

FOUNDER HOLDINGS LIMITED 方正控股有限公司

(Incorporated in Bermuda with limited liability)

Stock Code: 00418

Interim Report 2013



Contents

	Pages
Corporate Information	2
Condensed Consolidated Income Statement	3
Condensed Consolidated Statement of Comprehensive Income	4
Condensed Consolidated Statement of Financial Position	5-6
Condensed Consolidated Statement of Changes in Equity	7
Condensed Consolidated Statement of Cash Flows	8
Notes to Condensed Consolidated Interim Financial Statements	9-22
Management Discussion and Analysis	23-28
Other Information	29-32

Corporate Information

BOARD OF DIRECTORS

Executive directors

Mr Fang Zhong Hua (*Chairman*)
 Professor Xiao Jian Guo (*Deputy Chairman*)
 Professor Yang Bin (*President*)
 Ms Yi Mei
 Mr Li Sheng Li
 Ms Liu Yu Xiao

Independent non-executive directors

Mr Li Fat Chung
 Ms Wong Lam Kit Yee
 Mr Fung Man Yin, Sammy

COMMITTEES

Audit Committee

Mr Li Fat Chung (*Chairman*)
 Ms Wong Lam Kit Yee
 Mr Fung Man Yin, Sammy

Remuneration Committee

Mr Li Fat Chung (*Chairman*)
 Mr Fang Zhong Hua
 Ms Wong Lam Kit Yee

Nomination Committee

Mr Fang Zhong Hua (*Chairman*)
 Ms Wong Lam Kit Yee
 Mr Fung Man Yin, Sammy

COMPANY SECRETARY

Ms Tang Yuk Bo, Yvonne

AUTHORISED REPRESENTATIVES

Mr Fang Zhong Hua
 Ms Yi Mei

AUDITORS

Ernst & Young
 Certified Public Accountants

LEGAL ADVISERS

Jun He Law Offices
 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 HMO8
 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.irasia.com/listco/hk/founder

INTERIM RESULTS

The board of directors (the “Board”) of Founder Holdings Limited (the “Company”) presents the unaudited condensed consolidated interim financial statements of the Company and its subsidiaries (collectively the “Group”) for the six months ended 30 June 2013, together with the comparative figures for the corresponding period in 2012. 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 2013

	Notes	For the six months ended 30 June	
		2013 (Unaudited) HK\$'000	2012 (Unaudited) HK\$'000
REVENUE	2	502,701	691,438
Cost of sales		<u>(371,463)</u>	<u>(544,397)</u>
Gross profit		131,238	147,041
Other income and gains	3	20,794	29,665
Selling and distribution costs		(113,388)	(101,018)
Administrative expenses		(30,639)	(34,992)
Other expenses, net		(57,642)	(54,452)
Finance costs	4	(3,610)	(5,139)
Share of profits and losses of associates		<u>1,146</u>	<u>731</u>
LOSS BEFORE TAX	5	(52,101)	(18,164)
Income tax expense	6	<u>(510)</u>	<u>-</u>
LOSS FOR THE PERIOD		<u>(52,611)</u>	<u>(18,164)</u>
Attributable to:			
Owners of the parent		(52,724)	(18,179)
Non-controlling interests		<u>113</u>	<u>15</u>
		<u>(52,611)</u>	<u>(18,164)</u>
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	7		
– Basic		<u>HK(4.66) cents</u>	<u>HK(1.61) cents</u>
– Diluted		<u>HK(4.66) cents</u>	<u>HK(1.61) cents</u>

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2013

	For the six months ended	
	30 June	
	2013	2012
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
LOSS FOR THE PERIOD	(52,611)	(18,164)
OTHER COMPREHENSIVE INCOME/(LOSS)		
Items that may be reclassified subsequently to profit or loss		
Share of other comprehensive loss of associates	(613)	(31)
Exchange differences on translation of foreign operations	6,678	(2,132)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF TAX	6,065	(2,163)
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD	(46,546)	(20,327)
Attributable to:		
Owners of the parent	(46,661)	(20,335)
Non-controlling interests	115	8
	(46,546)	(20,327)

