



EC-FOUNDER (HOLDINGS) COMPANY LIMITED

方正數碼(控股)有限公司

(Incorporated in Bermuda with limited liability)



Interim Report 2005





CONTENTS

| | <i>Pages</i> |
|--|--------------|
| Corporate Information | 2 |
| Management Discussion and Analysis | 3-5 |
| Condensed Consolidated Income Statement | 6 |
| Condensed Consolidated Balance Sheet | 7 |
| Condensed Consolidated Statement of Changes in Equity | 8 |
| Condensed Consolidated Cash Flow Statement | 9 |
| Notes to Condensed Consolidated Interim Financial Statements | 10-18 |
| Other Information | 19-24 |

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive directors

Mr Zhang Zhao Dong (*Chairman*)

Mr Cheung Shuen Lung

Professor Wei Xin

Mr Xia Yang Jun

Mr Xie Ke Hai

Non-executive director

Mr Yung Chih Shin, Richard (*Honorary Chairman*)

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 Cheung Shuen Lung (*Chairman*)

Mr Li Fat Chung

Ms Wong Lam Kit Yee

COMPANY SECRETARY

Ms Tang Yuk Bo, Yvonne

QUALIFIED ACCOUNTANT

Mr Lau Fai Lawrence

AUTHORISED REPRESENTATIVES

Mr Zhang Zhao Dong

Mr Cheung Shuen Lung

AUDITORS

Ernst & Young

Certified Public Accountants

LEGAL ADVISERS

Norton Rose

Morrison & Foerster

PRINCIPAL BANKERS

BNP Paribas Hong Kong Branch

Bank of China (Hong Kong) Limited

Belgian Bank

REGISTERED OFFICE

Canon's Court

22 Victoria Street

Hamilton HM12

Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Unit 1408, 14th Floor

Cable TV Tower, 9 Hoi Shing Road

Tsuen Wan, New Territories

Hong Kong

SHARE REGISTRARS AND TRANSFER OFFICE

Principal registrars

Butterfield Fund Services (Bermuda) Limited

Rosebank Centre

11 Bermudiana Road

Pembroke

Bermuda

Hong Kong branch share registrars and transfer office

Tengis Limited

Ground Floor

Bank of East Asia Harbour View Centre

56 Gloucester Road, Wanchai

Hong Kong

LISTING INFORMATION

Main board of The Stock Exchange of Hong Kong Limited

Stock Code: 0618

Board lot: 2,000 shares

INVESTOR RELATIONS

Public Relations Department

EC-Founder (Holdings) Company Limited

Unit 1408, 14th Floor

Cable TV Tower, 9 Hoi Shing Road

Tsuen Wan, New Territories

Hong Kong

Telephone: (852)2989 1200

Facsimile: (852)2989 1204

Website: <http://www.irasia.com/listco/hk/ecfounder>

Email: ir@founder.com.hk

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 2005, together with the comparative figures for the corresponding period in 2004. These condensed consolidated interim financial statements have not been audited, but have been reviewed by the Company’s audit committee.

OVERALL PERFORMANCE

Following the continuous effort in restructuring and streamlining the Group’s business since 2003, the Group’s operating results has recorded a continuous growth for this reporting period. The turnover for the period ended 30 June 2005 has increased by 53.7% to approximately HK\$817.2 million (Six months ended 30 June 2004: HK\$531.7 million) and the gross profit for the period has increased by 11.3% to HK\$36.9 million (Six months ended 30 June 2004: HK\$33.2 million). Gross profit ratio has dropped from 6.2% to 4.5% for the periods ended 30 June 2004 and 2005 respectively mainly due to the discontinuance of other business segments having higher gross profit margin as compared to the distribution of information products business which had a much lower gross profit margin.

The profit attributable to shareholders for the period ended 30 June 2005 was approximately HK\$10.0 million (Six months ended 30 June 2004 (Restated): HK\$0.5 million).

The improvement in operating results for the period was mainly due to:

- (a) segment results of the distribution of information products business has increased by HK\$1.9 million to HK\$4.8 million;
- (b) tremendous decrease of segment loss of provision of software solutions and services business after its disposal and termination in late 2004; and
- (c) increase in share of profits of associates by HK\$4.7 million to HK\$7.5 million.

Basic earnings per share for the period ended 30 June 2005 was HK0.90 cents (Six months ended 30 June 2004 (Restated): HK0.05 cents).

OPERATING REVIEW AND PROSPECTS

Distribution of information products (“Distribution Business”)

The Group recorded a turnover of HK\$817.2 million for the Distribution Business for the six months ended 30 June 2005 which was 62.3% higher than that of the six months ended 30 June 2004 and segment results also increased to HK\$4.8 million (Six months ended 30 June 2004: HK\$2.9 million). However, the gross profit ratio for the Distribution Business for this interim reporting period has dropped to 4.5% from 2004’s twelve-month average gross profit ratio of 5.4%.

