



INTERIM REPORT 2011



EC-FOUNDER (HOLDINGS) COMPANY LIMITED

方正數碼(控股)有限公司

(Incorporated in Bermuda with limited liability)

Stock Code: 00618

Contents

	Pages
Corporate Information	2
Condensed Consolidated Income Statement	3
Condensed Consolidated Statement of Comprehensive Income	4
Condensed Consolidated Statement of Financial Position	5
Condensed Consolidated Statement of Changes in Equity	6
Condensed Consolidated Statement of Cash Flows	7
Notes to Condensed Consolidated Interim Financial Statements	8-16
Management Discussion and Analysis	17-21
Other Information	22-26

Corporate Information

BOARD OF DIRECTORS

Executive directors

Mr Zhang Zhao Dong (*Chairman*)
Mr Chen Geng (*President*)
Mr Xia Yang Jun
Mr Xie Ke Hai
Mr Zheng Fu Shuang

Independent non-executive directors

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

COMMITTEES

Audit Committee

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

Remuneration Committee

Mr Chen Geng (*Chairman*)
Mr Li Fat Chung
Ms Wong Lam Kit Yee

COMPANY SECRETARY

Ms Tang Yuk Bo, Yvonne

AUTHORISED REPRESENTATIVES

Mr Zhang Zhao Dong
Mr Chen Geng

AUDITORS

Ernst & Young
Certified Public Accountants

LEGAL ADVISERS

DLA Piper Hong Kong
Morrison & Foerster

PRINCIPAL BANKERS

Bank of Tianjin
China Everbright Bank
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 Fulcrum Group (Bermuda) Limited
Rosebank Centre
11 Bermudiana Road
Pembroke HM08
Bermuda

Hong Kong branch share registrars and transfer office

Tricor Tengis Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Hong Kong

LISTING INFORMATION

Main board of The Stock Exchange of Hong Kong Limited
Stock code: 00618
Board Lot: 2,000 shares

COMPANY WEBSITES

www.ecfounder.com.hk
www.irasia.com/listco/hk/ecfounder

INTERIM RESULTS

The board of directors (the "Board") of EC-Founder (Holdings) Company Limited (the "Company") is pleased to present the unaudited condensed consolidated interim financial statements of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 June 2011, together with the comparative figures for the corresponding period in 2010. These condensed consolidated interim financial statements have not been audited, but have been reviewed by the Company's audit committee.

Condensed Consolidated Income Statement

For the six months ended 30 June 2011

	Notes	For the six months ended 30 June	
		2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
REVENUE		2,522,773	2,090,516
Cost of sales		<u>(2,387,970)</u>	<u>(1,998,961)</u>
Gross profit		134,803	91,555
Other income and gains	3	10,467	4,304
Selling and distribution costs		(67,817)	(51,710)
Administrative expenses		(56,234)	(34,554)
Other operating income/(expenses), net		362	(3,377)
Finance costs	4	(14,268)	(1,677)
Share of profits and losses of associates		<u>(4,526)</u>	<u>(589)</u>
PROFIT BEFORE TAX	5	2,787	3,952
Income tax expense	6	<u>(4,614)</u>	<u>(1,675)</u>
PROFIT/(LOSS) FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE PARENT		<u>(1,827)</u>	<u>2,277</u>
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	7		
Basic		<u>HK(0.17) cents</u>	<u>HK0.21 cents</u>
Diluted		<u>HK(0.17) cents</u>	<u>HK0.20 cents</u>

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2011

	For the six months ended 30 June	
	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
Profit/(loss) for the period	(1,827)	2,277
Exchange differences on translation of foreign operations	<u>1,667</u>	<u>1,134</u>
Other comprehensive income for the period, net of tax	<u>1,667</u>	<u>1,134</u>
Total comprehensive income/(loss) for the period	<u>(160)</u>	<u>3,411</u>
Attributable to:		
Owners of the parent	<u>(160)</u>	<u>3,411</u>

Condensed Consolidated Statement of Financial Position

30 June 2011

	<i>Notes</i>	30 June 2011 (Unaudited) <i>HK\$'000</i>	31 December 2010 (Audited) <i>HK\$'000</i>
NON-CURRENT ASSETS			
Property, plant and equipment		7,740	6,913
Goodwill		2,892	2,892
Investments in associates		<u>34,171</u>	<u>40,073</u>
Total non-current assets		<u>44,803</u>	<u>49,878</u>
CURRENT ASSETS			
Inventories		446,671	544,925
Trade and bills receivables	9	780,777	666,076
Prepayments, deposits and other receivables		523,546	179,281
Tax recoverable		-	14
Pledged deposits	10	205,789	189,021
Cash and cash equivalents		<u>389,448</u>	<u>500,832</u>
Total current assets		<u>2,346,231</u>	<u>2,080,149</u>
CURRENT LIABILITIES			
Trade and bills payables	11	1,330,151	1,447,179
Other payables and accruals		183,568	227,134
Interest-bearing bank borrowings		526,176	106,225
Tax payable		<u>3,177</u>	<u>1,367</u>
Total current liabilities		<u>2,043,072</u>	<u>1,781,905</u>
NET CURRENT ASSETS		<u>303,159</u>	<u>298,244</u>
Net assets		<u>347,962</u>	<u>348,122</u>
EQUITY			
Issued capital		110,606	110,606
Reserves		<u>237,356</u>	<u>237,516</u>
Total equity		<u>347,962</u>	<u>348,122</u>

