systems integration for media sector ("Media Business")

The turnover of the Media Business for the current interim period increased by 29.6% to approximately HK\$218.1 million (six months ended 30 June 2007: HK\$168.3 million) while the segment results recorded a loss of approximately HK\$8.1 million (six months ended 30 June 2007: segment loss of HK\$37.4 million). The gross profit ratio for the Media Business for the current interim period has increased to 45.0% as compared to 41.6% for the six months ended 30 June 2007.

The segment loss of the current interim period for the Media Business has decreased by 78.2% as compared to the six months ended 30 June 2007. The improvement in the segment results is mainly because of the disposal of the loss making business of Founder Apabi Technology Co., Ltd. (北京方正阿帕比技術有限公司) ("Founder Apabi") in November 2007. Founder Apabi has contributed a segment loss of approximately HK\$22.4 million to the Media Business for the six months ended 30 June 2007. If the segment loss for Founder Apabi for the six months 30 June 2007 is excluded, the current interim period's segment loss represents a decrease of 46% as compared with the last interim period. Besides, the rise in the gross profit ratio and increase in turnover also contributed to the improvement in the segment results for the Media Business. After the disposal of the Founder Apabi business in late 2007, the Group has been able to allocate more resources for new product development and marketing effort for its traditional graphic arts and e-publishing business.

Management Discussion and Analysis

The Group's first own developed and advanced technology computer-to-plate CTP product, Founder Diaolong (方正雕龍) has received wide support and strong demand from both domestic and overseas market. The continued development of the CTP product will not only enable the Group to integrate vertically as a software and hardware developer but also horizontally as a system integrator and service provider. The Group envisages that the demand for fast, efficient and cost-effective printing process will continue to grow in the future, therefore the continued development of the Group's CTP products and its related graphic arts and e-publishing software solutions for the needs of newspaper and publishing houses will bring the Group into another thriving era in the printing industry.

On 12 June 2008, the Group's software development arm, Beijing Founder Electronics Co., Ltd., was awarded by China Information World (中國計算機報) as China's most technologically innovative software developer since the "Thirty Years of Reform and Opening-Up" (改革開放三十周年中國軟件行業最佳技術創新獎) and its flagship product, Founder FIT 5.0 (方正飛騰創藝5.0) was awarded China's most reliable software product in the tools software category (中國軟件行業最值得信賴產品—工具軟件信賴產品).

(B) Software development and systems integration for non-media sector ("Non-Media Business")

The turnover of the Non-Media Business for the current financial year increased by 136.0% to approximately HK\$256.8 million (six months ended 30 June 2007: HK\$108.8 million) while its segment results has recorded a loss of approximately HK\$2.7 million (six months ended 30 June 2007: segment loss of HK\$14.3 million).

The segment loss for the Non-Media Business narrowed significantly because of management's continued effort to streamline the operation and opening up new customer channel. During the current interim period, the Non-Media Business was mainly focused on the systems integration business for the finance and securities industries and the government bureaus in China. The major products and services provided 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.

Prospects

Facing the trend of globalisation and the new demands in the publishing sector and system integration business, the Group is set to continue its focus in technological innovation by bringing a full range of technologies to address the business development needs of its customer base in this "electronics age" and the Group is also dedicated to the continued development of the digital information production and communication. To broaden its income base and mitigate the seasonality characteristics of the software business in China, the Group will continue to expand its product range and depth to create a more stable and sustainable customer base and demand.

Management Discussion and Analysis

Financial Review

Liquidity, financial resources and capital commitments

During the Period, the Group generally financed its operations with internally generated resources and banking facilities provided by its principal bankers in Hong Kong and the PRC. As at 30 June 2008, the Group had approximately HK\$22.0 million interest-bearing bank borrowings (31 December 2007: HK\$10.7 million), which were floating interest bearing and denominated in Renminbi ("RMB") and United States Dollars ("U.S. Dollars") with maturity within one year. The Group's banking facilities were secured by corporate guarantees given by the Company and Peking University Founder Group Company Limited, certain of the Group's land and buildings and investment properties and bank deposits.

