



2010
Interim Report



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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
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 2010, together with the comparative figures for the corresponding period in 2009. 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 2010

		For the six months ended 30 June	
	Notes	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000
REVENUE	2	1,007,139	684,749
Cost of sales		<u>(886,061)</u>	<u>(587,760)</u>
Gross profit		121,078	96,989
Other income and gains	3	27,214	19,373
Selling and distribution costs		(68,748)	(57,148)
Administrative expenses		(34,523)	(31,573)
Other expenses, net		(42,518)	(47,418)
Finance costs	4	(2,923)	(1,052)
Share of profits and losses of associates		<u>919</u>	<u>5,647</u>
PROFIT/(LOSS) BEFORE TAX	5	499	(15,182)
Income tax expense	6	<u>(1,373)</u>	<u>(19)</u>
LOSS FOR THE PERIOD		<u>(874)</u>	<u>(15,201)</u>
Attributable to:			
Owners of the parent		(951)	(15,258)
Non-controlling interests		<u>77</u>	<u>57</u>
		<u>(874)</u>	<u>(15,201)</u>
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	7		
– Basic		<u>(0.08 cents)</u>	<u>(1.35 cents)</u>
– Diluted		<u>(0.08 cents)</u>	<u>(1.35 cents)</u>

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2010

	For the six months ended	
	30 June	
	2010	2009
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Loss for the period	(874)	(15,201)
Exchange differences on translation of foreign operations	<u>2,176</u>	<u>2,092</u>
Other comprehensive income for the period, net of tax	<u>2,176</u>	<u>2,092</u>
Total comprehensive income/(loss) for the period, net of tax	<u>1,302</u>	<u>(13,109)</u>
Attributable to:		
Owners of the parent	1,220	(13,171)
Non-controlling interests	<u>82</u>	<u>62</u>
	<u>1,302</u>	<u>(13,109)</u>

Condensed Consolidated Statement of Financial Position

30 June 2010

		30 June 2010 (Unaudited) HK\$'000	31 December 2009 (Audited) HK\$'000
	<i>Notes</i>		
NON-CURRENT ASSETS			
Property, plant and equipment		115,229	119,262
Investment properties		30,560	30,560
Interests in associates		126,760	123,882
Available-for-sale investment		802	802
		<u>273,351</u>	<u>274,506</u>
Total non-current assets			
CURRENT ASSETS			
Inventories		45,113	26,349
Gross amount due from contract customers		39,314	94,048
Trade and bills receivables	9	135,921	211,472
Prepayments, deposits and other receivables		118,057	344,053
Pledged deposits		17,051	92,572
Cash and cash equivalents		152,566	333,031
		<u>508,022</u>	<u>1,101,525</u>
Assets of a disposal group classified as held for sale	10	<u>619,468</u>	-
		<u>1,127,490</u>	<u>1,101,525</u>
Total current assets			
CURRENT LIABILITIES			
Trade and bills payables	11	69,843	368,913
Gross amount due to contract customers		26,965	44,758
Receipts in advance, other payables and accruals		159,115	363,835
Interest-bearing bank borrowings	12	86,692	102,733
Tax payable		86	7
		<u>342,701</u>	<u>880,246</u>
Liabilities directly associated with the assets classified as held for sale	10	<u>562,115</u>	-
		<u>904,816</u>	<u>880,246</u>
Total current liabilities			
NET CURRENT ASSETS			
		<u>222,674</u>	<u>221,279</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			
		<u>496,025</u>	<u>495,785</u>

Condensed Consolidated Statement of Financial Position

(Continued)

30 June 2010

	<i>Note</i>	30 June 2010 (Unaudited) HK\$'000	31 December 2009 (Audited) HK\$'000
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	12	–	1,062
Deferred tax liabilities		<u>5,907</u>	<u>5,907</u>
Total non-current liabilities		<u>5,907</u>	<u>6,969</u>
Net assets		<u>490,118</u>	<u>488,816</u>
EQUITY			
Equity attributable to owners of the parent			
Issued capital		113,030	113,030
Reserves		<u>376,299</u>	<u>375,079</u>
		489,329	488,109
Non-controlling interests		<u>789</u>	<u>707</u>
Total equity		<u>490,118</u>	<u>488,816</u>

