



INTERIM  
REPORT

2009

 **FOUNDER HOLDINGS LIMITED**  
**方正控股有限公司**  
*(Incorporated in Bermuda with limited liability)*

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## Corporate Information

### BOARD OF DIRECTORS

#### *Executive directors*

Mr Zhang Zhao Dong (*Chairman*)  
 Professor Xiao Jian Guo (*Deputy Chairman*)  
 Mr Liu Xiao Kun (*President*)  
 Professor Wei Xin  
 Mr Chen Geng  
 Mr Xie Ke Hai

#### *Independent non-executive directors*

Mr Li Fat Chung  
 Dr Hu Hung Lick, Henry  
 Ms Wong Lam Kit Yee

### COMMITTEES

#### *Audit Committee*

Mr Li Fat Chung (*Chairman*)  
 Dr Hu Hung Lick, Henry  
 Ms Wong Lam Kit Yee

#### *Remuneration Committee*

Mr Zhang Zhao Dong (*Chairman*)  
 Mr Li Fat Chung  
 Ms Wong Lam Kit Yee

### COMPANY SECRETARY

Ms Tang Yuk Bo, Yvonne

### AUTHORISED REPRESENTATIVES

Mr Zhang Zhao Dong  
 Professor Wei Xin

### AUDITORS

Ernst & Young  
 Certified Public Accountants

### LEGAL ADVISERS

Morrison & Foerster  
 DLA Piper Hong Kong

### PRINCIPAL BANKERS

Bank of Beijing  
 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*

Computershare Hong Kong Investor Services Limited  
 Shops 1712-1716, 17th Floor, Hopewell Centre  
 183 Queen's Road East  
 Hong Kong

### LISTING INFORMATION

Main board of The Stock Exchange of Hong Kong Limited  
 Stock code: 00418  
 Board lot: 2,000 shares

### COMPANY WEBSITES

[www.founder.com.hk](http://www.founder.com.hk)  
[www.irasia.com/listco/hk/founder](http://www.irasia.com/listco/hk/founder)

## INTERIM RESULTS

The board of directors (the “Board”) of Founder Holdings Limited (the “Company”) is pleased to present the unaudited condensed consolidated interim financial statements of the Company and its subsidiaries (collectively the “Group”) for the six months ended 30 June 2009, together with the comparative figures for the corresponding period in 2008. The 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 2009

		For the six months ended 30 June	
		2009	2008
		(Unaudited)	(Unaudited)
	Notes	HK\$'000	HK\$'000
REVENUE	2	684,749	477,224
Cost of sales		<u>(587,760)</u>	<u>(367,745)</u>
Gross profit		96,989	109,479
Other income and gains	3	19,373	17,657
Selling and distribution costs		(57,148)	(69,394)
Administrative expenses		(31,573)	(30,420)
Other expenses, net		(47,418)	(42,455)
Finance costs	4	(1,052)	(1,180)
Share of profits and losses of associates		<u>5,647</u>	<u>11,165</u>
LOSS BEFORE TAX	5	(15,182)	(5,148)
Tax	6	<u>(19)</u>	<u>(198)</u>
LOSS FOR THE PERIOD		<u>(15,201)</u>	<u>(5,346)</u>
Attributable to:			
Equity holders of the parent		(15,258)	(5,459)
Minority interests		<u>57</u>	<u>113</u>
		<u>(15,201)</u>	<u>(5,346)</u>
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
– Basic	7	<u>(1.35 cents)</u>	<u>(0.48 cents)</u>

## Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2009

	For the six months ended	
	30 June	
	2009	2008
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Loss for the period	(15,201)	(5,346)
Exchange differences on translation of foreign operations	<u>2,092</u>	<u>15,677</u>
Other comprehensive income for the period, net of tax	<u>2,092</u>	<u>15,677</u>
Total comprehensive income/(loss) for the period, net of tax	<u>(13,109)</u>	<u>10,331</u>
Attributable to:		
Equity holders of the parent	(13,171)	10,199
Minority interests	<u>62</u>	<u>132</u>
	<u>(13,109)</u>	<u>10,331</u>