MANAGEMENT DISCUSSION AND ANALYSIS

The Distribution Business is mainly focused on the distribution of information technology products such as switches, networking products, servers, storage devices, workstations and notebook computers of a number of internationally famed and branded information product manufacturers such as HP, 華為3COM, Netgear, Apple and IBM. The increase in turnover for the period was mainly attributable to the continued expansion in the distribution network in the PRC. At present, the Distribution Business has established a nationwide distribution channel and network with branch offices/representative offices spanning 14 major cities in the PRC (as at 30 June 2004: 12 branch offices/representative offices).

The Distribution Business was ranked the 5th place in 2005 by Computer Partner World (電腦商報) of the PRC among the top 200 information products distribution enterprises in the PRC's information products distribution business. In addition, the Distribution Business was ranked the 6th and 7th places by China Information World (中國計算機報) in 2005 as one of PRC's top 100 largest and top 100 dominant information products distributors respectively.

Despite having obtained an encouraging growth in the sales of information products, the Group's operation in the Distribution Business is faced with severe competition and recorded a descending trend of gross profit ratio for the six months ended 30 June 2005 of 4.52% as compared with the gross profit ratio for the first half and second half of 2004 of 5.50% and 5.35% respectively. However, the Group's continuous effort to control operating costs was proved to be successful, total selling and administrative expenses of the Distribution Business for the six months ended 30 June 2005 compared to the first half and second half of 2004 has recorded an increase of 31.0% and decrease of 7.5% respectively. On the other hand, total selling and administrative expenses as a percentage of total turnover of the Distribution Business improved to 3.78% from 2004's first half and second half of 4.7% and 4.8% respectively. As a result, the Group is able to maintain its profitability in the Distribution Business.

To sustain a high rate of growth in the Distribution Business, more working capital will be required to support the distribution chain. The control on operating costs, trade accounts receivable and payables, and inventories will be vital to the future growth of the Distribution Business. In addition, the Group believes that the continuous exploration and co-operation with international information products manufacturers would help the Group to expand its present product range and level of recognition among the information products distributors in the PRC.

Software solutions and services business ("Software Business")

The Software Business

In view of the poor operating performance in the past, the Software Business was disposed of and terminated during the second half of 2004. As a result, no turnover was recorded for the six months ended 30 June 2005 and segment loss for the Software Business has decreased by 95.3% to approximately HK\$0.2 million (Six months ended 30 June 2004: HK\$3.6 million).

Employee and remuneration policies

As at 30 June 2005, the Group had 354 employees. These employees almost all work in the Mainland China. The Company has also established share option schemes and share options are granted at the Directors' discretion to motivate and reward the employees with outstanding performance.

FINANCIAL REVIEW

Liquidity, financial resources and capital commitments

As at 30 June 2005, the Group recorded total assets of approximately HK\$611.8 million (31 December 2004: HK\$561.3 million) which were financed by liabilities of approximately HK\$416.6 million (31 December 2004: HK\$376.0 million) and equity of approximately HK\$195.2 million (31 December 2004: HK\$185.3 million). The Group's net asset value as at 30 June 2005 was approximately HK\$195.2 million (31 December 2004: HK\$185.3 million).

The Group had total cash and bank balance of approximately HK\$147.3 million as at 30 June 2005 (31 December 2004: HK\$189.7 million). The Group had no bank loan and overdraft as at 30 June 2005 (31 December 2004: Nil), hence the Group recorded a net cash balance of approximately HK\$147.3 million as at 30 June 2005 (31 December 2004: HK\$189.7 million). As at 30 June 2005, the Group's current ratio was 1.37 (31 December 2004: 1.41) and the Group had no long-term debt as at 30 June 2005 (31 December 2004: Nil).

As at 30 June 2005, the Group did not have any material capital expenditure commitments (31 December 2004: 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 and United States dollars.

Exposure to fluctuations in exchange rates and related hedges

Most of the Group's payables are denominated in Hong Kong dollars and United States dollars and the turnover of the Group are mainly denominated in Renminbi and United States dollars. As the exchange rates of Renminbi and United States dollars against Hong Kong dollars 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.

Charges on assets

As at 30 June 2005, bank deposits of approximately HK\$37.6 million were pledged to banks to secure general banking facilities granted.

Contingent liabilities

The Group did not have any significant contingent liabilities as at 30 June 2005.