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2010

	Attributable to owners of the parent										
	Issued capital (Unaudited) HK\$'000	Share premium account (Unaudited) HK\$'000	Contributed surplus (Unaudited) HK\$'000	Capital reserve (Unaudited) HK\$'000	Land and buildings revaluation reserve (Unaudited) HK\$'000	Exchange fluctuation reserve (Unaudited) HK\$'000	General reserve (Unaudited) HK\$'000	Accumulated losses (Unaudited) HK\$'000	Total (Unaudited) HK\$'000	Non-controlling interests (Unaudited) HK\$'000	Total equity (Unaudited) HK\$'000
At 1 January 2010	113,030	32,470	867,910	3,685	59,147	37,932	46,530	(672,595)	488,109	707	488,816
Loss for the period	-	-	-	-	-	-	-	(951)	(951)	77	(874)
Other comprehensive income	-	-	-	-	-	2,171	-	-	2,171	5	2,176
Total comprehensive income/(loss)	-	-	-	-	-	2,171	-	(951)	1,220	82	1,302
At 30 June 2010	113,030	32,470	867,910	3,685	59,147	40,103	46,530	(673,546)	489,329	789	490,118
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 income/(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

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2010

		For the six months ended 30 June	
		2010	2009
		(Unaudited)	(Unaudited)
	Note	HK\$'000	HK\$'000
NET CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES		(49,909)	85,022
NET CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES		22,583	(2,416)
NET CASH FLOWS FROM FINANCING ACTIVITIES		<u>10,417</u>	<u>41,684</u>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		(16,909)	124,290
Cash and cash equivalents at beginning of period		321,070	276,783
Effect of foreign exchange rate changes, net		<u>3,300</u>	<u>1,214</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD		<u>307,461</u>	<u>402,287</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		147,541	382,932
Non-pledged time deposits		<u>5,025</u>	<u>19,355</u>
Cash and cash equivalents as stated in the statement of financial position		152,566	402,287
Cash and cash equivalents attributable to assets of a disposal group classified as held for sale	10	<u>154,895</u>	<u>-</u>
Cash and cash equivalents as stated in the statement of cash flows		<u>307,461</u>	<u>402,287</u>

Notes to Condensed Consolidated Interim Financial Statements

30 June 2010

1. ACCOUNTING POLICIES

These unaudited condensed consolidated interim financial statements for the six months ended 30 June 2010 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 2009, 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:

HKFRSs Amendments	<i>Improvements to HKFRSs 2009</i>
HKFRS 1 (Revised)	<i>First-time Adoption of Hong Kong Financial Reporting Standards</i>
HKFRS 1 Amendments	<i>Amendments to HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards – Additional Exemptions for First-time Adopters</i>
HKFRS 2 Amendments	<i>Amendments to HKFRS 2 Share-based Payment – Group Cash-settled Share-based Payment Transactions</i>
HKFRS 3 (Revised)	<i>Business Combinations</i>
HKAS 27 (Revised)	<i>Consolidated and Separate Financial Statements</i>
HKAS 32 Amendment	<i>Amendment to HKAS 32 Financial Instruments: Presentation – Classification of Rights Issues</i>
HKAS 39 Amendment	<i>Amendment to HKAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items</i>
HK(IFRIC)-Int 17	<i>Distributions of Non-cash Assets to Owners</i>
Amendments to HKFRS 5 included in <i>Improvements to HKFRSs</i> issued in October 2008	<i>Amendments to HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations – Plan to Sell the Controlling Interest in a Subsidiary</i>
HK Interpretation 4 (Revised in December 2009)	<i>Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases</i>

The adoption of the above new and revised HKFRSs has had no significant effect on these condensed consolidated interim financial statements.

Notes to Condensed Consolidated Interim Financial Statements

30 June 2010

2. OPERATING 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 2010 and 2009:

	Software development and systems integration for media business		Software development and systems integration for non-media business		Corporate		Others		Total	
	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000
Segment revenue:										
Sales to external customers	340,924	231,970	666,070	452,696	-	-	145	83	1,007,139	684,749
Intersegment sales	6,870	455	-	419	-	-	-	-	6,870	874
	<u>347,794</u>	<u>232,425</u>	<u>666,070</u>	<u>453,115</u>	<u>-</u>	<u>-</u>	<u>145</u>	<u>83</u>	<u>1,014,009</u>	<u>685,623</u>
<i>Reconciliation:</i>										
Elimination of intersegment sales									<u>(6,870)</u>	<u>(874)</u>
Revenue									<u>1,007,139</u>	<u>684,749</u>
Segment results	(3,035)	(20,486)	1,956	1,805	(3,284)	(4,719)	117	46	(4,246)	(23,354)
<i>Reconciliation:</i>										
Interest income and unallocated gains									6,749	3,577
Finance costs									(2,923)	(1,052)
Share of profits and losses of associates									<u>919</u>	<u>5,647</u>
Profit/(loss) before tax									<u>499</u>	<u>(15,182)</u>

