

FOUNDER HOLDINGS LIMITED 方正控股有限公司*

(Incorporated in Bermuda with limited liability)
(Stock Code : 0418)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2006

The board of directors (the "Board") of Founder Holdings Limited (the "Company") is pleased to announce the unaudited consolidated results and financial position of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 June 2006, together with the comparative figures for the corresponding period in 2005. The condensed consolidated interim financial statements have not been audited, but have been reviewed by the Company's audit committee.

CONDENSED CONSOLIDATED INCOME STATEMENT

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

CONDENSED CONSOLIDATED BALANCE SHEET

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

Notes:

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The unaudited condensed consolidated interim financial statements are prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting". The accounting policies and basis of preparation adopted in the preparation of the interim financial statements are the same as those used in the annual financial statements for the year ended 31 December 2005, except in relation to the following new and revised Hong Kong Financial Reporting Standards ("HKFRSs", which also include HKASs and Interpretations) that affect the Group and are adopted for the first time for the current period's financial statements:

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

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

2. SEGMENT INFORMATION

The Group's operating businesses are structured and managed separately according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments.

The following table presents revenue and results for the Group's primary segments for the six months ended 30 June 2006 and 2005.

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

3. OTHER INCOME AND GAINS

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

4. FINANCE COSTS

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

5. PROFIT/(LOSS) BEFORE TAX

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

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

6. TAX

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

Hong Kong profits tax has been provided at a rate of 17.5% on the estimated assessable profits arising in Hong Kong during the period. No provision for Hong Kong profits tax has been made as the relevant Hong Kong subsidiaries did not generate any assessable profits arising in Hong Kong during prior period.

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

The corporate income tax provision in the People's Republic of China (the "PRC") in respect of operations in the PRC is calculated at the applicable tax rates on the estimated assessable profits for the period based on existing legislation, interpretations and practices in respect thereof.

Beijing Founder Century Information System Co., Ltd. ("PRC Century"), a 54.85% owned PRC subsidiary of the Group, is exempted from PRC corporate income tax for the three fiscal years which commenced in 2002 and ended on 31 December 2004, and thereafter, is taxed at 50% of its standard tax rate in the fourth to sixth years, inclusive. At present, the standard tax rate applicable to PRC Century is 15%.

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

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

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

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

8. TRADE AND BILLS RECEIVABLES

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally for a period of one month, extending up to three months for major customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

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

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

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

9. TRADE AND BILLS PAYABLES

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

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

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

INTERIM DIVIDEND

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

MANAGEMENT DISCUSSION AND ANALYSIS

Overall Performance

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

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

Operating Review and Prospects

(A) Software development and systems integration for media sector

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

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

Besides the delay in the completion of certain systems integration contracts on hand, the need to further support the product development and market exploration of our prize-award winning technology, Founder Apabi DRM System and a series of related products such as e-Library, e-Document, e-Book and e-Chop also required the Group to allocate more resources and efforts for the business. At present, more than 80% of the PRC provincial public libraries use our e-Library system and our self-developed DRM system is well recognised and awarded for its unique function in protecting property rights and more than 400 publishing houses in the PRC have adopted our Apabi DRM technology in the production of e-books. As at March 2006, more than 210,000 e-books have been produced using our Apabi e-Book Solution. In May 2006, the Group has cooperated with more than 500 publishing houses, traditional book stores and web book stores for the formation of "Apabi e-Book Sales Alliance" and the Group is expecting a further growth in the alliance in the future for offering direct sales and services to the readers through our e-Book portal "apabi.com". Our e-library System also has been applied to more than 1,300 libraries and 450 universities in the PRC and overseas. Besides our traditional graphic arts and publishing software solutions for the needs of newspapers and publishing houses, EasiPrint Digital Printing System (印捷數碼印刷系統) is also well established in the digital printing sector in the PRC and over 100 partners have joined us as franchised digital printing shops over different provinces in the PRC with a customers base spanning more than 30 major cities and provinces in the PRC.

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

(B) Software development and systems integration for non-media sector

The turnover of the software development and systems integration business in the non-media sector for the period increased by 22.0% to HK\$109.4 million (1H2005: HK\$89.7 million) while its segment results recorded a loss of HK\$2.6 million (1H2005: HK\$4.7 million).

