



2012

INTERIM REPORT 2012



EC-FOUNDER (HOLDINGS) COMPANY LIMITED
方正數碼(控股)有限公司

(Incorporated in Bermuda with limited liability)

Stock Code: 00618

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

Nomination Committee

Mr Zhang Zhao Dong (*Chairman*)
Ms Wong Lam Kit Yee
Ms Cao Qian

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

PRINCIPAL BANKERS

Bank of Beijing
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.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 2012, together with the comparative figures for the corresponding period in 2011. 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 2012

	Notes	For the six months ended 30 June	
		2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000
REVENUE		1,274,779	2,522,773
Cost of sales		<u>(1,208,091)</u>	<u>(2,387,970)</u>
Gross profit		66,688	134,803
Other income and gains	3	5,675	10,467
Selling and distribution costs		(64,029)	(67,817)
Administrative expenses		(23,326)	(29,318)
Other operating income, net		567	362
Finance costs	4	(19,854)	(41,184)
Share of profits and losses of associates		<u>(171)</u>	<u>(4,526)</u>
PROFIT/(LOSS) BEFORE TAX	5	(34,450)	2,787
Income tax expense	6	<u>(177)</u>	<u>(4,614)</u>
LOSS FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE PARENT		<u>(34,627)</u>	<u>(1,827)</u>
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	7		
Basic		<u>HK(3.13) cents</u>	<u>HK(0.17) cents</u>
Diluted		<u>HK(3.13) cents</u>	<u>HK(0.17) cents</u>

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2012

	For the six months ended	
	30 June	
	2012	2011
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
LOSS FOR THE PERIOD	(34,627)	(1,827)
OTHER COMPREHENSIVE INCOME/(LOSS)		
Exchange differences on translation of foreign operations	<u>(5,532)</u>	<u>1,667</u>
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE PARENT, NET OF TAX	<u>(5,532)</u>	<u>1,667</u>
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE PARENT	<u>(40,159)</u>	<u>(160)</u>

Condensed Consolidated Statement of Financial Position

30 June 2012

	<i>Notes</i>	30 June 2012 (Unaudited) HK\$'000	31 December 2011 (Audited) HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment		9,379	9,351
Goodwill		2,892	2,892
Investments in associates		33,998	34,169
Total non-current assets		46,269	46,412
CURRENT ASSETS			
Inventories		265,275	293,528
Trade and bills receivables	<i>9</i>	510,237	705,426
Prepayments, deposits and other receivables		105,276	345,660
Tax recoverable		1,831	288
Pledged deposits	<i>10</i>	114,422	81,178
Cash and cash equivalents		240,408	449,188
Total current assets		1,237,449	1,875,268
CURRENT LIABILITIES			
Trade and bills payables	<i>11</i>	665,624	828,146
Other payables and accruals		106,867	180,907
Interest-bearing bank borrowings		205,300	566,856
Tax payable		-	1,160
Total current liabilities		977,791	1,577,069
NET CURRENT ASSETS		259,658	298,199
TOTAL ASSETS LESS CURRENT LIABILITIES		305,927	344,611
NON-CURRENT LIABILITY			
Long term payable		5,400	5,400
Net assets		300,527	339,211
EQUITY			
Issued capital		110,606	110,606
Reserves		189,921	228,605
Total equity		300,527	339,211

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2012

	Attributable to owners of the parent							Total equity (Unaudited) HK\$'000
	Issued capital (Unaudited) HK\$'000	Share premium account (Unaudited) HK\$'000	Employee share-based compensation reserve (Unaudited) HK\$'000	Contributed surplus (Unaudited) HK\$'000	Exchange fluctuation reserve (Unaudited) HK\$'000	General reserve (Unaudited) HK\$'000	Accumulated losses (Unaudited) HK\$'000	
At 1 January 2012	110,606	156,019	256	520,156	40,301	10,558	(498,685)	339,211
Loss for the period	-	-	-	-	-	-	(34,627)	(34,627)
Other comprehensive loss for the period :								
Exchange differences on translation of foreign operations	-	-	-	-	(5,532)	-	-	(5,532)
Total comprehensive loss for the period	-	-	-	-	(5,532)	-	(34,627)	(40,159)
Equity-settled share option arrangements	-	-	1,475	-	-	-	-	1,475
At 30 June 2012	110,606	156,019*	1,731*	520,156*	34,769*	10,558*	(533,312)*	300,527
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

* These reserve accounts comprise the consolidated reserves of HK\$189,921,000 (31 December 2011: HK\$228,605,000) in the condensed consolidated statement of financial position.