Notes to Condensed Consolidated Interim Financial Statements

30 June 2010

3. OTHER INCOME AND GAINS

	For the six months ended 30 June	
	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000
Bank interest income	832	1,094
Other interest income	5,031	–
Gross rental income	599	628
Government grants	16,845	13,224
Foreign exchange differences, net	886	2,483
Others	3,021	1,944
	<u>27,214</u>	<u>19,373</u>

4. FINANCE COSTS

	For the six months ended 30 June	
	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000
Interest on bank loans	<u>2,923</u>	<u>1,052</u>

5. PROFIT/(LOSS) BEFORE TAX

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

	For the six months ended 30 June	
	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000
Depreciation	3,604	3,553
(Gain)/loss on disposal of items of property, plant and equipment	(121)	1
Impairment of trade receivables	9,048	7,556
(Reversal of provision)/provision for obsolete inventories	<u>(530)</u>	<u>1,176</u>

Notes to Condensed Consolidated Interim Financial Statements

30 June 2010

6. INCOME TAX

	For the six months ended 30 June	
	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000
Current – The People's Republic of China (the "PRC")		
Charge for the period	1,373	–
Underprovision in prior years	<u>–</u>	<u>19</u>
Total tax charge for the period	<u>1,373</u>	<u>19</u>

No provision for Hong Kong profits tax has been made as the relevant subsidiaries either did not generate any assessable profits arising in Hong Kong during the period or have available tax losses brought forward from prior years to offset the assessable profits generated during the period (six months ended 30 June 2009: 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.

Pursuant to the relevant approval document issued by the PRC tax bureau, Beijing Founder Electronics Co., Ltd. ("Founder Electronics"), a wholly-owned subsidiary of the Company, being registered as a major new and high technology enterprise, is granted a tax concession to pay PRC corporate income tax at a preferential rate of 10% on its assessable profits.

北京方正奧德計算機系統有限公司(Beijing Founder Order Computer Systems Co., Ltd. *) ("Founder Order"), a wholly-owned subsidiary of the Company, was registered as a new and high technology enterprise. Pursuant to the New Corporate Income Tax Law, Founder Order is subject to PRC corporate income tax at a rate of 15% on its assessable profits.

The share of tax attributable to associates amounting to approximately HK\$550,000 (six months ended 30 June 2009: HK\$543,000) is included in "Share of profits and losses of associates" in the consolidated income statement.

* For identification purpose only

Notes to Condensed Consolidated Interim Financial Statements

30 June 2010

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 ordinary equity holders of the parent of approximately HK\$951,000 (six months ended 30 June 2009: HK\$15,258,000), and the weighted average number of approximately 1,130,300,000 (six months ended 30 June 2009: 1,130,300,000) ordinary shares in issue during the period.

No adjustment has been made to the basic loss per share amounts presented for the six months ended 2010 and 2009 in respect of a dilution as the impact of the share options outstanding had an anti-dilutive effect on the basic loss per share amounts presented.

8. INTERIM DIVIDEND

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2010 (six months ended 30 June 2009: 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 the reporting period, based on the invoice date and net of provisions, is as follows:

	30 June 2010 (Unaudited) HK\$'000	31 December 2009 (Audited) HK\$'000
Within 6 months	89,678	149,191
7 to 12 months	37,097	33,833
13 to 24 months	7,893	26,461
Over 24 months	1,253	1,987
	135,921	211,472

Included in the Group's trade and bills receivables are amounts due from the Group's related companies and associates of approximately HK\$3,747,000 (31 December 2009: HK\$497,000) and HK\$843,000 (31 December 2009: HK\$3,613,000), 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 2010

10. ASSETS OF A DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE AND DIRECTLY ASSOCIATED LIABILITIES

On 24 June 2010, Sparkling Idea Limited ("Sparkling Idea"), a wholly-owned subsidiary of the Company, entered into a disposal agreement with Founder International Co., Ltd. ("Founder International"), a joint venture company established in the PRC and is owned as to 37.36% by 北大方正集團有限公司 (Peking University Founder Group Company Limited*) ("Peking Founder"), a substantial shareholder of the Company. Pursuant to the disposal agreement, Sparkling Idea agrees to sell, and Founder International agrees to purchase, the entire equity interest in Founder Order, within the software development and systems integration for non-media business segment, for a cash consideration of HK\$47,500,000. Further details of the transaction were set out in the announcement of the Company dated 24 June 2010 and the circular of the Company dated 14 July 2010.