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

In June 2006, the Group's non-media operating arm, Beijing Founder Order Computer System Co., Ltd. ("Founder Order"), was ranked one of the top 30 systems integrators in the PRC by the Computer Partner World (電腦商報). In addition, Founder Order was ranked one of the top three systems integrators for the PRC's finance and securities industries by Smart Partner (計算機產品與流通) in June 2006. In addition to being a CISCO gold certified partner, Founder Order is also a state-certified high-tech enterprise and first-class systems integrator with certifications in ISO9000 and CMMML2. Building on the years of robust business and technical development and coupled with the topnotch quality assurance system and well-structured R&D system, the Group has created a solid base for the expansion and rejuvenation of the non-media sector in the future.

(C) Distribution of information products

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

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

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

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

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

Financial Review

Liquidity, financial resources and capital commitments

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

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

At 30 June 2006, the Group did not have any material capital expenditure commitments (31 December 2005: Nil).

Treasury policies

The Group adopts conservative treasury policies and controls tightly over its cash and risk management. The Group's cash and cash equivalents are held mainly in Hong Kong dollars, Renminbi and United States dollars. Surplus cash is generally placed in short term deposits denominated in Hong Kong dollars, Renminbi and United States dollars.

Exposure to fluctuations in exchange rates and related hedges

Most of the Group's borrowings are denominated in Hong Kong dollars, Renminbi and United States dollars while the sales of the Group are mainly denominated in Renminbi and United States dollars. As the exchange rates of United States dollars against Hong Kong dollars and Renminbi were relatively stable during the period under review, the Group's exposure to fluctuations in exchange rates is considered minimal and no financial instruments have been used for hedging purposes.

Contracts

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

Charges on assets

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

Contingent liabilities

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

Employees and Remuneration Policies

The Group has developed its human resources policies and procedures based on performance and merit. The Group ensures that the pay levels of its employees are competitive and employees are rewarded on a performance-related basis within the general framework of the Group's salary and bonus systems. The Group provides on-the-job training to its employees in addition to retirement benefit schemes and medical insurance.

The Group operates share option schemes for the purpose of providing incentives and rewards to eligible directors and employees of the Group who contribute to the success of the Group's operations. The Company had not granted any share options during the current period.

In the first half of the current year, the moderate increase in the headcount for the Group's media and distribution businesses in the PRC was totally offset by the decrease in the headcount for the Group's non-media business and the disposal of the Group's media business in Japan in June 2005. At 30 June 2006, the number of employees of the Group was approximately 2,034 (31 December 2005: 1,830).

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the code provisions as set out in Appendix 14 (the "Code") of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") for the six months ended 30 June 2006, except for deviation in respect of the rotation of directors under code provision A.4.2 of the Code.

Under code provision A.4.2 of the Code, all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment, and every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. However, according to the then Bye-laws of the Company, one third of the directors are subject to retirement by rotation at each annual general meeting and the Chairman or Managing Director of the Company is not subject to retirement by rotation, which constitutes a deviation from code provision A.4.2 of the Code. To comply with code provision A.4.2 of the Code, relevant amendments to the Bye-laws of the Company were approved by the shareholders in the special general meeting held on 4 January 2006. Since then the Company has complied with all code provisions of the Code.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules. Having made specific enquiry of the Company's directors, all the directors confirmed that they have complied with the required standard as set out in the Model Code during the six months ended 30 June 2006.

AUDIT COMMITTEE

The Company has an audit committee which was established in compliance with Rule 3.21 of the Listing Rules for the purpose of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises the three independent non-executive directors of the Company. These unaudited condensed consolidated interim financial statements for the six months ended 30 June 2006 of the Group now reported have been reviewed by the audit committee.

DISCLOSURE OF INFORMATION ON WEBSITE OF THE STOCK EXCHANGE

The 2006 interim report of the Company containing all the information required by Appendix 16 of the Listing Rules will be dispatched to the shareholders of the Company and published on the Stock Exchange's website (<http://www.hkex.com.hk>) and the Company's website (<http://www.founder.com.hk>) in due course.

By Order of the Board
FOUNDER HOLDINGS LIMITED
Cheung Shuen Lung
Chairman

Hong Kong
22 September 2006

As at the date of this announcement, the Board of the Company comprises the executive directors of Mr Cheung Shuen Lung, Professor Xiao Jian Guo, Professor Wei Xin, Mr Zhang Zhao Dong and Mr Xia Yang Jun, and the independent non-executive directors of Dr Hu Hung Lick, Henry, Mr Li Fat Chung and Ms Wong Lam Kit Yee.

** For identification purpose only*