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2012

	For the six months ended	
	30 June	
	2012	2011
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
NET CASH FLOWS USED IN OPERATING ACTIVITIES	(96,844)	(323,454)
NET CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES	254,203	(216,940)
NET CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES	(361,597)	418,635
NET DECREASE IN CASH AND CASH EQUIVALENTS	(204,238)	(121,759)
Cash and cash equivalents at beginning of period	341,001	489,062
Effect of foreign exchange rate changes, net	(2,704)	10,095
CASH AND CASH EQUIVALENTS AT END OF PERIOD	134,059	377,398
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	134,059	377,398
Non-pledged time deposits	106,349	12,050
Cash and cash equivalents as stated in the condensed consolidated statement of financial position	240,408	389,448
Non-pledged time deposits with original maturity of over three months when acquired	(106,349)	(12,050)
Cash and cash equivalents as stated in the condensed consolidated statement of cash flows	134,059	377,398

Notes to Condensed Consolidated Interim Financial Statements

30 June 2012

1. ACCOUNTING POLICIES

These unaudited condensed consolidated interim financial statements for the six months ended 30 June 2012 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 2011, 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 Amendments	Amendments to HKFRS 1 <i>First-time Adoption of Hong Kong Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters</i>
HKFRS 7 Amendments	Amendments to HKFRS 7 <i>Financial Instruments: Disclosures – Transfers of Financial Assets</i>
HKAS 12 Amendments	Amendments to HKAS 12 <i>Income taxes – Deferred Tax: Recovery of Underlying Assets</i>

The adoption of the above HKFRSs has had no significant impact on the accounting policies of the Group and the methods of computation in the Group’s condensed consolidated interim financial statements.

2. OPERATING SEGMENT INFORMATION

For 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	
	2012	2011
	(Unaudited)	(Unaudited)
	HK\$’000	HK\$’000
Bank interest income	1,757	3,048
Other interest income	3,916	5,858
Others	2	1,561
	<u>5,675</u>	<u>10,467</u>

Notes to Condensed Consolidated Interim Financial Statements

30 June 2012

4. FINANCE COSTS

	For the six months ended	
	30 June	
	2012	2011
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Interest on bank loans	12,683	14,268
Interest on discounted bills	7,171	26,916
	<u>19,854</u>	<u>41,184</u>

5. PROFIT/(LOSS) BEFORE TAX

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

	For the six months ended	
	30 June	
	2012	2011
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Depreciation	1,800	1,305
Impairment/(reversal of impairment) of trade receivables	8,267	(704)
Provision for obsolete inventories	8,537	9,893
Write-back of other payables	8,863	–
	<u>8,863</u>	<u>–</u>

6. INCOME TAX

	For the six months ended	
	30 June	
	2012	2011
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Current – The People's Republic of China (the "PRC")	177	4,614
	<u>177</u>	<u>4,614</u>

No 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 2011: 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\$404,000 (six months ended 30 June 2011: HK\$1,031,000) 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 2012

7. LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic loss per share amount for the six months ended 30 June 2012 is based on the loss for the period attributable to ordinary equity holders of the parent of approximately HK\$34,627,000 (six months ended 30 June 2011: HK\$1,827,000), and the weighted average number of 1,106,062,040 (six months ended 30 June 2011: 1,106,062,040) ordinary shares in issue during the period.

No adjustment has been made to the basic loss per share amount presented for the period ended 30 June 2012 and 30 June 2011 in respect of a dilution as the impact of the options outstanding had an anti-dilutive effect on the basic loss per share amount presented.

8. INTERIM DIVIDEND

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2012 (six months ended 30 June 2011: 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. The Group does not hold any collateral or other credit enhancements over its trade and bills receivables balances. Trade and bills receivables are non-interest-bearing.