The disposal agreement was duly approved at the Company's special general meeting held on 3 August 2010. The completion date for the transaction is expected to be before October 2010. Therefore, the assets of the disposal group and the directly associated liabilities were reclassified as held for sale as at 30 June 2010.

The major classes of assets and liabilities of the disposal group classified as held for sale as at 30 June 2010 are as follows:

	30 June 2010 (Unaudited) HK\$'000	31 December 2009 (Audited) HK\$'000
Assets		
Property, plant and equipment	1,798	–
Interests in associates	2,410	–
Inventories	6,899	–
Gross amount due from contract customers	121,771	–
Trade and bills receivables	178,781	–
Prepayments, deposits and other receivables	93,077	–
Pledged deposits	59,837	–
Cash and cash equivalents	154,895	–
	<u>619,468</u>	<u>–</u>
Assets of a disposal group classified as held for sale	<u>619,468</u>	<u>–</u>
Liabilities		
Trade and bills payables	(366,363)	–
Gross amount due to contract customers	(2,776)	–
Receipts in advance, other payables and accruals	(163,052)	–
Interest-bearing bank borrowings	(29,924)	–
	<u>(562,115)</u>	<u>–</u>
Liabilities directly associated with the assets classified as held for sale	<u>(562,115)</u>	<u>–</u>

Notes to Condensed Consolidated Interim Financial Statements

30 June 2010

10. ASSETS OF A DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE AND DIRECTLY ASSOCIATED LIABILITIES *(continued)*

Included in the disposal group's trade and bills receivables are amounts due from the Group's related companies and associates of approximately HK\$192,000 and HK\$1,025,000, respectively, which are repayable on similar credit terms to those offered to the major customers of the Group.

Included in the disposal group's prepayments, deposits and other receivables are amounts due from the Group's related companies and associates of approximately HK\$7,820,000 and HK\$4,352,000, respectively. The balances are unsecured, interest-free and have no fixed terms of repayment.

Included in the disposal group's trade and bills payables are amounts due to the Group's related companies and associates of approximately HK\$11,647,000 and HK\$142,348,000, respectively, which are repayable on similar credit terms to those offered by the related companies and associates to their major customers.

Included in the disposal group's receipts in advance, other payables and accruals are amounts due to the Group's related companies and associates of approximately HK\$8,104,000 and HK\$6,256,000, respectively. The balances are unsecured, interest-free and have no fixed terms of repayment.

* For identification purpose only

11. TRADE AND BILLS PAYABLES

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

	30 June 2010 (Unaudited) HK\$'000	31 December 2009 (Audited) HK\$'000
Within 6 months	63,021	275,996
7 to 12 months	4,663	57,470
13 to 24 months	680	27,365
Over 24 months	1,479	8,082
	<u>69,843</u>	<u>368,913</u>

Included in the Group's trade and bills payables are amounts due to the Group's related companies and associates of approximately HK\$679,000 (31 December 2009: HK\$17,864,000) and HK\$2,745,000 (31 December 2009: HK\$92,305,000), respectively, which are repayable on similar credit terms to those offered by the related companies and associates to their major customers.

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

12. INTEREST-BEARING BANK BORROWINGS

On 12 May 2010, Founder (Hong Kong) Limited, a wholly-owned subsidiary of the Company, as borrower (the "Borrower"), the Company as guarantor and DBS Bank (Hong Kong) Limited as lender (the "Lender") entered into a facility agreement (the "Facility Agreement"), pursuant to which a banking facility relating to a revolving term loan and credit facility of up to US\$5,000,000 (the "Facility") was made available by the Lender to the Borrower on the terms and conditions therein contained. The Facility Agreement imposes a covenant relating to specific performance of the controlling shareholder of the Company.

The Facility Agreement provides that it would constitute an event of default under the Facility Agreement if Peking Founder holds less than 32% of the shareholding interest in the Company, and in such event (amongst other things) the loans under the Facility may immediately become payable on demand.