## Condensed Consolidated Statement of Financial Position

30 June 2009

	<i>Notes</i>	<b>30 June 2009 (Unaudited) HK\$'000</b>	31 December 2008 (Audited) HK\$'000
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		58,096	58,338
Investment properties		25,823	25,823
Interests in associates		116,210	110,755
Available-for-sale investment		802	802
Total non-current assets		<u>200,931</u>	<u>195,718</u>
<b>CURRENT ASSETS</b>			
Inventories		42,993	18,344
Gross amount due from contract customers		132,311	64,346
Trade and bills receivables	9	245,876	183,653
Prepayments, deposits and other receivables		112,932	270,810
Pledged deposits		42,113	42,377
Cash and cash equivalents		402,287	277,373
Total current assets		<u>978,512</u>	<u>856,903</u>
<b>CURRENT LIABILITIES</b>			
Trade and bills payables	10	322,351	222,618
Gross amount due to contract customers		88,436	41,923
Other payables and accruals		276,349	323,991
Interest-bearing bank borrowings		99,045	55,143
Tax payable		5	-
Total current liabilities		<u>786,186</u>	<u>643,675</u>
NET CURRENT ASSETS		<u>192,326</u>	<u>213,228</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>393,257</u>	<u>408,946</u>
<b>NON CURRENT LIABILITIES</b>			
Interest-bearing bank borrowings		1,215	3,795
Net assets		<u>392,042</u>	<u>405,151</u>
<b>EQUITY</b>			
<b>Equity attributable to equity holders of the parent</b>			
Issued capital		113,030	113,030
Reserves		278,459	291,630
		<u>391,489</u>	404,660
Minority interests		553	491
Total equity		<u>392,042</u>	<u>405,151</u>

## Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2009

	Attributable to equity holders of the parent										
	Issued share capital	Share premium account	Contributed surplus	Capital reserve	Land and buildings revaluation reserve	Exchange fluctuation reserve	General reserve	Accumulated losses	Total	Minority interests	Total equity
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2009	113,030	32,470	867,910	3,685	1,534	35,251	45,687	(694,907)	404,660	491	405,151
Loss for the period	-	-	-	-	-	-	-	(15,258)	(15,258)	57	(15,201)
Other comprehensive income	-	-	-	-	-	2,087	-	-	2,087	5	2,092
Total comprehensive loss	-	-	-	-	-	2,087	-	(15,258)	(13,171)	62	(13,109)
At 30 June 2009	113,030	32,470	867,910	3,685	1,534	37,338	45,687	(710,165)	391,489	553	392,042
At 1 January 2008	113,030	32,470	867,910	3,685	3,931	23,517	45,323	(718,067)	371,799	6,021	377,820
Loss for the period	-	-	-	-	-	-	-	(5,459)	(5,459)	113	(5,346)
Other comprehensive income	-	-	-	-	-	15,658	-	-	15,658	19	15,677
Total comprehensive income	-	-	-	-	-	15,658	-	(5,459)	10,199	132	10,331
At 30 June 2008	113,030	32,470	867,910	3,685	3,931	39,175	45,323	(723,526)	381,998	6,153	388,151

## Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2009

	For the six months ended 30 June	
	2009 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000
NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES	85,022	(196,849)
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	(2,416)	(1,264)
NET CASH INFLOW FROM FINANCING ACTIVITIES	<u>41,684</u>	<u>11,344</u>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	124,290	(186,769)
Cash and cash equivalents at beginning of period	276,783	314,124
Effect of foreign exchange rate changes, net	<u>1,214</u>	<u>18,838</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>402,287</u>	<u>146,193</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	382,932	114,027
Non-pledged time deposits with original maturity of less than three months when acquired	<u>19,355</u>	<u>32,166</u>
	<u>402,287</u>	<u>146,193</u>



# Notes to Condensed Consolidated Interim Financial Statements

30 June 2009

## 1. ACCOUNTING POLICIES

These unaudited condensed consolidated interim financial statements for the six months ended 30 June 2009 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 2008, 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 and HKAS 27 Amendments	Amendments to HKFRS 1 <i>First-time Adoption of HKFRSs</i> and HKAS 27 <i>Consolidated and Separate Financial Statements - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate</i>
HKFRS 2 Amendments	Amendments to HKFRS 2 <i>Share-based Payment - Vesting Conditions and Cancellations</i>
HKFRS 7 Amendments	Amendments to HKFRS 7 <i>Financial Instruments: Disclosures - Improving Disclosures about Financial Instruments</i>
HKFRS 8	<i>Operating Segments</i>
HKAS 1 (Revised)	<i>Presentation of Financial Statements</i>
HKAS 23 (Revised)	<i>Borrowing Costs</i>
HKAS 32 and HKAS 1 Amendments	Amendments to HKAS 32 <i>Financial Instruments: Presentation</i> and HKAS 1 <i>Presentation of Financial Statements - Puttable Financial Instruments and Obligations Arising on Liquidation</i>
HK(IFRIC)-Int 9 and HKAS 39 Amendments	Amendments to HK(IFRIC)-Int 9 <i>Reassessment of Embedded Derivatives</i> and HKAS 39 <i>Financial Instruments: Recognition and Measurement - Embedded Derivatives</i>
HK(IFRIC)-Int 13	<i>Customer Loyalty Programmes</i>
HK(IFRIC)-Int 15	<i>Agreements for the Construction of Real Estate</i>
HK(IFRIC)-Int 16	<i>Hedges of a Net Investment in a Foreign Operation</i>

Apart from the above, the Group has also adopted *Improvements to HKFRSs\** which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording.