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 2012 (Unaudited) HK\$'000	31 December 2011 (Audited) HK\$'000
Within 6 months	438,828	612,476
7 to 12 months	37,155	64,349
13 to 24 months	34,254	28,601
	510,237	705,426

Notes to Condensed Consolidated Interim Financial Statements

30 June 2012

9. TRADE AND BILLS RECEIVABLES *(continued)*

Included in the Group's trade and bills receivables are amounts due from subsidiaries of 北大方正集團有限公司 (Peking University Founder Group Company Limited*) ("Peking Founder"), a substantial shareholder of the Company, of approximately HK\$28,482,000 (31 December 2011: HK\$85,591,000), and a subsidiary of Founder Holdings Limited ("FHL"), in which a 32.49% equity interest was held by Peking Founder, of approximately HK\$370,000 (31 December 2011: HK\$1,125,000), which are repayable on similar credit terms to those offered to the major customers of the Group.

* For identification purpose only

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

	30 June 2012 (Unaudited) HK\$'000	31 December 2011 (Audited) HK\$'000
Trade payables	172,334	484,449
Bills payable	<u>493,290</u>	<u>343,697</u>
	<u>665,624</u>	<u>828,146</u>

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 2012 (Unaudited) HK\$'000	31 December 2011 (Audited) HK\$'000
Within 6 months	631,734	641,016
Over 6 months	<u>33,890</u>	<u>187,130</u>
	<u>665,624</u>	<u>828,146</u>

Notes to Condensed Consolidated Interim Financial Statements

30 June 2012

11. TRADE AND BILLS PAYABLES *(continued)*

Included in the Group's trade and bills payables are amounts due to a subsidiary of Peking Founder of approximately HK\$306,000 (31 December 2011: HK\$2,371,000), and subsidiaries of FHL of approximately HK\$181,000 (31 December 2011: HK\$11,373,000), which are repayable on similar credit terms to those offered by the related companies to their major customers.

The trade payables are non-interest-bearing and are normally settled on terms of 45 to 90 days.

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 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 ended 31 December 2011. On 1 November 2011, the Company entered into a master agreement with Peking Founder for the sale of information products to Peking Founder Group for the three years ending 31 December 2014.

During the period, information products of approximately HK\$31,494,000 (six months ended 30 June 2011: HK\$148,973,000) were sold to Peking Founder Group. The directors consider that the sales of products were made according to published prices and conditions similar to those offered to other customers of the Group.

- (b) On 15 December 2008, the Company entered into a master agreement with FHL 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 ended 31 December 2011.

On 29 August 2011, the Company entered into a new master agreement with FHL to govern the sale of information products to Founder Group for a term of three years from 1 January 2011 to 31 December 2013.

During the period, information products of approximately HK\$603,000 (six months ended 30 June 2011: HK\$5,938,000) were sold to Founder Group. The directors consider that the sales of products were made according to published prices and conditions similar to those offered to other customers of the Group.

Notes to Condensed Consolidated Interim Financial Statements

30 June 2012

12. RELATED PARTY TRANSACTIONS *(continued)*

(I) Transactions with related parties (continued)

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

On 29 August 2011, the Company entered into a New HP Master Agreement with FHL to govern the purchase of HP products from Founder Group for a term of three years from 1 January 2011 to 31 December 2013.

During the period, HP products of approximately HK\$87,606,000 (six months ended 30 June 2011: HK\$131,709,000) were purchased from Founder Group and commission fees of approximately HK\$255,000 (six months ended 30 June 2011: HK\$473,000) were paid to Founder Group. The directors consider that the purchases of HP products and commission fees were made in accordance with the New HP Master Agreement.

- (d) 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\$977,000 (six months ended 30 June 2011: HK\$46,000) from Peking Founder Group were made by the Group. The directors consider that the purchase of information products from Peking Founder Group were made in accordance with the terms of the master agreement.

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

On 1 November 2011, the Company renewed the Entrusted Loan Master Agreement with Peking Founder 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 2014.

On 21 September 2011, the Group provided a six-month short term loan of approximately HK\$196,160,000 to a subsidiary of Peking Founder and the related interest of approximately HK\$2,136,000 was earned by the Group during the period ended 30 June 2012. 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. The entrusted loan and related interest receivables were fully settled by Peking Founder during the period ended 30 June 2012.

On 30 September 2011, the Group provided a six-month short term loan of approximately HK\$85,820,000 to a subsidiary of Peking Founder and the related interest of approximately HK\$894,000 was earned by the Group during the period ended 30 June 2012. 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 entrusted loan and related interest receivable were fully settled by that subsidiary of Peking Founder Group during the period ended 30 June 2012.