Condensed Consolidated Statement of Financial Position

30 June 2013

		30 June 2013 (Unaudited) HK\$'000	31 December 2012 (Audited) HK\$'000
	<i>Notes</i>		
NON-CURRENT ASSETS			
Property, plant and equipment		256,246	257,257
Investment properties		55,430	55,430
Capitalised software costs	9	11,697	2,917
Interests in associates		17,583	17,995
Finance lease receivables		7,443	8,168
		<u>348,399</u>	<u>341,767</u>
Total non-current assets			
CURRENT ASSETS			
Inventories		51,576	40,976
Gross amount due from contract customers		15,253	17,061
Trade and bills receivables	10	307,316	447,343
Prepayments, deposits and other receivables		325,321	215,103
Finance lease receivables		1,683	1,625
Pledged deposits		11,568	12,006
Cash and cash equivalents		314,919	429,955
		<u>1,027,636</u>	<u>1,164,069</u>
Total current assets			
CURRENT LIABILITIES			
Trade and bills payables	11	112,701	185,900
Gross amount due to contract customers		28,852	9,639
Receipts in advance, other payables and accruals		304,352	280,095
Interest-bearing bank borrowings	12	176,271	229,807
Tax payable		1,148	2,695
		<u>623,324</u>	<u>708,136</u>
Total current liabilities			
NET CURRENT ASSETS		<u>404,312</u>	<u>455,933</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>752,711</u>	<u>797,700</u>

Condensed Consolidated Statement of Financial Position

(Continued)

30 June 2013

	30 June 2013 (Unaudited) HK\$'000	31 December 2012 (Audited) HK\$'000
NON-CURRENT LIABILITIES		
Deferred tax liabilities	<u>23,836</u>	<u>23,477</u>
Net assets	<u>728,875</u>	<u>774,223</u>
EQUITY		
Equity attributable to owners of the parent		
Issued capital	113,030	113,030
Reserves	<u>615,598</u>	<u>661,061</u>
	728,628	774,091
Non-controlling interests	<u>247</u>	<u>132</u>
Total equity	<u>728,875</u>	<u>774,223</u>

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2013

	Attributable to owners of the parent											
	Issued capital (Unaudited) HK\$'000	Share premium account (Unaudited) HK\$'000	Contributed surplus (Unaudited) HK\$'000	Employee share-based compensation reserve (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 2013	113,030	32,470	867,910	5,598	3,685	172,881	47,323	45,484	(514,290)	774,091	132	774,223
Loss for the period	-	-	-	-	-	-	-	-	(52,724)	(52,724)	113	(52,611)
Other comprehensive income for the period:												
Share of other comprehensive loss of associates	-	-	-	-	-	-	(613)	-	-	(613)	-	(613)
Exchange differences on translation of foreign operations	-	-	-	-	-	-	6,676	-	-	6,676	2	6,678
Total comprehensive income for the period	-	-	-	-	-	-	6,063	-	(52,724)	(46,661)	115	(46,546)
Equity-settled share option arrangements	-	-	-	1,198	-	-	-	-	-	1,198	-	1,198
At 30 June 2013	113,030	32,470*	867,910*	6,796*	3,685*	172,881*	53,386*	45,484*	(567,014)*	728,628	247	728,875
At 1 January 2012	113,030	32,470	867,910	657	3,685	118,110	41,106	38,530	(552,859)	663,639	909	664,548
Loss for the period	-	-	-	-	-	-	-	-	(18,179)	(18,179)	15	(18,164)
Other comprehensive loss for the period:												
Share of other comprehensive loss of associates	-	-	-	-	-	-	(31)	-	-	(31)	-	(31)
Exchange differences on translation of foreign operations	-	-	-	-	-	-	(2,125)	-	-	(2,125)	(7)	(2,132)
Total comprehensive loss for the period	-	-	-	-	-	-	(2,156)	-	(18,179)	(20,335)	8	(20,327)
Equity-settled share option arrangements	-	-	-	2,470	-	-	-	-	-	2,470	-	2,470
Transfer to general reserve	-	-	-	-	-	-	-	23	(23)	-	-	-
At 30 June 2012	113,030	32,470	867,910	3,127	3,685	118,110	38,950	39,553	(571,061)	645,774	917	646,691

* These reserve accounts comprise the consolidated reserves of HK\$615,598,000 (31 December 2012: HK\$661,061,000) in the condensed consolidated statement of financial position.

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2013

	For the six months ended 30 June	
	2013 (Unaudited) HK\$'000	2012 (Unaudited) HK\$'000
NET CASH FLOWS FROM/(USED IN) IN OPERATING ACTIVITIES	4,654	(308,569)
NET CASH USED IN INVESTING ACTIVITIES	(109,671)	(50,299)
NET CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES	<u>(54,068)</u>	<u>198,748</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(159,085)	(160,120)
Cash and cash equivalents at beginning of period	418,564	438,343
Effect of foreign exchange rate changes, net	<u>4,880</u>	<u>(1,823)</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>264,359</u>	<u>276,400</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	264,359	131,765
Non-pledged time deposits	<u>50,560</u>	<u>146,889</u>
Cash and cash equivalents as stated in the statement of financial position	314,919	278,654
Non-pledged time deposits with original maturity of more than three months when acquired	<u>(50,560)</u>	<u>(2,254)</u>
Cash and cash equivalents as stated in the statement of cash flows	<u>264,359</u>	<u>276,400</u>