At 30 June 2008, the Group recorded total assets of HK\$1,035.2 million which were financed by liabilities of HK\$647 million, minority interests of HK\$6.2 million and equity of HK\$382.0 million. The Group's net asset value per share as at 30 June 2008 amounted to HK\$0.34 (31 December 2007: HK\$0.33).

The Group had a total cash and bank balances of HK\$167.1 million as at 30 June 2008. After deducting total bank borrowings of HK\$22.0 million, the Group recorded net cash and bank balances of HK\$145.1 million as at 30 June 2008 as compared to HK\$329.6 million as at 31 December 2007. The Group's borrowings, which are subject to little seasonality, consist of mainly short term bank loan and trust receipt loans. As at 30 June 2008, the Group's gearing ratio, measured on the basis of total borrowings as a percentage of total shareholders' equity, was 0.06 (31 December 2007: 0.03) while the Group's working capital ratio was 1.28 (31 December 2007: 1.39).

At 30 June 2008 and 31 December 2007, 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, RMB and U.S. Dollars. Surplus cash is generally placed in short term deposits denominated in Hong Kong Dollars, RMB and U.S. Dollars.

Exposure to fluctuations in exchange rates and related hedges

The Group mainly operates in the PRC, so most of its revenue and expenses are measured in RMB. The value of RMB against U.S. Dollar and currencies may fluctuate and is affected by, among other things, changes in China's political and economic conditions. The conversion of RMB into foreign currencies, including U.S. Dollars and Hong Kong Dollars, has been based on rates set by the People's Bank of China.

In the first half of 2008, though the exchange rates of RMB to U.S. Dollars and Hong Kong Dollars kept on increasing, the directors expect that any fluctuation of RMB's exchange rate will not have material adverse effect on the operation of the Group, therefore, no financial instruments have been used for hedging purposes.

Management Discussion and Analysis

Contracts

At 30 June 2008, the major contracts in hand for the software development and systems integration business amounted to approximately HK\$483.0 million (31 December 2007: HK\$379.6 million).

Charges on assets

At 30 June 2008, certain of the Group's land and buildings in Hong Kong of approximately HK\$31.2 million and investment properties of approximately HK\$27.3 million and bank deposits of approximately HK\$20.9 million were pledged to banks to secure banking facilities granted.

Contingent liabilities

At 30 June 2008, 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 scheme 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 2008, the Group had 1,336 employees (31 December 2007: 1,327).

Condensed Consolidated Income Statement

For the six months ended 30 June 2008

		For the six months ended 30 June	
		2008	2007
		(Unaudited)	(Unaudited)
	Notes	HK\$'000	HK\$'000
REVENUE	2	477,224	279,879
Cost of sales		<u>(367,745)</u>	<u>(210,372)</u>
Gross profit		109,479	69,507
Other income and gains	3	17,657	18,777
Selling and distribution costs		(69,394)	(75,215)
Administrative expenses		(30,420)	(40,809)
Other expenses, net		(42,455)	(27,151)
Finance costs	4	(1,180)	(121)
Share of profits and losses of associates		<u>11,165</u>	<u>3,928</u>
LOSS BEFORE TAX	5	(5,148)	(51,084)
Tax	6	<u>(198)</u>	<u>(64)</u>
LOSS FOR THE PERIOD		<u>(5,346)</u>	<u>(51,148)</u>
Attributable to:			
Equity holders of the parent		(5,459)	(51,193)
Minority interests		<u>113</u>	<u>45</u>
		<u>(5,346)</u>	<u>(51,148)</u>
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
– BASIC	7	<u>(0.48 cents)</u>	<u>(4.56 cents)</u>