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2011

	Attributable to owners of the parent						
	Issued capital	Share premium account	Contributed surplus	Exchange fluctuation reserve	General reserve	Accumulated losses	Total equity
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2011	110,606	156,019	520,156	41,057	10,505	(490,221)	348,122
Loss for the period	-	-	-	-	-	(1,827)	(1,827)
Other comprehensive income for the period :							
Exchange differences on translation of foreign operations	-	-	-	1,667	-	-	1,667
Total comprehensive income/(loss) for the period	-	-	-	1,667	-	(1,827)	(160)
At 30 June 2011	110,606	156,019*	520,156*	42,724*	10,505*	(492,048)*	347,962
At 1 January 2010	110,606	156,019	520,156	29,228	9,019	(504,498)	320,530
Profit for the period	-	-	-	-	-	2,277	2,277
Other comprehensive income for the period :							
Exchange differences on translation of foreign operations	-	-	-	1,134	-	-	1,134
Total comprehensive income for the period	-	-	-	1,134	-	2,277	3,411
At 30 June 2010	110,606	156,019	520,156	30,362	9,019	(502,221)	323,941

* These reserve accounts comprise the consolidated reserves of HK\$237,356,000 (31 December 2010: HK\$237,516,000) in the condensed consolidated statement of financial position.

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2011

	For the six months ended 30 June	
	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
NET CASH FLOWS USED IN OPERATING ACTIVITIES	(323,454)	(161,007)
NET CASH FLOWS USED IN INVESTING ACTIVITIES	(216,940)	(47,225)
NET CASH FLOWS FROM FINANCING ACTIVITIES	<u>418,635</u>	<u>70,804</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(121,759)	(137,428)
Cash and cash equivalents at beginning of period	489,062	407,680
Effect of foreign exchange rate changes, net	<u>10,095</u>	<u>4,664</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>377,398</u>	<u>274,916</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	377,398	274,916
Non-pledged time deposits	<u>12,050</u>	<u>11,390</u>
Cash and cash equivalents as stated in the condensed consolidated statement of financial position	389,448	286,306
Non-pledged time deposits with original maturity of over three months when acquired	<u>(12,050)</u>	<u>(11,390)</u>
Cash and cash equivalents as stated in the condensed consolidated statement of cash flows	<u>377,398</u>	<u>274,916</u>

Notes to Condensed Consolidated Interim Financial Statements

30 June 2011

1. ACCOUNTING POLICIES

These unaudited condensed consolidated interim financial statements for the six months ended 30 June 2011 have been 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 2010, 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:

HKFRS 1 Amendment	Amendment to HKFRS 1 <i>First-time Adoption of Hong Kong Financial Reporting Standards – Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters</i>
HKAS 24 (Revised)	<i>Related Party Disclosures</i>
HKAS 32 Amendment	Amendment to HKAS 32 <i>Financial Instruments: Presentation – Classification of Rights Issues</i>
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 <i>Prepayments of a Minimum Funding Requirement</i>
HK(IFRIC)-Int 19	<i>Extinguishing Financial Liabilities with Equity Instruments</i>
<i>Improvements to HKFRSs 2010</i>	Amendments to a number of HKFRSs issued in May 2010

Other than as further explained below regarding the impact of amendments to HKAS 1 and HKAS 27 included in *Improvements to HKFRSs 2010*, the adoption of the new and revised HKFRSs has had no significant financial effect on these financial statements.

The principal effects of adopting these new and revised HKFRSs are as follows:

Improvements to HKFRSs 2010 issued in May 2010 sets out amendments to a number of HKFRSs. There are separate transitional provisions for each standard. While the adoption of some of the amendments results in changes in accounting policies, none of these amendments has had a significant financial impact on the Group. Details of the key amendments most applicable to the Group are as follows:

- (a) HKAS 1 *Presentation of Financial Statements*: Clarifies that an analysis of other comprehensive income for each component of equity can be presented either in the statement of changes in equity or in the notes to the financial statements.
- (b) HKAS 27 *Consolidated and Separate Financial Statements*: Clarifies that the consequential amendments from HKAS 27 (as revised in 2008) made to HKAS 21, HKAS 28 and HKAS 31 shall be applied prospectively for annual periods beginning on or after 1 July 2009 or earlier if HKAS 27 is applied earlier.