\* *Improvements to HKFRSs* contains amendments to HKFRS 7, HKAS 1, HKAS 8, HKAS 10, HKAS 16, HKAS 18, HKAS 19, HKAS 20, HKAS 23, HKAS 27, HKAS 28, HKAS 29, HKAS 31, HKAS 34, HKAS 36, HKAS 38, HKAS 39, HKAS 40 and HKAS 41.

# Notes to Condensed Consolidated Interim Financial Statements

30 June 2009

## 1. ACCOUNTING POLICIES *(continued)*

Except for HKFRS 8 and HKAS 1 (Revised) giving rise to new accounting policies and additional disclosure as further described below, the adoption of the new interpretations and amendments has had no significant effect on these condensed consolidated financial statements.

### (a) HKFRS 8 *Operating Segments*

HKFRS 8, which replaces HKAS 14 *Segment Reporting*, specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purposes of allocating resources to the segments and assessing their performance. The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers.

### (b) HKAS 1 (Revised) *Presentation of Financial Statements*

HKAS 1 (Revised) introduces changes in the presentation and disclosures of financial statements. The revised standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, this standard introduces the statement of comprehensive income, with all items of income and expense recognised in profit or loss, together with all other items of recognised income and expense recognised directly in equity, either in one single statement, or in two linked statements.

## Notes to Condensed Consolidated Interim Financial Statements

30 June 2009

### 2. SEGMENT INFORMATION

For management purposes, the Group is organised into operating segments based on their products and services. The following table presents revenue and results for the Group's segments for the six months ended 30 June 2009 and 2008.

	Software development and systems integration for media business		Software development and systems integration for non-media business		Corporate		Others		Eliminations		Consolidated	
	2009 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000
Segment revenue:												
Sales to external customers	231,970	218,075	450,133	256,799	-	-	2,646	2,350	-	-	684,749	477,224
Intersegment sales	455	9,548	419	2,742	-	-	-	-	(874)	(12,290)	-	-
Other income	13,207	14,124	977	935	1,612	1,327	-	42	-	-	15,796	16,428
Total	<u>245,632</u>	<u>241,747</u>	<u>451,529</u>	<u>260,476</u>	<u>1,612</u>	<u>1,327</u>	<u>2,646</u>	<u>2,392</u>	<u>(874)</u>	<u>(12,290)</u>	<u>700,545</u>	<u>493,652</u>
Segment results	<u>(20,691)</u>	<u>(8,137)</u>	<u>2,303</u>	<u>(2,705)</u>	<u>(5,309)</u>	<u>(5,542)</u>	<u>343</u>	<u>22</u>			<u>(23,354)</u>	<u>(16,362)</u>
Interest income and unallocated gains											3,577	1,229
Finance costs											(1,052)	(1,180)
Share of profits and losses of associates											5,647	11,165
Loss before tax											(15,182)	(5,148)
Tax											(19)	(198)
Loss for the period											<u>(15,201)</u>	<u>(5,346)</u>

## Notes to Condensed Consolidated Interim Financial Statements

30 June 2009

### 3. OTHER INCOME AND GAINS

	For the six months ended 30 June	
	2009 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000
Bank interest income	1,094	977
Gross rental income	628	638
Government grants	13,224	14,607
Foreign exchange differences, net	2,483	252
Others	1,944	1,183
	<u>19,373</u>	<u>17,657</u>

### 4. FINANCE COSTS

	For the six months ended 30 June	
	2009 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000
Interest on bank loans and overdrafts	<u>1,052</u>	<u>1,180</u>

### 5. LOSS BEFORE TAX

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

	For the six months ended 30 June	
	2009 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000
Depreciation	3,553	4,605
Loss on disposal of items of property, plant and equipment	1	-
Impairment of trade receivables	7,556	7,115
Provision for obsolete inventories	<u>1,176</u>	<u>3,500</u>

## Notes to Condensed Consolidated Interim Financial Statements

30 June 2009

### 6. TAX

	For the six months ended 30 June	
	2009 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000
Current – The People’s Republic of China (the “PRC”)		
Charge for the period	–	198
Underprovision in prior years	<u>19</u>	<u>–</u>
Total tax charge for the period	<u>19</u>	<u>198</u>

No Hong Kong profits tax has been provided as there are no assessable profits arising in Hong Kong during the period (six months ended 30 June 2008: Nil).