Notes to Condensed Consolidated Interim Financial Statements

30 June 2012

12. RELATED PARTY TRANSACTIONS *(continued)*

(I) Transactions with related parties (continued)

The total entrusted loans of HK\$281,980,000 and related interest of HK\$5,386,000 receivable from the subsidiaries of Peking Founder remained undue and were included in prepayments, deposits and other receivables in the consolidated statement of financial position as at 31 December 2011. Such entrusted loans and related interest receivables were fully settled by the subsidiaries of Peking Founder during the period ended 30 June 2012. The directors consider that the provision of the entrusted loans to Peking Founder Group was made in accordance with the Entrusted Loan Master Agreement.

- (f) 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. Peking Founder has provided the guarantee to the Company in the financial services agreement.

As at 30 June 2012, the Group made deposits of approximately HK\$94,169,000 (31 December 2011: HK\$95,927,000) in Founder Finance and the related interest of approximately HK\$886,000 (six months ended 30 June 2011: HK\$71,000) was earned by Group during the six months ended 30 June 2012. The interest rates on these deposits offered by Founder Finance were the prevailing interest rates offered by the PBOC.

- (g) 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 Peking Founder to lease office premises in Beijing, the PRC, effective from 1 January 2009 to 31 December 2011.

During the six months ended 30 June 2011, rental and management fee expenses of approximately HK\$1,035,000 were paid by PRC Century to a subsidiary of Peking Founder. The directors consider that the rental and management fee expenses were paid in accordance with the terms of the lease agreements.

- (h) As at 30 June 2012, guarantees were given by Peking Founder to banks in connection with banking facilities granted to the Group of approximately HK\$1,680,840,000 (31 December 2011: HK\$1,753,180,000) which were utilised to the extent of approximately HK\$702,919,000 (31 December 2011: HK\$551,299,000).

The related party transactions in respect of items (a) to (g) above for the current interim period 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.

Notes to Condensed Consolidated Interim Financial Statements

30 June 2012

12. RELATED PARTY TRANSACTIONS *(continued)*

(II) Outstanding balances with related parties

- (a) The balance due from subsidiaries of FHL included in prepayments, deposits and other receivables in the condensed consolidated statement of financial position as at 30 June 2012 were approximately HK\$1,451,000 (31 December 2011: Nil). 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 2012 were approximately HK\$3,692,000 (31 December 2011: HK\$866,000). The balances are unsecured, interest-free and have no fixed terms of repayment.
- (c) Except for the entrusted loan and related interest receivables due from a subsidiary of Peking Founder discussed in note 12(I)(e) to the condensed consolidated interim financial statements, other balances due from Peking Founder Group included in prepayments, deposits and other receivables were approximately HK\$10,329,000 (31 December 2011: HK\$11,703,000). The balances are unsecured, interest-free and have no fixed terms of repayment.
- (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 2012 were approximately HK\$3,306,000 (31 December 2011: HK\$1,706,000). The balances are unsecured, interest-free and have no fixed terms of repayment.
- (e) The balance due to Peking Founder Group included in long term payable as at 30 June 2012 was approximately HK\$5,400,000 (31 December 2011: HK\$5,400,000). The balance is unsecured, interest-free and not repayable within one year.
- (f) 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.

Notes to Condensed Consolidated Interim Financial Statements

30 June 2012

12. RELATED PARTY TRANSACTIONS *(continued)*

(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	
	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000
Short term employee benefits	646	846
Equity-settled share option expense	1,475	–
Post-employment benefits	6	6
Total compensation paid to key management personnel	2,127	852

13. CONTINGENT LIABILITIES

As at 30 June 2012, the Group did not have any significant contingent liabilities (31 December 2011: Nil).

14. COMPARATIVE AMOUNTS

During the period, the directors of the Company have reviewed the components of the administrative expenses and considered it is more appropriate to reclassify the interest expenses on discounted bills from the administrative expenses to finance costs. Accordingly, a prior period adjustment has been made to reclassify the interest expenses on discounted bills of approximately HK\$26,916,000 to finance costs in the condensed consolidated income statement for the six months ended 30 June 2011, to conform with the current period's presentation.