Notes to Condensed Consolidated Interim Financial Statements

30 June 2011

2. OPERATING SEGMENT INFORMATION

From management purpose, the Group has only one operating segment which is the distribution of information products. Since this is the only operating segment of the Group, no further operating segment analysis thereof is presented.

3. OTHER INCOME AND GAINS

	For the six months ended 30 June	
	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
Bank interest income	3,048	3,349
Other interest income	5,858	442
Others	1,561	513
	<u>10,467</u>	<u>4,304</u>

4. FINANCE COSTS

	For the six months ended 30 June	
	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
Interest on bank loans	<u>14,268</u>	<u>1,677</u>

Notes to Condensed Consolidated Interim Financial Statements

30 June 2011

5. PROFIT BEFORE TAX

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

	For the six months ended 30 June	
	2011	2010
	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Depreciation	1,305	989
Impairment/[(reversal of impairment)] of trade receivables	(704)	2,394
Provision for obsolete inventories	<u>9,893</u>	<u>2,219</u>

6. INCOME TAX

	For the six months ended 30 June	
	2011	2010
	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current – The People's Republic of China (the "PRC")	<u>4,614</u>	<u>1,675</u>

No provision for Hong Kong profits tax has been made as there were no assessable profits arising in Hong Kong during the period (six months ended 30 June 2010: Nil).

Under the PRC income tax laws, enterprises are subject to corporate income tax at a rate of 25%.

The share of tax attributable to associates amounting to approximately HK\$1,031,000 (six months ended 30 June 2010: HK\$448,000) is included in "Share of profits and losses of associates" in the condensed consolidated income statement.

Notes to Condensed Consolidated Interim Financial Statements

30 June 2011

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

The calculation of basic earnings/(loss) per share amounts for the six months ended 30 June 2011 is based on the loss for the period attributable to ordinary equity holders of the parent of approximately HK\$1,827,000 (six months ended 30 June 2010: a profit of HK\$2,277,000), and the weighted average number of ordinary shares of 1,106,062,040 (six months ended 30 June 2010: 1,106,062,040) in issue during the period.

The calculation of diluted earnings/(loss) per share amounts for the six months ended 30 June 2011 is based on the loss for the period attributable to ordinary equity holders of the parent of approximately HK\$1,827,000 (six months ended 30 June 2010: a profit of HK\$2,277,000) and ordinary shares of 1,106,958,438 (six months ended 30 June 2010: 1,113,016,388), which was the weighted average number of ordinary shares of 1,106,062,040 (six months ended 30 June 2010: 1,106,062,040) in issue during the period and the weighted average number of ordinary shares of 896,398 (six months ended 30 June 2010: 6,954,348) deemed to have been issued at no consideration on the deemed exercise of all outstanding share options during the period.

8. INTERIM DIVIDEND

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2011 (six months ended 30 June 2010: 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. 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.

Notes to Condensed Consolidated Interim Financial Statements

30 June 2011

9. TRADE AND BILLS RECEIVABLES *(continued)*

An aged analysis of the Group's trade and bills receivables as at the end of the reporting period, based on the invoice date and net of provisions, is as follows:

	30 June 2011 (Unaudited) HK\$'000	31 December 2010 (Audited) HK\$'000
Within 6 months	706,310	628,701
6 to 12 months	57,388	23,259
Over 12 months	<u>17,079</u>	<u>14,116</u>
	<u>780,777</u>	<u>666,076</u>

Included in the Group's trade and bills receivables are amounts due from related companies of approximately HK\$217,136,000 (31 December 2010: HK\$84,880,000), which are repayable on similar credit terms to those offered to the major customers of the Group.

10. PLEDGED DEPOSITS

The Group's bank deposits were pledged to banks to secure the banking facilities granted to the Group. The pledged deposits are deposited with creditworthy banks with no recent history of default. The carrying amounts of the pledged deposits approximate to their fair values.

11. TRADE AND BILLS PAYABLES

An aged analysis of the Group's trade and bills payables as at the end of the reporting period, based on the invoice date, is as follows:

	30 June 2011 (Unaudited) HK\$'000	31 December 2010 (Audited) HK\$'000
Within 6 months	1,323,113	1,439,973
Over 6 months	<u>7,038</u>	<u>7,206</u>
	<u>1,330,151</u>	<u>1,447,179</u>

Included in the Group's trade and bills payables are amounts due to related companies of approximately HK\$23,545,000 (31 December 2010: HK\$85,614,000), which are repayable on similar credit terms to those offered by the related companies to their major customers.