On 16 March 2007, the PRC promulgated the Law of the People’s Republic of China on Enterprise Income Tax (the “New Corporate Income Tax Law”) by Order No. 63 of the President of the PRC. On 6 December 2007, the State Council issued Implementation Regulation of the New Corporate Income Tax Law. The New Corporate Income Tax Law and Implementation Regulation changed the tax rate of the PRC subsidiaries to 25% from 1 January 2008 onwards.

Beijing Founder Electronics Co., Ltd. (“Founder Electronics”), and Beijing Founder Order Computer Systems Co., Ltd. (“Founder Order”), wholly-owned subsidiaries of the Company, were registered as new and high technology enterprises. Pursuant to the New Corporate Income Tax Law, Founder Electronics and Founder Order are subject to PRC corporate income tax at a rate of 15% on their assessable profits.

The share of tax attributable to associates amounting to approximately HK\$543,000 (six months ended 30 June 2008: HK\$2,317,000) is included in “Share of profits and losses of associates” in the consolidated income statement.

## Notes to Condensed Consolidated Interim Financial Statements

30 June 2009

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

The calculation of basic loss per share amounts is based on the unaudited loss for the period attributable to equity holders of the parent of approximately HK\$15,258,000 (six months ended 30 June 2008: HK\$5,459,000), and the weighted average number of approximately 1,130,300,000 (six months ended 30 June 2008: 1,130,300,000) ordinary shares in issue during the period.

Diluted loss per share for the six months ended 30 June 2009 and 2008 have not been calculated as the exercise price of the outstanding share options during the period was higher than the average market price of the Company's shares during the periods.

### 8. INTERIM DIVIDEND

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2009 (six months ended 30 June 2008: Nil).

### 9. TRADE AND BILLS RECEIVABLES

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

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

	<b>30 June 2009 (Unaudited) HK\$'000</b>	31 December 2008 (Audited) HK\$'000
Within 6 months	<b>182,572</b>	141,432
7 to 12 months	<b>32,667</b>	28,738
13 to 24 months	<b>29,451</b>	12,631
Over 24 months	<b>1,186</b>	852
	<b>245,876</b>	183,653

Included in the Group's trade and bills receivables are amounts due from the Group's related companies and associates of approximately HK\$786,000 (31 December 2008: HK\$459,000) and HK\$1,765,000 (31 December 2008: HK\$1,132,000), 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

30 June 2009

### 10. TRADE AND BILLS PAYABLES

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

	30 June 2009 (Unaudited) HK\$'000	31 December 2008 (Audited) HK\$'000
Within 6 months	272,749	193,670
7 to 12 months	25,450	18,782
13 to 24 months	19,127	6,027
Over 24 months	<u>5,025</u>	<u>4,139</u>
	<u>322,351</u>	<u>222,618</u>

Included in the Group's trade and bills payables are amounts due to the Group's related companies and associates of approximately HK\$23,971,000 (31 December 2008: HK\$14,802,000) and HK\$89,198,000 (31 December 2008: HK\$36,577,000), respectively, which are repayable on similar credit terms to those obtained from major suppliers of the Group.

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

### 11. RELATED PARTY TRANSACTIONS

#### (I) Transactions with related parties

- (a) On 5 November 2007, a master agreement in relation to sales of information products by the Group to 北大方正集團有限公司 (Peking University Founder Group Company Limited\*) ("Peking Founder"), a substantial shareholder of the Company, and its subsidiaries ("Peking Founder Group") (the "Master Sales Agreement") and a master agreement in relation to purchase of media products by the Group from Peking Founder Group (the "Master Purchase Agreement") were entered into between Peking Founder and the Company in order to govern and specify the terms adopted and the annual caps for the total amount of the ongoing sales and purchases of media products and information products between the Group and Peking Founder Group for the three years ending 31 December 2009.

\* For identification only

## Notes to Condensed Consolidated Interim Financial Statements

30 June 2009

### 11. RELATED PARTY TRANSACTIONS *(continued)*

#### *(I) Transactions with related parties (continued)*

##### (a) *(continued)*

During the period, purchases of media products of approximately HK\$3,012,000 (six months ended 30 June 2008: Nil) from Peking Founder Group and sales of information products of approximately HK\$1,568,000 (six months ended 30 June 2008: HK\$37,000) to Peking Founder Group were made by the Group, respectively. The directors considered that the sale and purchase of products were made in accordance with the Master Sales Agreement and the Master Purchase Agreement, respectively.