Condensed Consolidated Balance Sheet

30 June 2008

	<i>Notes</i>	30 June 2008 (Unaudited) HK\$'000	31 December 2007 (Audited) HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment		62,760	60,468
Investment properties		27,785	27,785
Interests in associates		119,052	99,111
Total non-current assets		209,597	187,364
CURRENT ASSETS			
Inventories		32,092	36,606
Systems integration contracts		186,289	106,907
Trade and bills receivables	9	236,786	132,935
Prepayments, deposits and other receivables		200,841	54,386
Equity investments at fair value through profit or loss		2,483	2,072
Pledged deposits		20,880	25,431
Cash and cash equivalents		146,193	314,888
Total current assets		825,564	673,225
CURRENT LIABILITIES			
Trade and bills payables	10	251,262	123,785
Other payables and accruals		373,734	348,270
Interest-bearing bank borrowings		22,014	10,670
Tax payable		-	44
Total current liabilities		647,010	482,769
NET CURRENT ASSETS		178,554	190,456
Net assets		388,151	377,820
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital		113,030	113,030
Reserves		268,968	258,769
		381,998	371,799
Minority interests		6,153	6,021
Total equity		388,151	377,820

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2008

	Attributable to equity holders of the parent										
	Issued capital	Share premium account	Contributed surplus	Capital reserve	Land and buildings revaluation reserve	Exchange fluctuation reserve	General reserve	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 2008	113,030	32,470	867,910	3,685	3,931	23,517	45,323	(718,067)	371,799	6,021	377,820
Exchange realignment	-	-	-	-	-	15,658	-	-	15,658	19	15,677
Total income recognised directly in equity	-	-	-	-	-	15,658	-	-	15,658	19	15,677
Loss for the period	-	-	-	-	-	-	-	(5,459)	(5,459)	113	(5,346)
Total income and expense for the period	-	-	-	-	-	15,658	-	(5,459)	10,199	132	10,331
At 30 June 2008	113,030	32,470	867,910	3,685	3,931	39,175	45,323	(723,526)	381,998	6,153	388,151
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

Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2008

	For the six months ended	
	30 June	
	2008	2007
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	(196,849)	(31,017)
NET CASH INFLOW/(OUTFLOW) FROM INVESTING ACTIVITIES	(1,264)	33,903
NET CASH INFLOW FROM FINANCING ACTIVITIES	<u>11,344</u>	<u>10,624</u>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(186,769)	13,510
Cash and cash equivalents at beginning of period	314,124	168,174
Effect of foreign exchange rate changes, net	<u>18,838</u>	<u>4,956</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>146,193</u>	<u>186,640</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	114,027	136,733
Non-pledged time deposits with original maturity of less than three months when acquired	<u>32,166</u>	<u>49,907</u>
	<u>146,193</u>	<u>186,640</u>

Notes to Condensed Consolidated Interim Financial Statements

30 June 2008

1. Accounting Policies

These 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 consistent with those used in the annual financial statements for the year ended 31 December 2007, 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:

HK(IFRIC)-Int 11	<i>HKFRS 2 – Group and Treasury Share Transactions</i>
HK(IFRIC)-Int 12	<i>Service Concession Arrangements</i>
HK(IFRIC)-Int 14	<i>HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction</i>

HK(IFRIC)-Int 11 requires arrangements whereby an employee is granted rights to the Group’s equity instruments, to be accounted for as an equity-settled scheme, even if the Group acquires the instruments from another party, or the shareholders provide the equity instruments needed. HK(IFRIC)-Int 11 also addresses the accounting for share-based payment transactions involving two or more entities within the Group.

HK(IFRIC)-Int 12 requires an operator under public-to-private service concession arrangements to recognise the consideration received or receivable in exchange for the construction services as a financial asset and/or an intangible asset, based on the terms of the contractual arrangements. HK(IFRIC)-Int 12 also addresses how an operator shall apply existing HKFRSs to account for the obligations and the rights arising from service concession arrangements by which a government or a public sector entity grants a contract for the construction of infrastructure used to provide public services and/or for the supply of public services.