Notes to Condensed Consolidated Interim Financial Statements

30 June 2011

12. RELATED PARTY TRANSACTIONS

(I) Transactions with related parties

In addition to the related party transactions and balances disclosed elsewhere in these condensed consolidated interim financial statements, the Group had the following material transactions with related parties during the period:

- (a) On 13 November 2008, Beijing Founder Century Information System Co., Ltd. ("PRC Century"), a wholly-owned subsidiary of the Company, entered into two lease agreements with a subsidiary of 北大方正集團有限公司 (Peking University Founder Group Company Limited*) ("Peking Founder") to lease office premises in Beijing, the PRC, effective from 1 January 2009 to 31 December 2011.

During the period, rental and management fee expenses of approximately HK\$1,035,000 (six months ended 30 June 2010: HK\$2,772,000) were paid by PRC Century to a subsidiary of Peking Founder. The directors considered that the rental and management fee expenses were paid in accordance with the terms of the lease agreements.

* For identification purpose only

- (b) On 15 December 2008, 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 2009 to 31 December 2011. On 27 July 2010, the Group entered into a supplemental agreement with Peking Founder to revise the annual caps for the two years ending 31 December 2011.

During the period, information products of approximately HK\$148,973,000 (six months ended 30 June 2010: HK\$27,501,000) were sold to Peking Founder Group. The directors considered that the sales of products were made according to published prices and conditions similar to those offered to other customers of the Group.

- (c) On 15 December 2008, the Company entered into a master agreement with Founder Holdings Limited ("FHL"), a substantial shareholder of the Company, to govern the sale of information products to FHL and its subsidiaries (collectively "Founder Group") for a term of three years from 1 January 2009 to 31 December 2011. On 12 June 2009, the Company entered into a supplemental agreement with FHL to revise the annual caps for the three years ending 31 December 2011.

During the period, information products of approximately HK\$5,938,000 (six months ended 30 June 2010: HK\$98,867,000) were sold to Founder Group. The directors considered that the sales of products were made according to published prices and conditions similar to those offered to other customers of the Group.

- (d) On 15 December 2008, the Company entered into a master agreement with FHL for the purchase of HP products from Founder Group for a term of three years from 1 January 2009 to 31 December 2011.

During the period, HP products of approximately HK\$131,709,000 (six months ended 30 June 2010: HK\$182,859,000) were purchased from Founder Group and commission fees of approximately HK\$473,000 (six months ended 30 June 2010: HK\$440,000) were paid to Founder Group. The directors considered that the purchases of HP products and commission fees were made in accordance with the master agreement.

Notes to Condensed Consolidated Interim Financial Statements

30 June 2011

12. RELATED PARTY TRANSACTIONS *(continued)*

(1) Transactions with related parties (continued)

- (e) On 19 November 2010, the Company entered into a master agreement with Peking Founder for the purchase of information products from Peking Founder Group for the three years ending 31 December 2012.

During the period, purchase of information products of approximately HK\$46,000 (six months ended 30 June 2010: Nil) from Peking Founder Group were made by the Group. The directors considered that the purchase of information products from Peking Founder Group were made in accordance with the terms of the master agreement.

- (f) On 12 June 2009, the Company entered into an entrusted loan master agreement with Peking Founder (the "Entrusted Loan Master Agreement"), pursuant to which the Group would provide short term loans through a financial institution to Peking Founder Group for the three years ending 31 December 2011.

On 6 December 2010, the Group provided a three-month short term loan of approximately HK\$82,266,000 to a subsidiary of the Peking Founder and the related interest of approximately HK\$1,386,000 was earned by Group during the six months ended 30 June 2011. The loan was unsecured and bore an interest at the prevailing benchmark Renminbi lending rate for loan period of three months offered by The People's Bank of China ("PBOC") plus 10% of such rate. The entrusted loan and related interest receivable were fully settled by Peking Funder Group during the six months ended 30 June 2011.

On 21 March 2011, the Group provided a six-month short term loan of approximately HK\$192,800,000 to a subsidiary of the Peking Founder and the related interest of approximately HK\$3,103,000 was earned by the Group during the six months ended 30 June 2011. The loan is unsecured and bears an interest at the prevailing benchmark Renminbi lending rate for loan period of six months offered by the PBOC plus 15% of such rate.

On 29 March 2011, the Group provided a six-month short term loan of approximately HK\$84,350,000 to a subsidiary of the Peking Founder and the related interest of approximately HK\$1,298,000 was earned by Group during the six months ended 30 June 2011. The loan is unsecured and bears an interest at the prevailing benchmark Renminbi lending rate for loan period of six months offered by the PBOC plus 10% of such rate.

The total entrusted loans of HK\$277,150,000 and related interest of HK\$4,401,000 receivable from subsidiaries of Peking Founder remained undue and were included in prepayments, deposits and other receivables in the condensed consolidated statement of financial position as at 30 June 2011. The directors considered that the provision of the entrusted loans to Peking Founder Group was made in accordance with the Entrusted Loan Master Agreement.