- (b) On 15 August 2008, Founder Electronics entered into the new lease agreement with a subsidiary of Peking Founder to lease extra office space for the aggregate monthly rental and management fee of RMB230,000 (approximately HK\$262,000) commenced from 22 September 2008 and ended on 31 December 2008. On the same date, Founder Electronics also entered into the lease renewal agreement for a term of three years from 1 January 2009 to 31 December 2011 for the aggregate of annual rental and management fee of RMB10,185,000 (equivalent to approximately HK\$11,611,000). The Company has revised the cap for the year ended 31 December 2008 and set new annual caps for the three years ending 31 December 2011 in respect of leasing of properties by the Group from Peking Founder and its subsidiaries. Further details of the transactions were set out in the announcement of the Company dated 15 August 2008 and the circular of the Company dated 3 September 2008.

During the period, rental and management fee expenses of approximately HK\$5,781,000 (six months ended 30 June 2008: HK\$5,626,000) 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.



## Notes to Condensed Consolidated Interim Financial Statements

30 June 2009

### 11. RELATED PARTY TRANSACTIONS *(continued)*

#### *(1) Transactions with related parties (continued)*

- (c) On 7 February 2005, Founder Electronics entered into an agreement (the "Japan Software Agreement") with a subsidiary of Peking Founder, for the sale of printing software developed by Founder Electronics and the provision of other related services to the related company.

On 15 August 2008, the Company and the subsidiary of Peking Founder entered into an agreement (the "New Japan Master Agreement"), pursuant to which the Group shall from time to time for a term up to 31 December 2010 sell software, hardware, and/or system integration products and/or provide software, hardware, and/or system integration development services to Peking Founder Group. Further details of the transaction were set out in the announcement of the Company dated 15 August 2008 and the circular of the Company dated 3 September 2008.

During the period, sale of products and provision of product related services in an aggregate amount of approximately HK\$582,000 (six months ended 30 June 2008: HK\$1,741,000) to the related company were made by the Group. The directors considered that the sale of products and provision of services were made in accordance with the terms of the Japan Software Agreement and New Japan Master Agreement.

- (d) Since Founder Order holds a valid quality assurance certificate for provision of certain prescribed software development and systems integration services, Founder Order agreed to allow a company (in which 11.93% equity interests was held by Peking Founder and its subsidiary and one director of the Company was director), and a subsidiary of Peking Founder, to participate in public tenders in the capacity of Founder Order subject to the terms and conditions under the relevant agency agreements. Having succeeded in securing a contract in a public tender, Founder Order will enter into the sale contracts with the relevant independent third party in connection with provision of software development and systems integration services. During the period, agency fees of approximately HK\$350,000 (six months ended 30 June 2008: HK\$10,000) and HK\$24,000 (six months ended 30 June 2008: HK\$32,000) were received from the company (in which 11.93% equity interests were held by Peking Founder and its subsidiary and one director of the Company was director), and a subsidiary of Peking Founder, respectively. The directors considered the agency fees were made in accordance with the terms of agency agreements.

## Notes to Condensed Consolidated Interim Financial Statements

30 June 2009

### 11. RELATED PARTY TRANSACTIONS *(continued)*

#### *(I) Transactions with related parties (continued)*

- (e) On 5 January 2006, the Company entered into a master agreement with EC-Founder (Holdings) Company Limited ("EC-Founder"), an associate of the Company, to govern the purchase of information products from EC-Founder and its subsidiaries (collectively "EC-Founder Group") for a term of three years from 1 January 2006 to 31 December 2008. On 15 November 2006, the Company entered into a supplemental agreement with EC-Founder to amend the cap amount. The supplemental agreement was subsequently superseded by the revised supplemental agreement which was entered into between the Company and EC-Founder on 5 December 2006. On 15 December 2008, the Company entered into a master agreement with EC-Founder to continue the transactions for the purchase of information products from EC-Founder Group for a term of three years from 1 January 2009 to 31 December 2011. During the period, products in the amount of approximately HK\$112,323,000 (six months ended 30 June 2008: HK\$76,005,000) were purchased from EC-Founder Group.
- (f) On 15 December 2008, the Group entered into a master agreement with EC-Founder for the sales of information products to EC-Founder Group for a term of three years from 1 January 2009 to 31 December 2011.

During the period, products of approximately HK\$10,130,000 (six months ended 30 June 2008: Nil) were sold to EC-Founder Group. The directors considered that the sales of products were made in accordance with the master agreement.