15. EVENT AFTER THE REPORTING PERIOD

On 23 August 2012, the Company entered into a sale and purchase and subscription agreement with Founder Information (Hong Kong) Limited ("Founder Information"), the substantial shareholder of the Company, pursuant to which the Company has conditionally agreed to (i) purchase 100% equity interests in Hong Kong Tianranju Holdings Limited and Hong Kong Tianhe Holdings Limited from Founder Information for a total consideration of HK\$537 million (the "Acquisition"), which will be satisfied by the issue of shares and convertible bonds of the Company; and (ii) issue subscription convertible bonds to Founder Information at the consideration of HK\$62 million (the "Bonds Issuance"). Up to the date of approval of these condensed consolidated interim financial statements, the Acquisition and Bonds Issuance have not been completed.

Management Discussion and Analysis

Overall Performance

The Group reported a loss attributable to owners of the parent for the six months ended 30 June 2012 of HK\$34.6 million (six months ended 30 June 2011: HK\$1.8 million). The Group's revenue for the current interim period has decreased by 49.5% to HK\$1,274.8 million (six months ended 30 June 2011: HK\$2,522.8 million). The Group's gross profit has decreased by 50.5% to HK\$66.7 million (six months ended 30 June 2011: HK\$134.8 million) while the gross profit margin was maintained at 5%. Total selling and distribution costs and administrative expenses for the current interim period has decreased by 10.1% compared to the six months ended 30 June 2011.

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

- a. a decrease in the gross profit of the distribution of information products business by 50.5% to HK\$66.7 million (six months ended 30 June 2011: HK\$134.8 million);
- b. a decrease in total selling and distribution costs and administrative expenses by 10.1% to HK\$87.4 million (six months ended 30 June 2011: HK\$97.1 million) as a result of better control on operating expenses;
- c. a decrease in finance costs by 51.8% to HK\$19.9 million (six months ended 30 June 2011: HK\$41.2 million) as a result of decrease in bank borrowings and interest rate;
- d. a decrease in the share of losses of associates by 96.2% to HK\$0.2 million (six months ended 30 June 2011: HK\$4.5 million) as a result of increase in variety of mobile phones and data products distributed in Hong Kong; and
- e. a decrease in income tax expenses for the distribution of information products business by 96.2% to HK\$0.2 million (six months ended 30 June 2011: HK\$4.6 million) as a result of operating loss 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 HK3.13 cents (six months ended 30 June 2011: HK0.17 cents).

Management Discussion and Analysis

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\$1,274.8 million representing a decrease of 49.5% as compared to last interim period. Gross profit for the Distribution Business has decreased by 50.5% to HK\$66.7 million for the current interim period (six months ended 30 June 2011: HK\$134.8 million), and gross profit margin was maintained at 5%.

The Distribution Business is mainly focused on the distribution of information products such as servers, printers, switches, networking products, storage devices, workstations and optical screen products of a number of internationally famed and branded information products manufacturers such as HP, H3C, CommScope, Barco, Brocade, Microsoft, Epson, Samsung, Corning and Iomega. The decrease in turnover during the current interim period is mainly attributable to the streamline of various product lines to concentrate the effort on product lines with better trading terms in view of the intense competition in the distribution market.

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 2011 Most Successful IT Distribution Channel Vendor award (2011 年最成功IT渠道供應商) in 2011 Service platform selection organised by China Market Intelligence Center (賽迪網) in February 2012. PRC Century also obtained the award of Financial year 2011 Best distribution of SWD product (FY11 最佳SWD產品分銷獎) from HP in February 2012.

As the business environment in the PRC is becoming more competitive and the unfavorable factors arising from the macro-control policies, the management strictly control operating costs and expenses leading to a decrease in total selling and distribution costs and administrative expenses by 10.1% to HK\$87.4 million during the current interim period (six months ended 30 June 2011: HK\$97.1 million). The Distribution Business will continuously refine its product structure to avoid product overlapping and minimise market risk. The Group will focus on the distribution of information products with better trading terms and exploring the more profitable value-added service business.

In addition, 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 2011's 51.6 days and 37.4 days to the current interim period's 85.8 days and 41.6 days, respectively. The increase in trade and bills receivables turnover period is due to increase in the proportion of sales to systems integration service providers with longer credit terms provided. The lengthening of aging of debtors led to an increase in impairment of trade receivables in accordance with the provision policy. The increase in inventory turnover periods is mainly attributable to increase in inventory level of 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 2012 was 1.27 (31 December 2011: 1.19).

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 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 Group had not granted any share options to its eligible directors and employees during the current interim period.

The Group has approximately 574 employees as at 30 June 2012 (31 December 2011:718).