HK(IFRIC)-Int 14 addresses how to assess the limit under HKAS 19 *Employee Benefits*, on the amount of a refund or a reduction in future contributions in relation to a defined benefit scheme that can be recognised as an asset, in particular, when a minimum funding requirement exists.

The adoption of the above new and revised HKFRSs has no material impact on the Group’s results of operations and financial position.

Notes to Condensed Consolidated Interim Financial Statements

30 June 2008

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 2008 and 2007.

	Software development and systems integration for media business		Software development and systems integration for non-media business		Corporate		Others		Eliminations		Consolidated	
	2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000
Segment revenue:												
Sales to external customers	218,075	168,311	256,799	108,821	-	-	2,350	2,747	-	-	477,224	279,879
Intersegment sales	9,548	-	2,742	-	-	-	-	-	(12,290)	-	-	-
Other income	14,124	13,887	935	1,127	1,327	1,477	42	99	-	-	16,428	16,590
Total	241,747	182,198	260,476	109,948	1,327	1,477	2,392	2,846	(12,290)	-	493,652	296,469
Segments results	(8,137)	(37,370)	(2,705)	(14,289)	(5,542)	(5,511)	22	92			(16,362)	(57,078)
Interest income and unallocated gains											1,229	2,187
Finance costs											(1,180)	(121)
Share of profits and losses of associates											11,165	3,928
Loss before tax											(5,148)	(51,084)
Tax											(198)	(64)
Loss for the period											(5,346)	(51,148)

Notes to Condensed Consolidated Interim Financial Statements

30 June 2008

3. Other Income and Gains

	For the six months ended 30 June	
	2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000
Bank interest income	977	1,809
Gross rental income	638	623
Government grants	14,607	14,438
Foreign exchange differences, net	252	378
Others	1,183	1,529
	<u>17,657</u>	<u>18,777</u>

4. Finance Costs

	For the six months ended 30 June	
	2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000
Interest on bank loans and overdrafts	<u>1,180</u>	<u>121</u>

5. Loss Before Tax

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

	For the six months ended 30 June	
	2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000
Depreciation	4,605	6,500
Loss on disposal of items of property, plant and equipment	-	14
Impairment of trade receivables	7,115	2,857
Provision and write-off of obsolete inventories	<u>3,500</u>	<u>4,135</u>

Notes to Condensed Consolidated Interim Financial Statements

30 June 2008

6. Tax

	For the six months ended 30 June	
	2008	2007
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Current – Elsewhere	<u>198</u>	<u>64</u>

No provision for Hong Kong profits tax has been made as the relevant subsidiaries either did not generate any assessable profits arising in Hong Kong during the period or have available tax losses brought forward from prior years to offset the assessable profits generated during the period (2007: Nil).

Taxes on profits assessable elsewhere have been calculated at the applicable rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

The corporate income tax provision in the People's Republic of China (the "PRC") in respect of operations in the PRC was calculated at the applicable tax rates on the estimated assessable profits for the period based on the existing legislation, interpretations and practices in respect thereof. Pursuant to the PRC Corporate Income Tax Law passed by the 10th National People's Congress on 16 March 2007, the new corporate income taxes for domestic and foreign enterprises are unified at 25%, which is effective from 1 January 2008. As a result, the corporate income tax rate of the PRC subsidiaries of the Group has changed to 25% with effect from 1 January 2008.

The share of tax attributable to associates amounting to approximately HK\$2,317,000 (2007: HK\$979,000) 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\$5,459,000 (2007: HK\$51,193,000), and the weighted average number of approximately 1,130,300,000 (2007: 1,123,800,000) ordinary shares in issue during the period.

Diluted loss per share for the six months ended 30 June 2008 and 2007 have not been calculated as the exercise price of the outstanding share options during the period was higher than the average market price of the Company's shares during the periods.