CONDENSED CONSOLIDATED INCOME STATEMENT

| For the six months ended 30 June | | | |
|-------------------------------------|-------|-------------|-------------|
| | | 2005 | 2004 |
| | | (Unaudited) | (Unaudited) |
| | Notes | HK\$'000 | HK\$'000 |
| | | | (Restated) |
| REVENUE | 3 | 817,205 | 531,711 |
| Cost of sales | | (780,256) | (498,522) |
| Gross profit | | 36,949 | 33,189 |
| Other income and gains | 4 | 554 | 1,742 |
| Selling and distribution costs | | (15,377) | (19,710) |
| Administrative expenses | | (17,724) | (16,970) |
| Other operating expenses, net | | (1,284) | (449) |
| Finance costs | 5 | (61) | (45) |
| Share of profits of associates | | 7,483 | 2,779 |
| PROFIT BEFORE TAX | 6 | 10,540 | 536 |
| Tax | 7 | (590) | (3) |
| PROFIT ATTRIBUTABLE TO SHAREHOLDERS | | 9,950 | 533 |
| EARNINGS PER SHARE — Basic | 8 | 0.90 cents | 0.05 cents |

CONDENSED CONSOLIDATED BALANCE SHEET

| | | 30 June 2005 (Unaudited) HK\$'000 | 31 December 2004 (Audited) HK\$'000 |
|---|-------|--|--|
| | Notes | | |
| NON-CURRENT ASSETS | | | |
| Fixed assets | | 5,640 | 6,324 |
| Goodwill | | 2,892 | 2,892 |
| Interests in associates | | 30,455 | 22,972 |
| Total non-current assets | | 38,987 | 32,188 |
| CURRENT ASSETS | | | |
| Inventories | | 118,702 | 108,010 |
| Trade and bills receivables | 10 | 276,603 | 195,356 |
| Prepayments, deposits and other receivables | | 30,245 | 36,076 |
| Pledged deposits | | 37,585 | 32,805 |
| Cash and cash equivalents | | 109,667 | 156,907 |
| Total current assets | | 572,802 | 529,154 |
| CURRENT LIABILITIES | | | |
| Trade and bills payables | 11 | 334,029 | 308,548 |
| Other payables and accruals | | 82,229 | 67,479 |
| Tax payable | | 380 | — |
| Total current liabilities | | 416,638 | 376,027 |
| NET CURRENT ASSETS | | 156,164 | 153,127 |
| | | 195,151 | 185,315 |
| CAPITAL AND RESERVES | | | |
| Share capital | | 110,056 | 110,056 |
| Other reserves | 12 | 674,634 | 674,748 |
| Accumulated losses | 12 | (589,539) | (599,489) |
| | | 195,151 | 185,315 |

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | Notes | For the six months ended 30 June | |
|--|-------|----------------------------------|---|
| | | 2005 (Unaudited) HK\$'000 | 2004 (Unaudited) HK\$'000 (Restated) |
| Total equity at 1 January | | 185,315 | 176,126 |
| Changes in equity during the period: | | | |
| Exchange differences on translating foreign operations | 12 | (114) | 470 |
| Net income/(expense) recognised directly in equity | | (114) | 470 |
| Profit attributable to shareholders | 12 | 9,950 | 533 |
| Total recognised income and expense for the period | | 9,836 | 1,003 |
| Total equity at 30 June | | 195,151 | 177,129 |

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

| | For the six months ended 30 June | |
|---|-------------------------------------|---------------------------------|
| | 2005 (Unaudited) HK\$'000 | 2004 (Unaudited) HK\$'000 |
| NET CASH OUTFLOW FROM OPERATING ACTIVITIES | (40,921) | (28,892) |
| NET CASH OUTFLOW FROM INVESTING ACTIVITIES | (6,319) | (8,839) |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | (47,240) | (37,731) |
| Cash and cash equivalents at beginning of period | 156,907 | 142,070 |
| Effect of foreign exchange rate changes, net | — | 99 |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | <u>109,667</u> | <u>104,438</u> |
| ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS | | |
| Cash and bank balances | 107,185 | 101,532 |
| Non-pledged time deposits with original maturity of less than three months when acquired | <u>2,482</u> | <u>2,906</u> |
| | <u>109,667</u> | <u>104,438</u> |

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

The 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 2004, except in relation to the following new and revised Hong Kong Financial Reporting Standards (“HKFRSs”, which also include HKASs and Interpretations) that affect the Group and are adopted for the first time for the current period’s financial statements:

| | |
|---------|--|
| HKAS 1 | Presentation of Financial Statements |
| HKAS 2 | Inventories |
| HKAS 7 | Cash Flow Statements |
| HKAS 8 | Accounting Policies, Changes in Accounting Estimates and Errors |
| HKAS 10 | Events after the Balance Sheet Date |
| HKAS 12 | Income Taxes |
| HKAS 16 | Property, Plant and Equipment |
| HKAS 17 | Leases |
| HKAS 18 | Revenue |
| HKAS 19 | Employee Benefits |
| HKAS 20 | Accounting for Government Grants and Disclosure of Government Assistance |
| HKAS 21 | The Effects of Changes in Foreign Exchange Rates |
| HKAS 23 | Borrowing Costs |
| HKAS 24 | Related Party Disclosures |
| HKAS 27 | Consolidated and Separate Financial Statements |
| HKAS 28 | Investments in Associates |
| HKAS 32 | Financial Instruments: Disclosure and Presentation |
| HKAS 33 | Earnings Per Share |
| HKAS 37 | Provisions, Contingent Liabilities and Contingent Assets |
| HKAS 39 | Financial Instruments: Recognition and Measurement |
| HKFRS 2 | Share-based Payment |