Notes to Condensed Consolidated Interim Financial Statements

30 June 2013

1. ACCOUNTING POLICIES

These unaudited condensed consolidated interim financial statements for the six months ended 30 June 2013 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 2012, except in relation to the following new and revised Hong Kong Financial Reporting Standards (“HKFRSs”) (which also include HKASs and Interpretations) that affect the Group and are adopted for the first time for the current period’s financial statements:

HKFRS 1 Amendments	<i>Amendments to HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards – Government Loans</i>
HKFRS 7 Amendments	<i>Amendments to HKFRS 7 Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities</i>
HKFRS 10	<i>Consolidated Financial Statements</i>
HKFRS 11	<i>Joint Arrangements</i>
HKFRS 12	<i>Disclosure of Interests in Other Entities</i>
HKFRS 10, HKFRS 11 and HKFRS 12 Amendments	<i>Amendments to HKFRS 10, HKFRS 11 and HKFRS 12 – Transition Guidance</i>
HKFRS 13	<i>Fair Value Measurement</i>
HKAS 1 Amendments	<i>Amendments to HKAS 1 Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income</i>
HKAS 19 (2011)	<i>Employee Benefits</i>
HKAS 27 (2011)	<i>Separate Financial Statements</i>
HKAS 28 (2011)	<i>Investments in Associates and Joint Ventures</i>
HK(IFRIC)-Int 20	<i>Stripping Costs in Production Phase of a Surface Mine</i>
<i>Annual Improvements 2009-2011 Cycle</i>	<i>Amendments to a number of HKFRSs issued in June 2012</i>

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

Notes to Condensed Consolidated Interim Financial Statements

30 June 2013

2. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units 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 2013 and 2012:

	Software development and systems integration for media business		Software development and systems integration for non-media business		Corporate		Others		Total	
	2013 (Unaudited) HK\$'000	2012 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000	2012 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000	2012 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000	2012 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000	2012 (Unaudited) HK\$'000
Segment revenue:										
Sales to external customers	336,035	405,838	166,517	285,428	-	-	149	172	502,701	691,438
Segment results	(49,030)	(21,339)	(866)	7,632	(4,937)	(6,363)	113	134	(54,720)	(19,936)
<i>Reconciliation:</i>										
Interest income and unallocated gains									5,083	6,180
Finance costs									(3,610)	(5,139)
Share of profits and losses of associates									1,146	731
Loss before tax									<u>(52,101)</u>	<u>(18,164)</u>

Notes to Condensed Consolidated Interim Financial Statements

30 June 2013

3. OTHER INCOME AND GAINS

	For the six months ended	
	30 June	
	2013	2012
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Bank interest income	1,817	1,990
Other interest income	3,266	4,190
Gross rental income	774	641
Government grants	12,963	21,287
Others	1,974	1,557
	<u>20,794</u>	<u>29,665</u>

4. FINANCE COSTS

	For the six months ended	
	30 June	
	2013	2012
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Interest on bank loans	<u>3,610</u>	<u>5,139</u>

Notes to Condensed Consolidated Interim Financial Statements

30 June 2013

5. LOSS BEFORE TAX

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

	For the six months ended	
	30 June	
	2013	2012
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Depreciation	6,646	4,915
Amortisation of capitalised software costs	509	–
Gain on disposal of items of property, plant and equipment	(46)	(33)
Impairment of trade receivables	10,121	4,473
Impairment of other receivables	1,714	1,208
Provision/(reversal of provision) for obsolete inventories	3,281	(164)
Foreign exchange differences, net	254	310

6. INCOME TAX

	For the six months ended	
	30 June	
	2013	2012
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Group:		
Current – Hong Kong		
Charge for the period	209	–
Current – The People's Republic of China ("Mainland China" or the "PRC")		
Charge for the period	301	–
Total tax charge for the period	510	–

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong during the period. For the period ended 30 June 2012, no Hong Kong profits tax had been provided as there were no assessable profits arising in Hong Kong, or the Group has available tax losses brought forward from prior years to offset the assessable profits generated during the period.

PRC corporate income tax represents the tax charged on the estimated assessable profits arising in Mainland China. In general, the PRC subsidiaries of the Group are subject to the PRC corporate income tax rate of 25% except for certain PRC subsidiaries which are entitled to preferential tax rate at 15%.

Notes to Condensed Consolidated Interim Financial Statements

30 June 2013

6. INCOME TAX *(continued)*

Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates.