As at 30 June 2010, the banking facility drawn by the Group under the Facility Agreement amounted to approximately HK\$15,114,000.

Notes to Condensed Consolidated Interim Financial Statements

30 June 2010

13. CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities as at 30 June 2010 (31 December 2009: Nil).

14. RELATED PARTY TRANSACTIONS

(I) Transactions with related parties

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

(a)	For the six months ended	
	30 June	
	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000
Purchase of goods from an associate of Peking Founder	-	6,878
Interest income received from an associate	<u>1,862</u>	<u>-</u>

Note:

These transactions were conducted on the basis of rates agreed between the Group and the related companies.

- (b) On 15 August 2008, Founder Electronics entered into the lease renewal agreement with a subsidiary of Peking Founder to lease certain office premises in Beijing, the PRC, for a term of three years from 1 January 2009 to 31 December 2011 for the aggregate of annual rental and management fees 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 ("Peking Founder Group").

During the period, rental and management fee expenses of approximately HK\$5,813,000 (six months ended 30 June 2009: HK\$5,781,000) 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 agreement.

Notes to Condensed Consolidated Interim Financial Statements

30 June 2010

14. RELATED PARTY TRANSACTIONS *(continued)*

(I) 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.

During the period, sale of products and provision of product related services in an aggregate amount of approximately HK\$3,670,000 (six months ended 30 June 2009: HK\$582,000) 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 the 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 a 11.39% equity interest was held by Peking Founder and its subsidiary), 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\$70,000 (six months ended 30 June 2009: HK\$350,000) and HK\$14,000 (six months ended 30 June 2009: HK\$24,000) were received from the company (in which 11.39% equity interests were held by Peking Founder and its subsidiary), and a subsidiary of Peking Founder, respectively. The directors considered that the agency fees were made in accordance with the terms of agency agreements.

- (e) On 15 December 2008, 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 2009 to 31 December 2011. On 12 June 2009, the Company entered into a supplemental agreement with EC-Founder to revise the annual caps for the three years ending 31 December 2011.

During the period, information products in the amount of approximately HK\$98,867,000 (six months ended 30 June 2009: HK\$112,323,000) were purchased from EC-Founder Group.

Notes to Condensed Consolidated Interim Financial Statements

30 June 2010

14. RELATED PARTY TRANSACTIONS *(continued)*

(1) Transactions with related parties (continued)

- (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, sales of products and commission fee in the amounts of approximately HK\$182,859,000 (six months ended 30 June 2009: HK\$10,130,000) and HK\$440,000 (six months ended 30 June 2009: Nil) were received from EC-Founder Group, respectively. The directors considered that the sales of products and commission fee were made in accordance with the master agreement.

- (g) On 15 July 2009, the Company entered into an entrusted loan master agreement with Peking Founder (the "Entrusted Loan Master Agreement"), pursuant to which the Group would provide short term loans through a financial institution to the Peking Founder Group for the three years ending 31 December 2011. Further details of the transaction were set out in the announcement of the Company dated 15 July 2009 and the circular of the Company dated 4 August 2009.

For the year ended 31 December 2009, entrusted loans in the amount of RMB170,000,000 (equivalent to approximately HK\$193,630,000) were provided to the Peking Founder Group and related interest income of approximately HK\$2,182,000 and HK\$3,022,000 was earned by the Group in 2009 and 2010, respectively. The entrusted loans were unsecured, borne interest at 5.35% per annum, and were repayable by 9 March 2010 as to the amount of RMB60,000,000 (approximately HK\$68,340,000), by 23 March 2010 as to the amount of RMB60,000,000 (approximately HK\$68,340,000) and by 29 June 2010 as to the amount of RMB50,000,000 (approximately HK\$56,950,000). These entrusted loans and related interest receivable were included in prepayments, deposits and other receivables as at 31 December 2009. The directors considered that the provision of entrusted loans to Peking Founder Group was made in accordance with the Entrusted Loan Master Agreement. These entrusted loans were settled by the Peking Founder Group during the period.