8. Interim Dividend

The directors does not recommend the payment of any interim dividend for the six months ended 30 June 2008 (2007: Nil).

Notes to Condensed Consolidated Interim Financial Statements

30 June 2008

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 as at the balance sheet date, based on the invoice date and net of provisions, is as follows:

	30 June 2008 (Unaudited) HK\$'000	31 December 2007 (Audited) HK\$'000
Within 6 months	178,872	107,298
7-12 months	46,428	13,619
13-24 months	10,086	9,749
Over 24 months	1,400	2,269
	<u>236,786</u>	<u>132,935</u>

Included in the Group's trade and bills receivables are amounts due from the Group's related companies and associates of approximately HK\$849,000 (31 December 2007: HK\$2,924,000) and HK\$3,146,000 (31 December 2007: HK\$2,088,000), 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, based on the invoice date, is as follows:

	30 June 2008 (Unaudited) HK\$'000	31 December 2007 (Audited) HK\$'000
Within 6 months	215,897	96,780
7-12 months	23,527	19,616
13-24 months	9,266	4,204
Over 24 months	2,572	3,185
	<u>251,262</u>	<u>123,785</u>

Included in the Group's trade and bills payables are amounts due to the Group's related companies and associates of approximately HK\$18,875,000 (31 December 2007: HK\$3,581,000) and HK\$72,497,000 (31 December 2007: HK\$7,778,000), respectively, which are repayable on similar credit terms to those obtained from major suppliers of the Group.

The trade payables are non-interest-bearing and are normally settled on terms of 15 to 90 days.

Notes to Condensed Consolidated Interim Financial Statements

30 June 2008

11. Related Party Transactions

(I) Transactions with related parties

- (a) On 16 October 2007, Founder (Hong Kong) Limited entered into a conditional sale and purchase agreement with Founder Information (Hong Kong) Limited, a subsidiary 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, to dispose of its entire equity interests in Founder Apabi International Limited ("Founder Apabi") at a cash consideration of HK\$27.2 million. The disposal was completed on 30 November 2007.

On 5 November 2007, a master agreement in relation to sales of information products by the Group to Peking Founder and its subsidiaries ("Peking Founder Group") (the "Master Sales Agreement") and a master agreement in relation to purchase of media products by the Group from Peking Founder Group were entered into between Peking Founder and the Company in order to govern and specify the terms adopted and the annual cap for the total amount of the ongoing sales and purchases of media products and information products between the Group and Peking Founder Group for the three years ending 31 December 2009.

During the period, sales of information products of approximately HK\$37,000 (six months ended 30 June 2007: Nil) to Founder Apabi were made by the Group. The directors consider that the sale of products were made in accordance with the Master Sales Agreement.

- (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 for a total floor area of 2,643.07 square metres. On 14 March 2006, Beijing Founder Order Computer System Co., Ltd. ("Founder Order"), a wholly-owned PRC subsidiary of the Company, entered into a supplemental agreement with Peking Founder, with effect from 1 April 2006, to reduce the total area of 240.45 square metres of the leased premises to 2,402.62 square metres.

On 1 January 2007, Founder Order entered into a new lease agreement with a subsidiary of Peking Founder, effective from 1 January 2007 to 31 December 2007, to further reduce the total floor area to 1,210 square metres of the leased premises and revise the unit rental (inclusive of management fee) from RMB4.00 per square metre per day to RMB2.16 per square metre per day. The lease agreement was renewed on 11 April 2008 under substantially the same terms and conditions for a term of one year from 1 January 2008 to 31 December 2008. Further details of the transaction were set out in the announcement of the Company dated 17 April 2008.

During the period, rental and management fee expenses of approximately HK\$5,626,000 (six months ended 30 June 2007: HK\$5,523,000) were paid by the Group to Peking Founder. The directors consider that the rental and management fee expenses were paid in accordance with the terms of the lease agreements.