- (g) The banking facilities guarantees given by Peking Founder and its subsidiary to PRC banks for the credit facilities granted to subsidiaries of the Company at 30 June 2009 of approximately HK\$335,475,000 (31 December 2008: HK\$214,130,000) were utilised to the extent of approximately HK\$140,825,000 (31 December 2008: HK\$66,504,000).

The related party transactions in respect of items (a), (b), (c) and (d) above also constitute connected transactions or 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 2009

### 11. RELATED PARTY TRANSACTIONS *(continued)*

#### *(II) Outstanding balances with related parties*

- (a) The balances due from subsidiaries of Peking Founder included in prepayments, deposits and other receivables as at 30 June 2009 are approximately HK\$5,559,000 (31 December 2008: HK\$165,017,000). The balances due to Peking Founder and its subsidiaries included in other payables and accruals as at 30 June 2009 are approximately HK\$2,633,000 (31 December 2008: HK\$2,177,000). The balances are unsecured, interest-free and have no fixed terms of repayment.
- (b) The balances due to a company (in which 11.39% equity interests was held by Peking Founder and its subsidiary and one director of the Company was director) and its subsidiaries included in other payables and accruals as at 30 June 2009 are approximately HK\$16,452,000 (31 December 2008: HK\$24,032,000). The balance due from this related company included in prepayments, deposits and other receivables as at 30 June 2009 is approximately HK\$307,000 (31 December 2008: HK\$979,000). The balances are unsecured, interest-free and have no fixed terms of repayment.
- (c) The balances due from associates of the Company included in prepayments, deposits and other receivables as at 30 June 2009 are approximately HK\$2,609,000 (31 December 2008: HK\$18,320,000). The balance due to an associate of the Company included in other payables and accruals as at 30 June 2009 is approximately HK\$98,721,000 (31 December 2008: Nil). The balances are unsecured, interest-free and have no fixed terms of repayment.
- (d) Details of the Group's trade balances with its associates and related companies as at the balance sheet date are disclosed in notes 9 and 10 to the condensed consolidated interim financial statements.

## Notes to Condensed Consolidated Interim Financial Statements

30 June 2009

### 11. 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	
	2009 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000
Directors' fee, salaries, allowances and benefits in kind	630	663
Pension schemes contributions	<u>7</u>	<u>33</u>
Total compensation paid to key management personnel	<u>637</u>	<u>696</u>

### 12. CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities as at 30 June 2009 (31 December 2008: Nil).

# Management Discussion and Analysis

## Overall Performance

The Group recorded an unaudited consolidated loss attributable to equity holders of the parent of approximately HK\$15.3 million for the six months ended 30 June 2009 (six months ended 30 June 2008: HK\$5.5 million). The Group recorded a significant increase in turnover during the current interim period by 43.5% to approximately HK\$684.7 million (six months ended 30 June 2008: HK\$477.2 million). The gross profit has declined by 11.4% to approximately HK\$97.0 million (six months ended 30 June 2008: HK\$109.5 million) and the gross profit margin has decreased from 22.9% for the six months ended 30 June 2008 to 14.2% for the current interim period.

Basic loss per share attributable to equity holders of the parent for the current interim period was HK1.35 cents (six months ended 30 June 2008: HK0.48 cents).

## Operating Review

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

The turnover of the Media Business for the current interim period increased by 6.4% to approximately HK\$232.0 million (six months ended 30 June 2008: HK\$218.1 million) while the segment results recorded a loss of approximately HK\$20.7 million (six months ended 30 June 2008: segment loss of HK\$8.1 million). The gross profit margin for the Media Business for the current interim period has decreased to 33.4% as compared to 45.0% for the six months ended 30 June 2008. The decline in gross profit margin was attributable to higher proportion of hardware involved in the systems integration contracts during the current interim period.

During the current interim period, the Group has allocated more resources for the new product development and market exploration. Facing the trend of digital printing in the commercial market, new models of Founder Eaglejet digital inkjet printer was launched in May 2009 with better performance/price ratio as compared with previous models. In addition, our self-developed printing software provides the users an easy-to use workflow. The continued development of the digital printers and software will enable the Group to transform itself from the role of a software developer and system integrator to that of a software and equipment developer and system integration and service provider which bring the Group into another thriving era in the printing industry.

In addition, the Group's first own developed and advanced technology computer-to-plate ("CTP") product, Founder Diaolong (方正雕龍) has received encouraging support and strong demand from both domestic and overseas market. On 26 March 2009, the Group's software development arm, Beijing Founder Electronics Co., Ltd. ("Founder Electronics"), entered into a cooperation agreement with Agfa, one of the leading international printing solutions providers, for a closer cooperation on the development of CTP, CTP plate and other related products. This cooperation enables the Group to provide more competitive systems integration solutions in the publishing industry.