Notes to Condensed Consolidated Interim Financial Statements

30 June 2011

12. RELATED PARTY TRANSACTIONS *(continued)*

(I) Transactions with related parties (continued)

- (g) On 13 January 2011, the Company, PKU Founder Group Finance Co., Ltd. ("Founder Finance") and Peking Founder entered into a financial service agreement, pursuant to which Founder Finance would provide the Group with (i) deposit service; (ii) loan services; and (iii) miscellaneous financial service subject to the terms and conditions provided therein for the three years ending 31 December 2013. Further details of the transaction were set out in the announcement of the Company dated 13 January 2011 and circular of the Company dated 26 January 2011.

As at 30 June 2011, the Group made deposits of approximately HK\$92,856,000 in Founder Finance and the related interest of approximately HK\$71,000 was earned by Group during the six months ended 30 June 2011. The interest rates on these deposits offered by Founder Finance were the prevailing interest rates offered by the PBOC.

- (h) As at 30 June 2011, Peking Founder guaranteed banking facilities given by the PRC banks to the Group of approximately HK\$2,012,350,000 (31 December 2010: HK\$1,565,410,000) which were utilised to the extent of approximately HK\$1,304,671,000 (31 December 2010: HK\$860,750,000).

The related party transactions in respect of items (a) to (g) above also constitute continuing connected transactions as defined in Chapter 14A of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

(II) Outstanding balances with related parties

- (a) The balances due from subsidiaries of FHL included in prepayments, deposits and other receivables in the condensed consolidated statement of financial position as at 30 June 2011 were approximately HK\$9,420,000 (31 December 2010: HK\$9,000). The balances are unsecured, interest-free and have no fixed terms of repayment.
- (b) The balances due to subsidiaries of FHL included in other payables and accruals in the condensed consolidated statement of financial position as at 30 June 2011 were approximately HK\$1,695,000 (31 December 2010: HK\$263,000). The balances are unsecured, interest-free and have no fixed terms of repayment.
- (c) As at 30 June 2011, except for the entrusted loan of HK\$277,150,000 and related interest receivables of HK\$4,401,000 from subsidiaries of Peking Founder disclosed in note 12(I)(f) to the condensed consolidated interim financial statements, other balances due from Peking Founder Group included in prepayments, deposits and other receivables in the condensed consolidated statement of financial position were approximately HK\$9,241,000 (31 December 2010: HK\$7,524,000). The balances are unsecured, interest-free and have no fixed terms of repayment.

Notes to Condensed Consolidated Interim Financial Statements

30 June 2011

12. RELATED PARTY TRANSACTIONS *(continued)*

(II) Outstanding balances with related parties (continued)

- (d) The balances due to Peking Founder Group included in other payables and accruals in the condensed consolidated statement of financial position as at 30 June 2011 were approximately HK\$758,000 (31 December 2010: HK\$659,000). The balances are unsecured, interest-free and have no fixed terms of repayment.
- (e) Details of the Group's trade balances with its related companies as at the end of the reporting period are included in note 9 and note 11 to the condensed consolidated interim financial statements.
- (f) As at 30 June 2011, included in the Group's cash and cash equivalents were deposits of approximately HK\$92,856,000 placed with Founder Finance (31 December 2010: Nil).

(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	
	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
Short term employee benefits	846	578
Post-employment benefits	6	6
Total compensation paid to key management personnel	852	584

13. CONTINGENT LIABILITIES

Certain associates of the Group, which are owned by as to 36.69% by the Group, have tax dispute with Hong Kong Inland Revenue Department (the "IRD"), which had issued notices of additional tax assessments for the years of assessment from 2001/02 to 2004/05 demanding tax payments of approximately HK\$13,820,000. Such associates of the Group had lodged objections against these assessments and made tax payments of approximately HK\$3,025,000 during the six months ended 30 June 2011. Such associates of the Group are in process of resolving the tax dispute with the IRD at the date of approval of these condensed consolidated interim financial statements. As at 30 June 2011, no provision had been made by the associates in respect of the abovementioned potential tax exposure of HK\$10,795,000. Should the tax dispute be settled in accordance with the abovementioned additional tax assessments, the share of additional tax of associates by the Group would be approximately HK\$3,961,000.

Save as disclosed above, as at 30 June 2011, the Group did not have any significant contingent liabilities (31 December 2010: Nil).

Management Discussion and Analysis

Overall Performance

The Group reported a loss attributable to owners of the parent for the six months ended 30 June 2011 of HK\$1.8 million (six months ended 30 June 2010: a profit of HK\$2.3 million). The Group's revenue for the current interim period has increased by 20.7% to HK\$2,522.8 million (six months ended 30 June 2010: HK\$2,090.5 million). The Group's gross profit has increased by 47.2% to HK\$134.8 million (six months ended 30 June 2010: HK\$91.6 million) while the gross profit margin has increased from 4.4% for the six months ended 30 June 2010 to 5.3% in the current interim period. Total selling and distribution costs and administrative expenses for the current interim period has increased by 43.8% compared to the six months ended 30 June 2010.