* For identification only

Notes to Condensed Consolidated Interim Financial Statements

30 June 2008

11. Related Party Transactions *(Continued)*

(1) Transactions with related parties (Continued)

- (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, sales of products and provision of product related services in aggregate amount of approximately HK\$1,741,000 (six months ended 30 June 2007: HK\$2,214,000) to the related company were made by the Group. The directors consider that the sale of products and provision of services were made in accordance with the terms of the Japan Software Agreement.

- (d) Since Founder Order holds a valid quality assurance certificate for provision of certain prescribed software development and systems integration services, Founder Order agreed to allow a company (in which 11.93% equity interests was held by Peking Founder and its subsidiary and one director of the Company was director), and a subsidiary of Peking Founder, to participate in public tenders in the capacity of Founder Order subject to the terms and conditions under the relevant agency agreements. Having succeeded in securing a contract in a public tender, Founder Order will enter into the sale contracts with the relevant independent third party in connection with provision of software development and systems integration services. During the period, agency fees of approximately HK\$10,000 (six months ended 30 June 2007: HK\$542,000) and HK\$32,000 (six months ended 30 June 2007: Nil) were received from the company (in which 11.93% equity interests were held by Peking Founder and its subsidiary and one director of the Company was director), and a subsidiary of Peking Founder, respectively. The directors consider the agency fees were made in accordance with the terms of agency agreements.
- (e) On 5 January 2006, the Company entered into a master agreement with EC-Founder (Holdings) Company Limited ("EC-Founder"), an associate of the Company, 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\$76,005,000 (six months ended 30 June 2007: HK\$33,964,000) were purchased from EC-Founder Group.

Notes to Condensed Consolidated Interim Financial Statements

30 June 2008

11. Related Party Transactions *(Continued)*

(I) Transactions with related parties (Continued)

- (f) On 31 October 2005, Founder Order entered into a software development agreement with Beijing Founder International Co., Limited ("Beijing Founder International"), a subsidiary of Peking Founder, to engage Beijing Founder International for the development of a software at a consideration of RMB10 million (equivalent to approximately HK\$10.67 million) for an automatic fare collection system (the "AFC System Project").

In April 2007, Founder Order purchased certain software from Beijing Founder International at a consideration of approximately RMB0.66 million (equivalent to approximately HK\$0.67 million). The purchase of goods was conducted on the basis of rates agreed between Founder Order and Beijing Founder International.

On 11 January 2008, Founder Order entered into the software development agreement with Beijing Founder International in respect of certain software development work for the AFC System Project at a consideration of approximately RMB13.56 million (equivalent to approximately HK\$14.46 million). Further details of the transaction were set out in the announcement dated 15 January 2008.

During the period, software of approximately HK\$12,437,000 (six months ended 30 June 2007: Nil) were purchased from Beijing Founder International.

- (g) The banking facilities guarantees given by Peking Founder to PRC banks for the credit facilities granted to subsidiaries of the Company at 30 June 2008 of approximately HK\$159,600,000 (31 December 2007 : HK\$99,700,000) were utilised to the extent of approximately HK\$11,400,000 (31 December 2007: HK\$15,927,000).

(II) Outstanding balances with related parties

- (a) The balances due from subsidiaries of Peking Founder included in prepayments, deposits and other receivables as at 30 June 2008 are approximately HK\$38,440,000 (31 December 2007: HK\$1,276,000). The balances due to Peking Founder and its subsidiaries included in other payables and accruals as at 30 June 2008 are approximately HK\$11,192,000 (31 December 2007: HK\$1,532,000). The balance due from associate of Peking Founder included in prepayments, deposits and other receivables as at 30 June 2008 is approximately HK\$2,168,000 (31 December 2007: Nil). The balances are unsecured, interest-free and have no fixed terms of repayment.