The adoption of HKASs 1, 2, 7, 8, 10, 12, 16, 17, 18, 19, 20, 21, 23, 24, 27, 28, 32, 33, 37 and 39 has had no material impact on the accounting policies of the Group and the method of computation in the Group’s condensed consolidated financial statements. In summary,

- (a) HKAS 1 has affected certain presentations in the condensed consolidated balance sheet and condensed consolidated income statement. Taxes of associates attributable to the Group, which were previously included in the tax charge on the condensed consolidated income statement, are now included in the share of profits of associates.
- (b) HKAS 24 has affected the identification of related parties and some other related-party disclosures.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES *(Continued)*

The adoption of HKFRS 2 has resulted in a change in the accounting policy for share-based payments. In prior periods, no recognition and measurement of share-based transactions in which employees (including directors) were granted share options over shares in the Company was required until such options were exercised by employees, at which time the share capital and share premium were credited with the proceeds received.

Upon the adoption of HKFRS 2, when employees (including directors) render services as consideration for equity instruments ("equity-settled transactions"), the cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which the instruments are granted. The fair value is determined by an external valuer using a binomial model. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company, if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the "vesting date"). The cumulative expense recognised for equity-settled transactions at each balance sheet date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

The adoption of this accounting policy did not have any impact to the interim financial statements as all outstanding options as at 30 June 2005 and 2004 and 31 December 2004 were either (i) granted to employees on or before 7 November 2002; or (ii) granted after 7 November 2002 but were vested already before the effective date of this HKFRS, under which the new recognition and measurement policies are not applied.

2. SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES

As disclosed in the audited consolidated financial statements of the Company for the year ended 31 December 2004, the Group had elected to early adopt the following HKFRSs:

- HKFRS 3 "Business Combinations"
- HKAS 36 "Impairment of Assets"
- HKAS 38 "Intangible Assets"

The results for the six months ended 30 June 2004 have been restated in accordance with the new HKFRSs.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

2. SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES *(Continued)*

(a) Effect on equity as at 30 June 2004

| | Retained earnings (Unaudited) HK\$'000 |
|---|---|
| Amortisation of goodwill — increase in equity | 321 |

(b) Effect on profit after tax for the six months ended 30 June 2004

| | For the six months ended 30 June 2004 (Unaudited) HK\$'000 |
|--|--|
| Impairment of goodwill previously eliminated against consolidated reserves — decrease in other operating expenses, net | 43,500 |
| Amortisation of goodwill — decrease in other operating expenses, net | 321 |
| Total effect for the period | 43,821 |
| Increase in earnings per share — Basic | 3.98 cents |

3. SEGMENT INFORMATION

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

The Group is principally engaged in (i) the distribution of information products; and (ii) the provision of software solutions and services (discontinued during prior year).

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

3. SEGMENT INFORMATION *(Continued)*

The summary details of discontinued operation are as follows:

(a) Disposal of EC-Founder Co., Ltd. — Provision of software solutions and services business

On 20 October 2004, Founder Data Corporation International Limited, a wholly-owned subsidiary of the Company, entered into a conditional disposal agreement with 方正軟件(蘇州)有限公司 (Founder Software (Suzhou) Company Limited*) ("Founder Suzhou"), 上海方正信息安全技術有限公司 (Shanghai Founder Information Security Technology Company Limited*) ("Shanghai Founder"), associates of Peking University Founder Group Corporation ("Peking Founder") which is a substantial shareholder of the Company, and Peking Founder to dispose of its entire equity interest in EC-Founder Co., Ltd. to Founder Suzhou and Shanghai Founder and to waive the entire outstanding balances on current accounts owed by EC-Founder Co., Ltd. to the Group at a total cash consideration of RMB13.4 million (equivalent to approximately HK\$12.6 million). The disposal was completed on 3 December 2004.

The principal activity of EC-Founder Co., Ltd. was the provision of software solutions and services in the PRC.

(b) Discontinued operation of Beijing AdTargeting Inc. ("Beijing ADT") — Provision of software solutions and services business

On 15 October 2004, the Company and Beijing ADT entered into a termination agreement with a subsidiary of a then shareholder which held 8.47% of the shares of the Company, to terminate the advertising sales representative agreement. Pursuant to the termination agreement, the subsidiary of the then shareholder paid an ex gratia payment of approximately RMB4.9 million (equivalent to approximately HK\$4.6 million) to the Company.

The principal activity of Beijing ADT was the provision of internet advertising agency services.