The decline in the Group's operating results was mainly due to the net results of:

- a. an increase in the gross profit of the distribution of information products business by 47.2% to HK\$134.8 million (six months ended 30 June 2010: HK\$91.6 million);
- b. an increase in total selling and distribution costs and administrative expenses by 43.8% to HK\$124.1 million (six months ended 30 June 2010: HK\$86.3 million);
- c. an increase in finance costs by HK\$12.6 million to HK\$14.3 million (six months ended 30 June 2010: HK\$1.7 million) as a result of increase in bank borrowings and interest rate;
- d. an increase in the share of losses of associates to HK\$4.5 million (six months ended 30 June 2010: HK\$0.6 million) as a result of intense competition in the distribution of mobile phones and data products in Hong Kong; and
- e. an increase in income tax expenses for the distribution of information products business by HK\$2.9 million to HK\$4.6 million (six months ended 30 June 2010: HK\$1.7 million) as a result of increase in tax rate of a subsidiary in the PRC.

Basic and diluted loss per share attributable to equity holders of the parent for the current interim period were HK0.17 cents (six months ended 30 June 2010: basic earnings per share of HK0.21 cents) and HK0.17 cents (six months ended 30 June 2010: diluted earnings per share of HK0.20 cents), respectively.

Operating Review and Prospects

Distribution of information products ("Distribution Business")

The Group's principal operating activity during the current interim period is the distribution of information products business. The Distribution Business recorded a turnover of HK\$2,522.8 million representing an increase of 20.7% as compared to last interim period. Gross profit for the Distribution Business has increased by 47.2% to HK\$134.8 million for the current interim period (six months ended 30 June 2010: HK\$91.6 million), and gross profit margin has increased to 5.3% for the current interim period as compared to 4.4% in the last interim period.

Management Discussion and Analysis

The Distribution Business is mainly focused on the distribution of information products such as servers, printers, switches, networking products, storage devices, workstations, mobile phones and optical screen products of a number of internationally famed and branded information products manufacturers such as HP, H3C, Apple, CommScope, Barco, Brocade, Hitachi, Epson and Iomega. The increase in turnover during the current interim period is mainly attributable to the increase in sales in various product lines such as Apple and H3C as a result of continuous launch of new products and more effort on the expansion of distribution network in the third tier cities. Despite of intense competition in the distribution market, the gross profit and gross profit margin have increased because of increase in effort to control cost of products and monitor the profit margin of each product line.

The Distribution Business has been awarded by various upstream vendors during the current interim period for its excellent partnership in terms of distribution channel, coverage, growth and overall performance in the PRC. The Group's principal subsidiary, Beijing Founder Century Information Systems Co., Ltd. ("PRC Century"), obtained the special honours of Best distribution channel development award (最佳渠道拓展獎), Best contribution in distribution of HP workstations award (惠普工作站最佳分銷貢獻獎), and Mobile workstation area authorised distributors certificate (移動工作站區域授權分銷商證書) by HP in January 2011. In March 2011, PRC Century obtained the Best Growth Award (最佳成長獎) from CommScope. In May 2011, PRC Century obtained the seventh in 2011 "500 China Computer Vendor-Distributor 100" (2011中國電腦商500強—分銷商100強) organised by Computer Partner World (電腦商報) in May 2011.

In addition, in January 2011, Siemens authorised PRC Century as the sole distributor of HiPath1100 in the PRC (HiPath1100全國總包銷). In March 2011, Fujitsu authorised PRC Century as the sole distributor of Fujitsu PRIMERGY X 86 server. The cooperation with systems integration services providers enables the Group to provide to the customers a more comprehensive solution.

To maintain its growth and profitability of the Distribution Business, the management continued to closely monitor the profitability and performance of each product line. More resources were put on exploring new products and new product lines and more value-added services are provided to the customer so as to generate higher returns. In addition, the increased marketing and selling effort for aligning with the Group's objectives of keeping a growth in turnover leads to an increase in total selling and distribution costs and administrative expenses by 43.8% to HK\$124.1 million during the current interim period (six months ended 30 June 2010: HK\$86.3 million). The total selling and distribution costs and administrative expenses as a percentage to turnover has increased to 4.9% for the current interim period as compared with 4.1% in the last interim period. Our management will continue to impose strict control on expenses.

To maintain continued expansion in operation, the Group focus on the current assets management. The Group's trade and bills receivables and inventory turnover periods have increased from the six months ended 30 June 2010's 50.0 days and 18.5 days to the current interim period's 51.6 days and 37.4 days, respectively. The increase in inventory turnover periods is mainly attributable to increase in inventory level of notebook and workstations resulted from an anticipation of increase in sales in the second half of the year which is normally the peak season of the industry. The current ratio for the Group as at 30 June 2011 was 1.15 (31 December 2010: 1.17).