On 8 June 2010, an entrusted loan in the amount of RMB40,000,000 (equivalent to approximately HK\$45,920,000) was provided to the Peking Founder Group and related interest income of approximately HK\$147,000 was earned by the Group during the six months ended 30 June 2010. The entrusted loan is unsecured, bears interest at 5.35% per annum, and is repayable by 8 December 2010. The entrusted loan and related interest receivable remained undue and were included in prepayments, deposits and other receivables as at 30 June 2010. The directors considered that the provision of the entrusted loan to Peking Founder Group was made in accordance with the Entrusted Loan Master Agreement.

Notes to Condensed Consolidated Interim Financial Statements

30 June 2010

14. RELATED PARTY TRANSACTIONS *(continued)*

(I) Transactions with related parties (continued)

- (h) On 5 November 2007, a master agreement in relation to sales of information products by the Group to 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 cap 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 ended 31 December 2009.

During the six months ended 30 June 2009, purchases of media products of approximately HK\$3,012,000 from Peking Founder Group and sales of information products of approximately HK\$1,568,000 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.

- (i) 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 2010 of approximately HK\$421,392,000 (31 December 2009: HK\$416,874,000) were utilised to the extent of approximately HK\$187,352,000 (31 December 2009: HK\$219,741,000).

As at 30 June 2010, time deposits of a subsidiary of Peking Founder of approximately HK\$15,114,000 (31 December 2009: Nil) were pledged to a bank to secure banking facilities granted to the Group which were utilised to the extent of approximately HK\$15,114,000 (31 December 2009: Nil).

- (j) On 24 June 2010, Sparkling Idea entered into the disposal agreement with Founder International to dispose of the entire equity interest in Founder Order. Further details of the transaction were set out in note 10 to these condensed consolidated interim financial statements.

The related party transactions in respect of items (b), (c), (g), (h) and (j) above for the current interim period also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Rules Governing the Listings of Securities on The Stock Exchange of Hong Kong Limited.

(II) Outstanding balances with related parties

- (a) As at 30 June 2010, except for the entrusted loan receivables from Peking Founder Group disclosed in note 14(i)(g) to the financial statements, other balances due from Peking Founder Group included in prepayments, deposits and other receivables as at 30 June 2010 are approximately HK\$7,798,000 (31 December 2009: HK\$8,048,000). The balances due to Peking Founder and its subsidiaries included in other payables and accruals as at 30 June 2010 are approximately HK\$3,017,000 (31 December 2009: HK\$1,823,000). The balances are unsecured, interest-free and have no fixed terms of repayment.

Notes to Condensed Consolidated Interim Financial Statements

30 June 2010

14. RELATED PARTY TRANSACTIONS *(continued)*

(II) Outstanding balances with related parties (continued)

- (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 receipts in advance, other payables and accruals as at 30 June 2010 are approximately HK\$1,148,000 (31 December 2009: HK\$14,114,000). The balance due from this related company included in prepayments, deposits and other receivables as at 30 June 2010 is approximately HK\$499,000 (31 December 2009: HK\$186,000). The balances are unsecured, interest-free and have no fixed terms of repayment.
- (c) The balances due from associates included in prepayments, deposits and other receivables as at 30 June 2010 are approximately HK\$1,280,000 (31 December 2009: HK\$3,688,000). The balance due to an associate of the Company included in receipts in advance, other payables and accruals as at 30 June 2010 is approximately HK\$842,000 (31 December 2009: 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 30 June 2010 are disclosed in notes 9 and 11 to these condensed consolidated interim financial statements.

(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	
	2010	2009
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Directors' fee, salaries, allowances and benefits in kind	338	630
Pension schemes contributions	9	7
Total compensation paid to key management personnel	347	637

Management Discussion and Analysis

MANAGEMENT DISCUSSION AND ANALYSIS

Overall Performance

The Group recorded an unaudited consolidated loss attributable to owners of the parent of HK\$1.0 million for the six months ended 30 June 2010 (six months ended 30 June 2009: loss of HK\$15.3 million). The Group recorded a significant increase in turnover during the current interim period by approximately 47.1% to HK\$1,007.1 million (six months ended 30 June 2009: HK\$684.7 million) and a decrease in gross profit ratio from 14.2% for the six months ended 30 June 2009 to 12.0% for the current interim period.

Basic loss per share attributable to equity holders of the parent for the current interim period was HK0.08 cents (six months ended 30 June 2009: HK1.35 cents).