** For identification purpose only*

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

3. SEGMENT INFORMATION (Continued)

The following table presents revenue and results for the Group's primary segments for the six months ended 30 June 2005 and 2004.

| | Distribution of information products | | Provision of software solutions and services (Discontinued) | | Corporate | | Consolidated | |
|-------------------------------------|--|-------------|--|-------------|-------------|-------------|--------------|-------------|
| | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 |
| | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| | | | | | | | | (Restated) |
| Revenue: | | | | | | | | |
| External sales | 817,205 | 503,656 | — | 28,055 | — | — | 817,205 | 531,711 |
| Segment results | 4,783 | 2,945 | (167) | (3,561) | (2,052) | (1,968) | 2,564 | (2,584) |
| Interest income | | | | | | | 554 | 386 |
| Finance costs | | | | | | | (61) | (45) |
| Share of profits of associates | | | | | | | 7,483 | 2,779 |
| Profit before tax | | | | | | | 10,540 | 536 |
| Tax | | | | | | | (590) | (3) |
| Profit attributable to shareholders | | | | | | | 9,950 | 533 |

4. OTHER INCOME AND GAINS

| | For the six months ended 30 June | |
|---------------------|-------------------------------------|-------------|
| | 2005 | 2004 |
| | (Unaudited) | (Unaudited) |
| | HK\$'000 | HK\$'000 |
| Interest income | 554 | 386 |
| Gross rental income | — | 156 |
| Government grants | — | 1,184 |
| Others | — | 16 |
| | 554 | 1,742 |

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

5. FINANCE COSTS

| | For the six months ended 30 June | |
|---------------------------------------|----------------------------------|-------------|
| | 2005 | 2004 |
| | (Unaudited) | (Unaudited) |
| | HK\$'000 | HK\$'000 |
| Interest on bank loans and overdrafts | <u>61</u> | <u>45</u> |

6. PROFIT BEFORE TAX

Profit before tax was determined after charging the following:

| | For the six months ended 30 June | |
|---|----------------------------------|-------------|
| | 2005 | 2004 |
| | (Unaudited) | (Unaudited) |
| | HK\$'000 | HK\$'000 |
| Depreciation | 845 | 1,746 |
| Provision and write-off of doubtful trade receivables | 1,240 | 193 |
| Provision and write-off of obsolete inventories | 1,867 | 263 |
| Loss on disposal of fixed assets | <u>44</u> | <u>255</u> |

7. TAX

| | For the six months ended 30 June | |
|---|----------------------------------|-------------|
| | 2005 | 2004 |
| | (Unaudited) | (Unaudited) |
| | HK\$'000 | HK\$'000 |
| Current — Hong Kong profits tax | — | 3 |
| Current — The People's Republic of China (the "PRC") corporate income tax | <u>590</u> | <u>—</u> |
| Total tax charge for the period | <u>590</u> | <u>3</u> |

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 the period. Hong Kong profits tax had been provided at a rate of 17.5% on the estimated assessable profits arising in Hong Kong during prior period.

Beijing Founder Century Information System Co., Ltd. ("PRC Century"), a wholly-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%.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

7. TAX (Continued)

The PRC corporate income tax provision 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. No provision for PRC corporate income tax had been provided in prior period as the relevant PRC subsidiaries were either under tax exemption periods or had sufficient tax losses brought forward to offset against the assessable profits arising during prior period.

Share of tax attributable to associates amounted to approximately HK\$1,073,000 (2004: HK\$1,477,000) is included in "Share of profits of associates" on the face of the condensed consolidated income statement.

8. EARNINGS PER SHARE

The calculation of basic earnings per share for the period is based on the unaudited profit attributable to shareholders of approximately HK\$9,950,000 (2004 (Restated): HK\$533,000), and the weighted average number of 1,100,562,040 (2004: 1,100,562,040) ordinary shares in issue during the period.

Diluted earnings per share for the six months ended 30 June 2005 and 2004 have not been disclosed as the impact of the outstanding share options was anti-dilutive.

9. INTERIM DIVIDEND

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2005 (2004: Nil).

10. 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 six 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.

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

| | 30 June 2005 (Unaudited) HK\$'000 | 31 December 2004 (Audited) HK\$'000 |
|-----------------|--|--|
| Within 6 months | 259,622 | 178,545 |
| 7-12 months | 15,898 | 15,306 |
| 13-24 months | 1,083 | 1,435 |
| Over 24 months | — | 70 |
| | <u>276,603</u> | <u>195,356</u> |

A provision is made when there is objective evidence that the Group will not be able to collect the amounts due according to the original terms of the receivables.