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 2012, the Group had approximately HK\$205.3 million interest-bearing bank borrowings (31 December 2011: HK\$566.9 million). 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 2012, the Group recorded total assets of approximately HK\$1,283.7 million (31 December 2011: HK\$1,921.7 million) which were financed by liabilities of approximately HK\$983.2 million (31 December 2011: HK\$1,582.5 million) and equity of approximately HK\$300.5 million (31 December 2011: HK\$339.2 million). The Group's net asset value per share as at 30 June 2012 was maintained at HK\$0.27 (31 December 2011: HK\$0.31).

Management Discussion and Analysis

The Group had total cash and bank balances and pledged deposits of approximately HK\$354.8 million as at 30 June 2012 (31 December 2011: HK\$530.4 million). After deducting the Group's bank borrowings, the Group recorded net cash and bank balances of approximately HK\$149.5 million as at 30 June 2012 (31 December 2011: net borrowings of HK\$36.5 million). The decrease in bank borrowings is attributable to better utilisation of fund and the increase in discounted bills (included in trade and bills payables) in the PRC as a result of decline in interest rate of discounted bills during the period. Bills payable increased by HK\$149.6 million to HK\$493.3 million as at 30 June 2012 accordingly. 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 2012, the Group's gearing ratio, measured on the basis of total borrowings as a percentage of total shareholders' equity, was 0.68 (31 December 2011: 1.67) while the Group's current ratio was 1.27 (31 December 2011: 1.19).

At 30 June 2012, 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. 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 2012.

Charges on assets

As at 30 June 2012, bank deposits of approximately HK\$114.4 million (31 December 2011: HK\$81.2 million) were pledged to banks to secure general banking facilities granted.

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 2012.

Contingent liabilities

As at 30 June 2012, the Group did not have any significant contingent liabilities (31 December 2011: Nil).

Other Information

Directors' Interests and Short Positions in Shares and Underlying Shares

At 30 June 2012, 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	Capacity and nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital
Mr Zhang Zhao Dong	Directly beneficially owned	3,956,000	0.36
Mr Zheng Fu Shuang	Directly beneficially owned	200,019,000	18.08

Long positions in share options of the Company:

Name of director	Number of options directly beneficially owned
Mr Zhang Zhao Dong	10,514,050
Mr Chen Geng	10,514,050
Mr Xia Yang Jun	10,514,050
Mr Xie Ke Hai	10,514,050
	<u>42,056,200</u>

Save as disclosed above, as at 30 June 2012, 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

Share Option Scheme

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations.

The following share options were outstanding under the share option scheme at 1 January 2012 and at the end of the period:

Name or category of participant	Number of share options at 1 January 2012 and 30 June 2012	Date of grant of share options <i>(Note 1)</i>	Exercise period of share options <i>(Note 2)</i>	Exercise price of share options <i>(Note 3)</i> HK\$ per share
Mr Zhang Zhao Dong	10,514,050	5.12.2011	5.12.2012 to 4.12.2014	0.281
Mr Chen Geng	10,514,050	5.12.2011	5.12.2012 to 4.12.2014	0.281
Mr Xia Yang Jun	10,514,050	5.12.2011	5.12.2012 to 4.12.2014	0.281
Mr Xie Ke Hai	10,514,050	5.12.2011	5.12.2012 to 4.12.2014	0.281
	42,056,200			

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

1. The vesting period of the share options is from the date of grant until the commencement of the exercise period.
2. The options granted on 5 December 2011 are exercisable in the following two tranches:
 - (i) First 40% of the options are exercisable from 5 December 2012 to 4 December 2014; and
 - (ii) The remaining 60% of the options are exercisable from 5 December 2013 to 4 December 2014.
3. 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.

Save as disclosed above, 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.

Other Information

Substantial Shareholders' and Other Persons' Interests in Shares

At 30 June 2012, 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 Information (Hong Kong) Limited ("Founder Information")		Directly beneficially owned	363,265,000	32.84
Mr Zheng Fu Shuang		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	3	As trustee	60,671,600	5.49
Ms Ying Yu Ling	3	As trustee	60,671,600	5.49
F2 Consultant Limited	3	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 Founder Information.
3. 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 (continued)

Save as disclosed above, as at 30 June 2012, 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 2012, complied with the code provisions of the Code of Corporate Governance Practices as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (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 2012, 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
28 August 2012