Management Discussion and Analysis

Prospects

The Group is dedicated for a medium to long term development plan of maintaining a satisfactory growth in results and fulfilling its objective to enhance shareholders' value. The Distribution Business will continuously refine its product structure to avoid product overlapping and minimise market risk. Moreover, the management will also place stronger emphasis on operating cash flow, stringent control on working capital such as trade receivable and payables and inventory and cost management. The Group will continue to look for alliance with other international information products suppliers and investment opportunities.

Employee

The Group has developed its human resources policies and procedures based on performance and merits. The Group ensures that the pay level 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 Group had not granted any share options to its eligible directors and employees during the current interim period.

The Group has approximately 729 employees as at 30 June 2011 (31 December 2010: 739).

Financial Review

Liquidity, financial resources and capital commitments

During the current interim 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 2011, the Group had approximately HK\$526.2 million interest-bearing bank borrowings (31 December 2010: HK\$106.2 million), of which approximately HK\$463.9 million (31 December 2010: Nil) were fixed interest bearing and HK\$62.3 million (31 December 2010: HK\$106.2 million) were floating interest bearing. Bank borrowings are denominated in Renminbi ("RMB") and United States Dollars ("U.S. dollars") and repayable within one year. The Group's banking facilities were secured by corporate guarantees given by the Company and Peking University Founder Group Company Limited, the substantial shareholder of the Company.

At 30 June 2011, the Group recorded total assets of approximately HK\$2,391.0 million (31 December 2010: HK\$2,130.0 million) which were financed by liabilities of approximately HK\$2,043.1 million (31 December 2010: HK\$1,781.9 million) and equity of approximately HK\$347.9 million (31 December 2010: HK\$348.1 million). The Group's net asset value per share as at 30 June 2011 was maintained at HK\$0.31 (31 December 2010: HK\$0.31).

Management Discussion and Analysis

The Group had total cash and bank balances of approximately HK\$595.2 million as at 30 June 2011 (31 December 2010: HK\$689.9 million). After deducting the Group's bank borrowings, the Group recorded net cash and bank balances of approximately HK\$69.0 million as at 30 June 2011 (31 December 2010: HK\$583.7 million). The increase in bank borrowings is attributable to the increase in borrowings in the PRC in view of the continuous increase in interest rate in the PRC and surplus cash requirement to finance the expansion of operation in the second half of the year. The Group's borrowings, which are subject to little seasonality, consist of mainly short term bank loans and trust receipt loans. As at 30 June 2011, the Group's gearing ratio, measured on the basis of total borrowings as a percentage of total shareholders' equity, was 1.51 (31 December 2010: 0.31) while the Group's current ratio was 1.15 (31 December 2010: 1.17).

At 30 June 2011, 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 ("HKD"), RMB and U.S. dollars. Surplus cash is generally placed in short term deposits denominated in HKD, RMB and U.S. dollars.

Exposure to fluctuations in exchange rates and related hedges

The Group operates mainly in Hong Kong and Mainland China. For the operations in Hong Kong, most of the transactions are denominated in HKD and U.S. dollars. The exchange rate of U.S. dollars against HKD is relatively stable and the related currency exchange risk is considered minimal. For the operations in Mainland China, most of the transactions are denominated in RMB. Given the appreciation of RMB against HKD during the period under review, no financial instrument was used for hedging purposes. It is expected that the appreciation of RMB would have a favourable impact on the Group.

Material acquisitions and disposals of subsidiaries and associates

The Group had no acquisition or disposals of subsidiaries and associates for the six months ended 30 June 2011.

Charges on assets

As at 30 June 2011, bank deposits of approximately HK\$205.8 million (31 December 2010: HK\$189.0 million) were pledged to banks to secure general banking facilities granted.

Management Discussion and Analysis

Future plans for material investments or capital assets

The Group did not have any future plans for material investments or capital assets as at 30 June 2011.

Contingent liabilities

Certain associates of the Group, which are owned as to 36.69% by the Group, have tax dispute with Hong Kong Inland Revenue Department (the "IRD"), which had issued notices of additional tax assessments for the years of assessment from 2001/02 to 2004/05 demanding tax payments of approximately HK\$13,820,000. Such associates of the Group had lodged objections against these assessments and made tax payments of approximately HK\$3,025,000 during the six months ended 30 June 2011. Such associates of the Group are in the process of resolving the tax dispute with the IRD at the date of approval of these condensed consolidated interim financial statements. As at 30 June 2011, no provision had been made by the associates in respect of the abovementioned potential tax exposure of approximately HK\$10,795,000. Should the tax dispute be settled in accordance with the abovementioned additional tax assessments, the share of additional tax of associates by the Group would be approximately HK\$3,961,000.