Operating Review and Prospects

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

The turnover of the Media Business for the current interim period increased by 47.0% to approximately HK\$340.9 million (six months ended 30 June 2009: HK\$232.0 million) while the segment results recorded a loss of approximately HK\$3.0 million (six months ended 30 June 2009: HK\$20.5 million). With the restructuring and reinforcement of our sales and research and development teams, our abilities to monitor the completion status of sales contracts, capture opportunities in the market and provide more value-added services to the customers are greatly enhanced, leading to the significant improvement in turnover and results of the Media Business during the period under review. The gross profit ratio for the Media Business for the current interim period has decreased to 29.5% as compared to 33.4% for the six months ended 30 June 2009 as a result of increase in the proportion of hardware in the systems integration contracts which generated lower gross profit margin.

At present, the PRC broadcasting industry is at the turning point of overwhelmingly adopting broadcasting system with high definition. After several years of development of digital broadcasting systems for various major PRC TV stations, Founder Electronics has achieved good progress in building up the know-how and technology in this area and therefore enjoyed a commanding position in this industry. In addition, under the trend of digital publishing and non-paper newspaper, Founder Electronics continued to provide application solutions for PRC publishing companies so as to capture this opportunity and meet the customers' needs.

Management Discussion and Analysis

Founder Electronics obtained the special honours of “Key Software Enterprise in National Plan Department of 2009” (2009年度國家規劃佈局內重點軟件企業) and a preferential income tax concession pursuant to the certification as a major new and high technology enterprise (重點高新技術企業). On 1 February 2010, one of the patents developed by Founder Electronics was awarded as Chinese Outstanding Patented Invention (中國專利獎金獎) by State Intellectual Property Organisation (國家知識產權局). On 22 April 2010, our vice general manager of research and development centre of Founder Electronics obtained the special honours of Invention entrepreneurship award (發明創業獎) for the development of digital workflow system and digital printing system in Chinese Inventors Forum (中國發明家論壇) jointly organised by China Invention Association (中國發明協會), State Office of Science and Technology Awards (國家科學技術獎勵工作辦公室), Science Daily (科技日報社) and China Intellectual Property Newspaper (中國知識產權報社).

The Group's self-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 since 2007. The development of the CTP product has enabled the Group to integrate vertically as a software and hardware developer and horizontally as a system integrator and service provider. On 7 July 2010, Founder Electronics entered into sales contract with People's Daily China News Investment Management Center (人民日報社中聞投資管理中心) for the sales of CTP systems to the printing centres of People's Daily China News in Xian, Jinan, Wuhan, Fuzhou and Ningjing. In addition, the Group's self-developed Document Management System (DMS) for newspaper layout process received strong demand from various newspaper publishers in the PRC. Newspaper publishing process management system provides fast, efficient and cost-effecting publishing and printing process for newspaper advertising, editorial, layout proofs, the issue of transmission version, utilisation of the digital asset and printing plate.

(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 by 47.1% to approximately HK\$666.1 million (six months ended 30 June 2009: HK\$452.7 million) while its segment results has recorded a profit of approximately HK\$2.0 million (six months ended 30 June 2009: HK\$1.8 million).

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. The major customers are the finance, insurance and securities industries and various government bureaus in China. On 18 March 2010, Beijing immunisation management information system (北京市免疫規劃信息管理系統) jointly developed by Founder Order and other systems integration services provider for Beijing Municipal Health Bureau (北京市衛生局) were awarded as Top 10 2009 Application Information Results in Beijing (2009信息北京十大應用成果) by Beijing Municipal Party Committee Propaganda Department (北京市委宣傳部).

Management Discussion and Analysis

The improvement in segment revenue and results is mainly due to the increase in sales of information products to customers in Hong Kong. With the disposal of Founder Order which is engaged in the Non-Media Business in the PRC as disclosed in “Material acquisitions and disposals of subsidiaries and associates” section below, the Group will allocate more resources on the existing media and non-media business so as to generate more profitable results and increase the shareholders’ value.

Prospects

To deal with the business growth, 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 merit. The Group ensures that the pay levels of its employees are competitive and employees are rewarded on a performance-related basis within the general framework of the Group’s salary and bonus systems. The Group provides on-the-job training to its employees in addition to retirement benefit schemes and medical insurance.

The Group operates share option 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 2010, the number of employees of the Group was approximately 1,552.