In the 2009 CPCC Annual Meeting organised by the Copyright Protection Center of China (中國版權保護中心) held in Beijing, Founder Electronics was presented with the award of excellence for TOP 10 Leaders (2008年度CPCC十大中國著作權人) for its long-term work of copyright protection program.

## Management Discussion and Analysis

### ***(B) Software development and systems integration for non-media sector (“Non-Media Business”)***

The turnover of the Non-Media Business for the current interim period increased significantly by 75.3% to approximately HK\$450.1 million (six months ended 30 June 2008: HK\$256.8 million). In addition, its segment results has recorded a profit of approximately HK\$2.3 million (six months ended 30 June 2008: segment loss of HK\$2.7 million). The significant increase in turnover and improvement in segment results was attributable to the broadening of product range and product mix offered to customers. The gross profit margin for the Non-Media Business was maintained at 4.3% for the current and last interim period.

Despite of the global financial crisis and its effect upon the China's economy, with management's continued effort to streamline the operation and opening up new customer channel, the Non-Media Business was able to secure a number of large scale systems integration contracts for the finance, insurance and securities industries and various government bureaus in China. The major products and services provided by the Non-Media Business include various solutions for the banking, insurance and securities industries, call center solutions, security and identity verification systems, documents imaging systems.

### **Prospects**

Given the continuous sign of recovery of the economy of China, the management will closely monitor changes in China's economy and its IT market. The Group will continue the development of innovative solutions and provide our customers with more cost-effective products and solutions to meet our customers' demands for enhancing their competitiveness. In addition, the Group will closely monitor the performance of each business sector to achieve effective cost control and minimise the loss.

### **Employees**

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

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

At 30 June 2009, the number of employees of the Group was approximately 1,369.

### **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 2009, the Group had interest-bearing bank borrowings of approximately HK\$100.3 million (31 December 2008: HK\$58.9 million), of which approximately HK\$32.9 million (31 December 2008: HK\$31.9 million) were fixed interest bearing and HK\$67.4 million (31 December 2008: HK\$27.0 million) were floating interest bearing. The

## Management Discussion and Analysis

bank borrowings were denominated in Renminbi ("RMB") and United States Dollars ("U.S. Dollars"), of which approximately HK\$99.1 million (31 December 2008: HK\$55.1 million) and HK\$1.2 million (31 December 2008: HK\$3.8 million) were repayable within one year and two to five years, respectively. The Group's banking facilities were secured by corporate guarantees given by the Company and Peking University Founder Group Company Limited, certain of the Group's land and buildings and investment properties and bank deposits.

At 30 June 2009, the Group recorded total assets of HK\$1,179.4 million which were financed by liabilities of HK\$787.4 million, minority interests of HK\$0.6 million and equity of HK\$391.4 million. The Group's net asset value per share as at 30 June 2009 amounted to HK\$0.35 (31 December 2008: HK\$0.36).

The Group had total cash and bank balances of HK\$444.4 million as at 30 June 2009 (31 December 2008: HK\$319.8 million). After deducting total bank borrowings of HK\$100.3 million (31 December 2008: HK\$58.9 million), the Group recorded net cash and bank balances of HK\$344.1 million as at 30 June 2009 as compared to HK\$260.9 million as at 31 December 2008. The Group's borrowings, which are subject to little seasonality, consist of mainly short and long term bank loans and trust receipt loans. As at 30 June 2009, the Group's gearing ratio, measured on the basis of total borrowings as a percentage of total shareholders' equity, was 0.26 (31 December 2008: 0.15) while the Group's working capital ratio was 1.24 (31 December 2008: 1.33).

At 30 June 2009, the Group did not have any material capital expenditure commitments.

### *Treasury policies*

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

### *Exposure to fluctuations in exchange rates and related hedges*

Most of the Group's borrowings are denominated in RMB and U.S. Dollars while the sales of the Group are mainly denominated in RMB and U.S. Dollars. As the exchange rates of U.S. Dollars against Hong Kong dollars and RMB 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 2009, the major contracts in hand for the software development and systems integration business amounted to approximately HK\$565.2 million, which are all expected to be completed within one year time.

### *Material acquisitions and disposals of subsidiaries and associates*

The Group had no material acquisition or disposals of subsidiaries and associates for the six months ended 30 June 2009.

### *Charges on assets*

At 30 June 2009, the Group's land and buildings in Hong Kong of approximately HK\$28.8 million, investment properties of approximately HK\$25.8 million and bank deposits of approximately HK\$42.1 million were pledged to banks to secure banking facilities granted.