Save as disclosed above, as at 30 June 2011, the Group did not have any significant contingent liabilities (31 December 2010: Nil).

Other Information

Directors' Interests and Short Positions in Shares and Underlying Shares

At 30 June 2011, 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 the Company:

Name of director	Number of ordinary shares held, capacity and nature of interest			Percentage of the Company's issued share capital
	Directly beneficially owned	Through controlled corporation	Total	
Mr Zhang Zhao Dong	3,956,000	–	3,956,000	0.36
Mr Zheng Fu Shuang <i>(Note)</i>	–	200,019,000	200,019,000	18.08

Note: Mr Zheng Fu Shuang is interested in these shares through Shining Wisdom Group Limited ("Shining Wisdom"), a company which is beneficially and wholly owned by Mr Zheng Fu Shuang.

Long positions in share options of the Company:

Name of director	Number of options directly beneficially owned
Mr Zhang Zhao Dong	8,000,000

Other Information

Directors' Interests and Short Positions in Shares and Underlying Shares

(continued)

Save as disclosed above, as at 30 June 2011, 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 in 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 spouses or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

Share Option Schemes

On 24 May 2002, the Company adopted a share option scheme (the "2002 Scheme") in compliance with Chapter 17 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The share option scheme adopted by the Company on 7 May 2001 (the "2001 Scheme") was terminated on 24 May 2002, however, the options granted under the 2001 Scheme remain in full force and effect.

The following share options were outstanding under the 2001 Scheme and the 2002 Scheme at 1 January 2011 and at the end of the period:

Other Information

Share Option Schemes *(continued)*

Name or category of participant	Number of share options			Date of grant of share options*	Exercised period of share options	Exercise price of share options** <i>HK\$ per share</i>
	At 1 January 2011	Lapsed during the period	At 30 June 2011			
2001 Scheme						
<i>Other employees</i>						
In aggregate	4,300,000	(4,300,000)	–	18.5.2001	18.5.2001 to 17.5.2011	0.450
2002 Scheme						
<i>Director</i>						
Mr Zhang Zhao Dong	8,000,000	–	8,000,000	6.2.2004	7.2.2004 to 5.2.2014	0.381
<i>Other employees</i>						
In aggregate	16,000,000	–	16,000,000	6.2.2004	7.2.2004 to 5.2.2014	0.381
In aggregate	10,500,000	–	10,500,000	2.1.2004	3.1.2004 to 31.12.2013	0.340
Total under the 2002 Scheme	34,500,000	–	34,500,000			

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

* The vesting period of the share options is from the date of 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.

Other Information

Substantial Shareholders' and Other Persons' Interests in Shares

At 30 June 2011, the following interests of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions:

Name	Notes	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*)	1	Through a controlled corporation	363,265,000	32.84
北大方正集團有限公司 (Peking University Founder Group Company Limited*) ("Peking Founder")	2	Through a controlled corporation	363,265,000	32.84
Founder Holdings Limited ("FHL")		Directly beneficially owned	363,265,000	32.84
Shining Wisdom	3	Directly beneficially owned	200,019,000	18.08
Peking University Education Foundation		Directly beneficially owned	93,240,000	8.43
Peking University Education Foundation		Beneficiary of a trust	2,330,000	0.21
Ms Li Yong Hui	4	As trustee	60,671,600	5.49
Ms Ying Yu Ling	4	As trustee	60,671,600	5.49
F2 Consultant Limited	4	Owned as nominee	60,671,600	5.49

* For identification purpose only

Notes:

1. Peking University Asset Management Company Limited is deemed to be interested in the 363,265,000 shares of the Company under the SFO by virtue of its interest in Peking Founder.
2. Peking Founder is deemed to be interested in 363,265,000 shares of the Company under the SFO by virtue of its interest in FHL.
3. Mr Zheng Fu Shuang is interested in these shares through Shining Wisdom.
4. F2 Consultant Limited holds the shares of the Company as nominee on behalf of the directors of Founder Data Corporation International Limited ("FDC") who are acting in their capacity as the trustees of a discretionary trust for the employees of FDC and its subsidiaries. Ms Li Yong Hui and Ms Ying Yu Ling are the directors of FDC.

Other Information

Substantial Shareholders' and Other Persons' Interests in Shares

Save as disclosed above, as at 30 June 2011, 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.

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 2011, complied with the code provisions of the Code of Corporate Governance Practices as set out in Appendix 14 of 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 the six months ended 30 June 2011, including the accounting principles adopted by the Group, with the Company's management.

By Order of the Board
EC-FOUNDER (HOLDINGS) COMPANY LIMITED
Zhang Zhao Dong
Chairman

Hong Kong
26 August 2011