Included in the Group's trade and bills receivables are amounts due from fellow subsidiaries and related companies of approximately HK\$4,476,000 (2004: HK\$1,896,000) and HK\$1,544,000 (2004: 1,094,000) respectively, which are repayable on similar credit terms to those offered to the major customers of the Group.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

11. TRADE AND BILLS PAYABLES

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

| | 30 June 2005 (Unaudited) HK\$'000 | 31 December 2004 (Audited) HK\$'000 |
|-----------------|--|--|
| Within 6 months | 332,801 | 306,497 |
| 7-12 months | 524 | 1,970 |
| Over 12 months | 704 | 81 |
| | <u>334,029</u> | <u>308,548</u> |

12. RESERVES

| | Share premium account (Unaudited) HK\$'000 | Contributed surplus (Unaudited) HK\$'000 | Exchange fluctuation reserve (Unaudited) HK\$'000 | Total (Unaudited) HK\$'000 | Retained earnings/ (accumulated losses) (Unaudited) HK\$'000 |
|---|--|---|---|----------------------------------|---|
| At 1 January 2004 | 154,699 | 471,656 | (111) | 626,244 | (560,174) |
| Impairment of goodwill remaining eliminated against contributed surplus | — | 43,500 | — | 43,500 | (43,500) |
| Exchange realignment | — | — | 470 | 470 | — |
| Profit attributable to shareholders | — | — | — | — | 533 |
| At 30 June 2004 and 1 July 2004 | 154,699 | 515,156 | 359 | 670,214 | (603,141) |
| Impairment of goodwill remaining eliminated against contributed surplus | — | 5,000 | — | 5,000 | (5,000) |
| Realisation upon disposal of a subsidiary | — | — | (316) | (316) | — |
| Exchange realignment | — | — | (150) | (150) | — |
| Profit attributable to shareholders | — | — | — | — | 8,652 |
| At 31 December 2004 and 1 January 2005 | 154,699 | 520,156 | (107) | 674,748 | (599,489) |
| Exchange realignment | — | — | (114) | (114) | — |
| Profit attributable to shareholders | — | — | — | — | 9,950 |
| At 30 June 2005 | <u>154,699</u> | <u>520,156</u> | <u>(221)</u> | <u>674,634</u> | <u>(589,539)</u> |

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

13. RELATED PARTY TRANSACTIONS

- (a) On 29 April 2003, the Group entered into lease agreements with Peking Founder to lease from Peking Founder certain premises in Beijing, the PRC as its offices. During the period, rental and management fee expenses of approximately HK\$959,000 (six months ended 30 June 2004: HK\$2,146,000) were paid by the Group to Peking Founder. The directors considered that the rental and management fee expenses were paid in accordance with the terms of the lease agreements. The balance due to Peking Founder included in other payables and accruals as at 30 June 2005 was approximately HK\$1,044,000 (31 December 2004: HK\$478,000). The balance due from Peking Founder included in prepayments, deposits and other receivables as at 31 December 2004 was approximately HK\$319,000.
- (b) During the period, products of approximately HK\$7,065,000 (six months ended 30 June 2004: HK\$7,337,000) were sold to fellow subsidiaries. The sales of products were made according to published prices and conditions similar to those offered to other customers of the Group. Details of the Group's trade receivables balances with its fellow subsidiaries as at the balance sheet date are included in note 10 to the condensed consolidated interim financial statements.
- (c) During the period, products of approximately HK\$51,941,000 (six months ended 30 June 2004: HK\$22,518,000) were purchased from a company in which one director of a subsidiary was a shareholder. The purchase prices were determined based on actual costs incurred. The balance due from the related company included in prepayments, deposits and other receivables as at 30 June 2005 was approximately HK\$6,548,000 (31 December 2004: HK\$4,220,000).
- (d) During the period, software of approximately HK\$1,410,000 (six months ended 30 June 2004: Nil) was purchased from a then fellow subsidiary. The directors considered that the transaction was conducted at rates agreed between the Group and the then fellow subsidiary.
- (e) As at 30 June 2005, Peking Founder guaranteed banking facilities given by the PRC banks to the Group of approximately HK\$336,050,000 (30 June 2004: HK\$306,475,000) which were utilised to the extent of approximately HK\$264,964,000 (30 June 2004: HK\$255,495,000).
- (f) For the six months ended 30 June 2004, the Group received commission income of approximately HK\$1,877,000 from a subsidiary of a then shareholder which held 8.47% of the shares of the Company, prior to the disposal of shares of the Company by the shareholder, for the provision of advertising agency services.
- (g) In the opinion of the directors, the executive directors of the Company represented the key management personnel of the Group. During the period, no compensation was paid to the key management personnel (six months ended 30 June 2004: Nil).

14. CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities as at 30 June 2005 (31 December 2004: Nil).

15. COMPARATIVE FIGURES

As further explained in note 1 to these unaudited condensed consolidated interim financial statements, due to the adoption of new HKFRSs during the current period, the accounting treatment and presentation of certain items in the financial statements have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been restated and reclassified to conform with the current period's presentation.