### *Contingent liabilities*

At 30 June 2009, the Group did not have any significant contingent liabilities.

## Other Information

### Directors' Interests and Short Positions in Shares and Underlying Shares

At 30 June 2009, the interests and short positions of the directors in the share capital and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), were as follows:

#### Long positions in ordinary shares of associated corporations:

EC-Founder (Holdings) Company Limited ("EC-Founder"), an associate of the Company

Name of director	Number of ordinary shares held, capacity and nature of interest	Percentage of the associated corporation's issued share capital
	Directly beneficially owned	
Professor Xiao Jian Guo	8,703,300	0.79
Professor Wei Xin	3,956,000	0.36
Mr Zhang Zhao Dong	<u>3,956,000</u>	<u>0.36</u>

#### Long positions in underlying shares of associated corporations:

EC-Founder

Name of director	Number of share options outstanding as at 1 January 2009 and 30 June 2009	Date of grant of share options	Exercise period of share options	Exercise price of share options HK\$ per share
Mr Zhang Zhao Dong	8,000,000	6.2.2004	7.2.2004 to 5.2.2014	0.381
Professor Wei Xin	2,000,000	18.5.2001	18.5.2001 to 17.5.2011	0.450
Professor Wei Xin	8,000,000	6.2.2004	7.2.2004 to 5.2.2014	0.381
Mr Liu Xiao Kun	5,500,000	2.1.2004	3.1.2004 to 31.12.2013	0.340
	<u>23,500,000</u>			

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



## Other Information

### Directors' Interests and Short Positions in Shares and Underlying Shares

(Continued)

#### Long positions in underlying shares of associated corporations: (Continued)

Save as disclosed above, as at 30 June 2009, none of the directors had registered an interest or short position in the shares or underlying shares of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

### Directors' Rights to Acquire Shares

Save as disclosed under the section "Directors' interests and short positions in shares and underlying shares" above and the section "Share option scheme" below, at no time during the period were rights to acquire benefits by means of the acquisition of shares in the Company granted to any director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

### Share Option Scheme

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

The following share options were outstanding under the share option scheme at 1 January 2009 and at the end of the period:

Name or category of participant	Number of share options outstanding as at 1 January 2009 and 30 June 2009	Date of grant of share options *	Exercise period of share options	Exercise price of share options ** HK\$ per share
<b>Directors</b>				
Mr Zhang Zhao Dong	8,000,000	5.2.2004	6.2.2004 to 4.2.2014	1.104
Professor Xiao Jian Guo	8,000,000	5.2.2004	6.2.2004 to 4.2.2014	1.104
Professor Wei Xin	8,000,000	5.2.2004	6.2.2004 to 4.2.2014	1.104
Subtotal	<u>24,000,000</u>			
<b>Other employees</b>				
In aggregate	8,000,000	5.2.2004	6.2.2004 to 4.2.2014	1.104
In aggregate	6,000,000	2.1.2004	3.1.2004 to 31.12.2013	0.840
Subtotal	<u>14,000,000</u>			
Total	<u>38,000,000</u>			

## Other Information

### Share Option Scheme *(Continued)*

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

- \* The vesting period of the share options is from the date of the grant until the commencement of the exercise period.
- \*\* The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

### Substantial Shareholders' and Other Persons' Interests in Shares

At 30 June 2009, the following interest of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

#### *Long positions:*

Name	Capacity and nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital
北京北大資產經營有限公司 (Peking University Asset Management Company Limited*) <i>(Note)</i>	Through a controlled corporation	367,179,610	32.49
北大方正集團有限公司 (Peking University Founder Group Company Limited*) ("Peking Founder")	Directly beneficially owned	367,179,610	32.49

\* *For identification purpose only*

*Note:* Peking University Asset Management Company Limited was deemed to be interested in the 367,179,610 shares under the SFO by virtue of its interest in Peking Founder.

Save as disclosed above, as at 30 June 2009, no person, other than the directors of the Company, whose interests are set out in the section "Directors' interests and short positions in shares and underlying shares" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

## Other Information

### Purchase, Redemption or Sale of Listed Securities of the Company

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

### Corporate Governance

None of the directors of the Company is aware of any information which would reasonably indicate that the Company has not, throughout the six months ended 30 June 2009, complied with the code provisions of the Code of Corporate Governance Practices as set out in Appendix 14 to the Listing Rules.

### Model Code for Securities Transactions by Directors of the Company

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

### Audit Committee

The Audit Committee has reviewed the Group's condensed consolidated interim financial statements for six months ended 30 June 2009, including the accounting principles adopted by the Group, with the Company's management.

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

Hong Kong  
25 September 2009