Notes to Condensed Consolidated Interim Financial Statements

30 June 2008

11. Related Party Transactions *(Continued)*

(II) Outstanding balances with related parties (Continued)

- (b) The balances due to a company (in which 11.39% equity interests was held by Peking Founder and its subsidiary and one director of the Company was director) and its subsidiaries included in other payables and accruals as at 30 June 2008 are approximately HK\$11,422,000 (31 December 2007: HK\$9,816,000). The balance due from this related company included in prepayments, deposits and other receivables as at 30 June 2008 is approximately HK\$1,216,000 (31 December 2007: HK\$607,000). The balances are unsecured, interest-free and have no fixed terms of repayment.
- (c) The balance due to Beijing Founder International included in other payables and accruals as at 30 June 2008 is approximately HK\$4,140,000 (31 December 2007: HK\$2,333,000). The balance is unsecured, interest-free and has no fixed terms of repayment.
- (d) The balances due from associates of the Company included in prepayments, deposits and other receivables as at 30 June 2008 are approximately HK\$7,013,000 (31 December 2007: Nil). The balances are unsecured, interest-free and have no fixed terms of repayment.
- (e) 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

In the opinion of the directors, the directors of the Company represented the key management personnel of the Group. Compensation paid to directors during the period is as follows:

	For the six months ended 30 June	
	2008	2007
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Directors' fee, salaries, allowances and benefits in kind	663	682
Pension schemes contributions	33	30
Total compensation paid to key management personnel	696	712

12. Contingent Liabilities

The Group did not have any significant contingent liabilities as at 30 June 2008 (31 December 2007: Nil).

Other Information

Directors' Interests and Short Positions in Shares and Underlying Shares

At 30 June 2008, 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 2008 and 30 June 2008	Date of grant of share options	Exercise period of share options	Exercise price of share options <i>HK\$</i> <i>per share</i>
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 2008, none of the directors had registered an interest or short position in the shares or underlying shares of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Other Information

Directors' Rights to Acquire Shares

Save as disclosed under the section "Directors' interests 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.

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 2008 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\$ per share
	At 1 January 2008	Lapsed during the period	At 30 June 2008			
Directors						
Professor Xiao Jian Guo	8,000,000	-	8,000,000	5.2.2004	6.2.2004 to 4.2.2014	1.104
Professor Wei Xin	8,000,000	-	8,000,000	5.2.2004	6.2.2004 to 4.2.2014	1.104
Mr Zhang Zhao Dong	8,000,000	-	8,000,000	5.2.2004	6.2.2004 to 4.2.2014	1.104
Subtotal	<u>24,000,000</u>	<u>-</u>	<u>24,000,000</u>			
Other employees						
In aggregate	8,000,000	-	8,000,000	5.2.2004	6.2.2004 to 4.2.2014	1.104
In aggregate	19,000,000	(13,000,000)	6,000,000	2.1.2004	3.1.2004 to 31.12.2013	0.840
Subtotal	<u>27,000,000</u>	<u>(13,000,000)</u>	<u>14,000,000</u>			
Total	<u>51,000,000</u>	<u>(13,000,000)</u>	<u>38,000,000</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.

Substantial Shareholders' and Other Persons' Interests In Shares

At 30 June 2008, 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	32.49
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>32.49</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 2008, 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.

Corporate Governance

None of the directors of the Company is aware of any information which would reasonably indicate that the Company has not, throughout the six months ended 30 June 2008, complied with the code provisions of the Code of Corporate Governance Practices as set out in Appendix 14 to the Listing Rules.

Model Code for Securities Transactions by Directors of The Company

The Company has adopted a model code of conduct regarding securities transactions by directors of the Company on terms no less exacting than the required standard as set out in the Model Code as set out in Appendix 10 of the Listing Rules.

Audit Committee

The Audit Committee has reviewed the Group's condensed consolidated interim financial statements for six months ended 30 June 2008, including the accounting principles adopted by the Group, with the Company's management.

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

Hong Kong
26 September 2008