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

At 30 June 2005, the interests 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 shares held, capacity and nature of interest | | | Total | Percentage of the Company's issued share capital |
|--|---|--------------------------------------|------------------------|------------|--|
| | Directly beneficially owned | Through controlled corporation | As trustee (Note 1) | | |
| Mr Cheung Shuen Lung | 36,890,100 | — | 60,671,600 | 97,561,700 | 8.86 |
| Mr Zhang Zhao Dong | 3,956,000 | — | 60,671,600 | 64,627,600 | 5.87 |
| Professor Wei Xin | 3,956,000 | — | 60,671,600 | 64,627,600 | 5.87 |
| Mr Yung Chih Shin, Richard (Note 2) | — | 87,680,000 | — | 87,680,000 | 7.97 |

Notes:

- These shares were held by F2 Consultant Limited as nominee on behalf of these directors who are acting in their capacity as the trustees of a discretionary trust for the employees of Founder Data Corporation International Limited ("FDC") and its subsidiaries. FDC is incorporated in the British Virgin Islands with limited liability and is a wholly-owned subsidiary of the Company.
- Mr Yung Chih Shin, Richard is interested in these shares through Ricwinco Investment Limited ("Ricwinco"), a company which is beneficially owned by Mr Yung Chih Shin, Richard.

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

In addition to the above, Mr Cheung Shuen Lung had non-beneficial personal equity interests in certain subsidiaries of the Company held for the benefit of the Company solely for the purpose of complying with the minimum company membership requirements.

Save as disclosed above, as at 30 June 2005, none of the directors had registered an interest or short position in the shares and underlying shares of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

OTHER INFORMATION

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save as disclosed under the section "Directors' interests in shares and underlying shares" above and 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 spouse or minor children, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries or fellow 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 schemes adopted by the Company on 11 September 1991 (the "1991 Scheme") and 7 May 2001 (the "2001 Scheme") were terminated on 24 May 2002, however, the options granted under the 1991 Scheme and the 2001 Scheme remain in full force and effect.

The following share options were outstanding under the 1991 Scheme, the 2001 Scheme and the 2002 Scheme at 1 January 2005 and at the end of the period:

| Name/category of participant | Number of share options | | | Date of grant * | Exercise period | Exercise price ** HK\$ |
|---------------------------------|-------------------------|--------------------------------|-----------------------|--------------------|--------------------------|------------------------------|
| | At 1 January 2005 | Lapsed during the period | At 30 June 2005 | | | |
| 1991 Scheme | | | | | | |
| Other employees | | | | | | |
| In aggregate | 2,700,000 | — | 2,700,000 | 18.5.2001 | 15.12.2001 to 14.12.2006 | 0.450 |
| 2001 Scheme | | | | | | |
| Directors | | | | | | |
| Mr Cheung Shuen Lung | 2,000,000 | — | 2,000,000 | 18.5.2001 | 18.5.2001 to 17.5.2011 | 0.450 |
| Professor Wei Xin | 2,000,000 | — | 2,000,000 | 18.5.2001 | 18.5.2001 to 17.5.2011 | 0.450 |
| Subtotal | 4,000,000 | — | 4,000,000 | | | |
| Other employees | | | | | | |
| In aggregate | 1,900,000 | (1,600,000) | 300,000 | 18.5.2001 | 18.5.2001 to 17.5.2011 | 0.450 |
| Total under the 2001 Scheme | 5,900,000 | (1,600,000) | 4,300,000 | | | |

SHARE OPTION SCHEMES (Continued)

| Name/category of participant | Number of share options | | | Date of grant * | Exercise period | Exercise price ** HK\$ |
|---|-------------------------|--------------------------------|-----------------------|--------------------|------------------------|------------------------------|
| | At 1 January 2005 | Lapsed during the period | At 30 June 2005 | | | |
| 2002 Scheme | | | | | | |
| Directors | | | | | | |
| Mr Zhang Zhao Dong | 8,000,000 | — | 8,000,000 | 6.2.2004 | 7.2.2004 to 5.2.2014 | 0.381 |
| Mr Cheung Shuen Lung | 8,000,000 | — | 8,000,000 | 6.2.2004 | 7.2.2004 to 5.2.2014 | 0.381 |
| Professor Wei Xin | 8,000,000 | — | 8,000,000 | 6.2.2004 | 7.2.2004 to 5.2.2014 | 0.381 |
| Subtotal | 24,000,000 | — | 24,000,000 | | | |
| Other employees of Founder Holdings Limited, the ultimate holding company of the Company | | | | | | |
| In aggregate | 16,500,000 | — | 16,500,000 | 2.1.2004 | 3.1.2004 to 31.12.2013 | 0.340 |
| Other employees of the Group | | | | | | |
| In aggregate | 21,500,000 | (11,000,000) | 10,500,000 | 2.1.2004 | 3.1.2004 to 31.12.2013 | 0.340 |
| Total under the 2002 Scheme | 62,000,000 | (11,000,000) | 51,000,000 | | | |

* The vesting period of the share options is from the date of the grant until the commencement of the exercise period.