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 2010, the Group had interest-bearing bank borrowings of HK\$116.6 million (31 December 2009: HK\$103.8 million), of which HK\$29.9 million (31 December 2009: Nil) were included in liabilities directly associated with the assets classified as held for sale. Bank borrowings of HK\$18.3 million (31 December 2009: HK\$26.6 million) were fixed interest bearing and HK\$98.3 million (31 December 2009: HK\$77.2 million) were floating interest bearing. The bank borrowings were denominated in Hong Kong Dollars (“HKD”), Renminbi (“RMB”) and United States Dollars (“U.S. dollars”), of which approximately HK\$115.5 million (31 December 2009: HK\$102.7 million) and HK\$1.1 million (31 December 2009: HK\$1.1 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 Founder, the Government of the Hong Kong Special Administrative Region under the SME Loan Guarantee Scheme, certain of the Group’s land and buildings, investment properties and bank deposits, and certain of bank deposits of a subsidiary of Peking Founder.

Management Discussion and Analysis

At 30 June 2010, the Group recorded total assets of HK\$1,400.8 million which were financed by liabilities of HK\$910.7 million, non-controlling interests of HK\$0.8 million and equity of HK\$489.3 million. The Group's net asset value per share as at 30 June 2010 amounted to HK\$0.43 (31 December 2009: HK\$0.43).

The Group had total cash and bank balances of HK\$384.3 million as at 30 June 2010 (31 December 2009: HK\$425.6 million), of which HK\$214.7 million (31 December 2009: Nil) were included in assets of a disposal group classified as held for sale. After deducting total bank borrowings of HK\$116.6 million (31 December 2009: HK\$103.8 million), the Group recorded net cash and bank balances of HK\$267.7 million as at 30 June 2010 as compared to HK\$321.8 million as at 31 December 2009. 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 2010, the Group's gearing ratio, measured on the basis of total borrowings as a percentage of total shareholders' equity, was 0.24 (31 December 2009: 0.21) while the Group's working capital ratio was 1.25 (31 December 2009: 1.25).

At 30 June 2010, 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 HKD, RMB and U.S. dollars. Surplus cash is generally placed in short term deposits denominated in HKD, RMB and U.S. dollars.

Exposure to fluctuations in exchange rates and related hedges

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

Contracts

At 30 June 2010, the major contracts in hand for the software development and systems integration business amounted to approximately HK\$880 million, which are all expected to be completed within one year time.

Material acquisitions and disposals of subsidiaries and associates

On 24 June 2010, Sparkling Idea has entered into the disposal agreement with Founder International, pursuant to which, Sparkling Idea agrees to sell, and Founder International agrees to purchase, the entire equity interest in Founder Order for a cash consideration of HK\$47.5 million. Details of the disposal are set out in the announcement of the Company dated 24 June 2010 and the circular of the Company dated 14 July 2010. The disposal is expected to be completed before October 2010.

Management Discussion and Analysis

Charges on assets

At 30 June 2010, the Group's land and buildings in Hong Kong of approximately HK\$32.6 million, investment properties of approximately HK\$30.0 million and bank deposits of approximately HK\$76.9 million (of which HK\$59.8 million were included in assets of a disposal group classified as held for sale) were pledged to banks to secure banking facilities granted.

Contingent liabilities

At 30 June 2010, the Group did not have any significant contingent liabilities.

Other Information

Directors' Interests and Short Positions in Shares and Underlying Shares

At 30 June 2010, 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 corporation:

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
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>

Other Information

Directors' Interests and Short Positions in Shares and Underlying Shares

(Continued)

Long positions in underlying shares of associated corporation:

EC-Founder

Name of director	Number of share options outstanding as at 1 January 2010 and 30 June 2010	Date of grant of share options	Exercise period of share options	Exercise price of share options <i>HK\$ per share</i>
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.

Save as disclosed above, as at 30 June 2010, none of the directors had registered an interest or short position in the shares or underlying shares of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Other Information

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 2010 and at the end of the period:

Name or category of participant	Number of share options outstanding as at 1 January 2010 and 30 June 2010	Date of grant of share options *	Exercise period of share options	Exercise price of share options ** HK\$ per share
Directors				
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>			
Other employees				
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><u>38,000,000</u></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 2010, 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 2010, 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 2010, complied with the code provisions of the Code of Corporate Governance Practices as set out in Appendix 14 of the Listing Rules.

Model Code for Securities Transactions by Directors of the Company

The Company has adopted a model code of conduct regarding securities transactions by directors of the Company on terms no less exacting than the required standard as set out in the Model Code 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 the six months ended 30 June 2010, 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
27 August 2010