** The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

OTHER INFORMATION

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES

At 30 June 2005, 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 in ordinary shares of the Company:

| Name | Notes | Capacity and nature of interest | Number of shares held | Percentage of the Company's issued share capital |
|--|-------|----------------------------------|-----------------------|--|
| Peking University Founder Group Corporation ("Peking Founder") | 1 | Through a controlled corporation | 603,609,000 | 54.85 |
| Founder Holdings Limited ("FHL") | | Directly beneficially owned | 603,609,000 | 54.85 |
| Peking University Education Foundation | | Directly beneficially owned | 93,240,000 | 8.47 |
| Peking University Education Foundation | | Beneficiary of a trust | 2,330,000 | 0.21 |
| Ricwinco Investment Limited | 2 | Directly beneficially owned | 87,680,000 | 7.97 |
| F2 Consultant Limited | 3 | Owned as nominee | 60,671,600 | 5.51 |
| HSBC International Trustee Limited | 4 | Through a controlled corporation | 60,500,000 | 5.50 |
| Sun Hung Kai Properties Limited | 4 | Through a controlled corporation | 60,500,000 | 5.50 |
| Sunco Resources Limited | 4 | Through a controlled corporation | 60,500,000 | 5.50 |
| SUNeVision Holdings Ltd. | 4 | Through a controlled corporation | 60,500,000 | 5.50 |
| Hugh Profit Investments Ltd. | 4 | Through a controlled corporation | 60,500,000 | 5.50 |
| Well Drive Holdings Limited | | Directly beneficially owned | 60,500,000 | 5.50 |

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES *(Continued)*

Notes:

1. Peking Founder is deemed to be interested in 603,609,000 shares of the Company under the SFO by virtue of its interest in FHL.
2. Mr Yung Chih Shin, Richard is interested in these shares through Ricwinco Investment Limited.
3. F2 Consultant Limited holds the shares of the Company as nominee on behalf of the directors of FDC who are acting in their capacity as the trustees of a discretionary trust for the employees of FDC and its subsidiaries.
4. Each of HSBC International Trustee Limited, Sun Hung Kai Properties Limited, Sunco Resources Limited, SUNeVision Holdings Ltd. and Hugh Profit Investments Ltd. is deemed to be interested in 60,500,000 shares of the Company under the SFO by virtue of its, direct or indirect, interests in Well Drive Holdings Limited.

Save as disclosed above, as at 30 June 2005, no person, other than the directors of the Company, whose interests are set out in the section "Directors' interests 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, SALE AND REDEMPTION OF SHARES

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

CODE ON CORPORATE GOVERNANCE PRACTICES

In the opinion of the directors, the Company complied with the code provisions as set out in Appendix 14 of the Listing Rules (the "Code") throughout the accounting period covered by the interim report, except for deviations in respect of (i) the service term and the rotation of directors under code provisions A.4.1 and A.4.2 of the Code; (ii) establishment of a remuneration committee under code provision B.1.1 of the Code; and (iii) the chairman of the Board should attend the annual general meeting under code provision E.1.2 of the Code.

- (i) Under code provision A.4.1 of the Code, non-executive directors should be appointed for a specific term and be subject to re-election. 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.

None of the existing non-executive directors of the Company was appointed for a specific term when they were appointed, which constitutes a deviation from code provision A.4.1 of the Code. To comply with code provision A.4.1 of the Code, the Company has entered into service contracts with all existing non-executive directors for a fixed term of one year on 30 June 2005.

Furthermore, according to the 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 will be proposed for the shareholders' approval at the forthcoming general meeting.

OTHER INFORMATION

CODE ON CORPORATE GOVERNANCE PRACTICES *(Continued)*

- (ii) Under code provision B.1.1 of the Code, a remuneration committee should be established with specific written terms of reference which deal clearly with its authority and duties.

To comply with code provision B.1.1 of the Code, the Company has established a remuneration committee and adopted its own terms of reference on 30 June 2005.

- (iii) The chairman of the Board had not attended the annual general meeting of the Company held on 27 May 2005. The chairman will endeavour to attend all future annual general meetings of the Company unless unexpected or special circumstances prevent him from doing so.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as the Company's code of conduct for dealings in securities of the Company by the directors. Based on specific enquiry of the Company's directors, the directors have complied with the required standard set out in the Model Code throughout the accounting period covered by the interim report.

AUDIT COMMITTEE

The Company has an audit committee which was established in compliance with Rule 3.21 of the Listing Rules for the purpose of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises the three independent non-executive directors of the Company. These unaudited condensed consolidated interim financial statements for the six months ended 30 June 2005 of the Group now reported have been reviewed by the audit committee.

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

Hong Kong
23 September 2005