The share of tax attributable to associates amounting to approximately HK\$339,000 (six months ended 30 June 2012: HK\$239,000) is included in "Share of profits and losses of associates" in the consolidated income statement.

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

The calculation of basic loss per share amount is based on the unaudited loss for the period attributable to ordinary equity holders of the parent of approximately HK\$52,724,000 (six months ended 30 June 2012: loss of HK\$18,179,000), and the weighted average number of ordinary shares of approximately 1,130,300,000 (six months ended 30 June 2012: 1,130,300,000) in issue during the period.

No adjustment has been made to the basic loss per share amounts presented for the six months ended 2013 and 2012 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 2013 (six months ended 30 June 2012: Nil).

Notes to Condensed Consolidated Interim Financial Statements

30 June 2013

9. CAPITALISED SOFTWARE COSTS

	30 June 2013 (Unaudited) HK\$'000
30 June 2013	
Cost at 1 January 2013, net of accumulated amortisation	2,917
Addition – internal development	9,180
Amortisation provided during the period	(509)
Exchange realignment	109
	<hr/>
At 30 June 2013	11,697
At 30 June 2013:	
Cost	12,327
Accumulated amortisation	(630)
	<hr/>
Net carrying amount	11,697
	<hr/>
	30 June 2012 (Unaudited) HK\$'000
30 June 2012	
Cost at 1 January 2012, net of accumulated amortisation	–
Addition – internal development	3,405
Amortisation provided during the period	–
	<hr/>
At 30 June 2012	3,405
At 30 June 2012:	
Cost	3,405
Accumulated amortisation	–
	<hr/>
Net carrying amount	3,405
	<hr/>

Notes to Condensed Consolidated Interim Financial Statements

30 June 2013

9. CAPITALISED SOFTWARE COSTS *(continued)*

During the period ended 30 June 2013, capitalised software costs were related to development expenditure on media software.

10. TRADE AND BILLS RECEIVABLES

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. Trade and bills receivables are settled in accordance with the terms of the respective contracts. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade and bills receivables balances. Trade and bills receivables are non-interest-bearing.

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

	30 June 2013 (Unaudited) HK\$'000	31 December 2012 (Audited) HK\$'000
Within 6 months	157,164	403,131
7 to 12 months	121,106	19,905
13 to 24 months	29,046	24,307
	<u>307,316</u>	<u>447,343</u>

Included in the Group's trade and bills receivables are amounts due from subsidiaries of 北大方正集團有限公司 (Peking University Founder Group Company Limited*) ("Peking Founder"), a substantial shareholder of the Company, of approximately HK\$5,323,000 (31 December 2012: HK\$1,980,000), and a subsidiary of EC-Founder (Holdings) Company Limited ("EC-Founder"), in which a 54.54% equity interest was held by a subsidiary of Peking Founder, of approximately HK\$10,697,000 (31 December 2012: HK\$14,725,000), which are repayable on similar credit terms to those offered to the major customers of the Group.

* For identification purpose only

Notes to Condensed Consolidated Interim Financial Statements

30 June 2013

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 2013 (Unaudited) HK\$'000	31 December 2012 (Audited) HK\$'000
Within 6 months	90,218	164,242
7 to 12 months	10,323	7,936
13 to 24 months	4,004	5,690
Over 24 months	8,156	8,032
	<u>112,701</u>	<u>185,900</u>

Included in the Group's trade and bills payables are amounts due to subsidiaries of Peking Founder of approximately HK\$1,435,000 (31 December 2012: HK\$5,101,000), and a subsidiary of EC-Founder of approximately HK\$187,000 (31 December 2012: HK\$873,000), which are repayable on similar credit terms to those offered by the related companies to their major customers.

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

12. INTEREST-BEARING BANK BORROWINGS

On 25 January 2013, 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") which will expire on 31 May 2014, pursuant to which a banking facility relating to (i) an uncommitted trade finance facility; and (ii) and uncommitted short term loan (non-revolving) facility, in an aggregate amount of up to US\$25 million (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 30% 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 2013, the banking facility drawn by the Group under the Facility Agreement amounted to approximately HK\$84,975,000.

Notes to Condensed Consolidated Interim Financial Statements

30 June 2013

13. CONTINGENT LIABILITIES

At the end of the reporting period, the Group did not have any significant contingent liabilities.

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) On 1 November 2011, Beijing Founder Electronics Co., Ltd. ("Founder Electronics") and 北京方正印捷數碼技術有限公司 (Beijing Founder EasiPrint Digital Technology Co., Ltd.*) ("Founder EasiPrint"), subsidiaries of the Group, entered into lease agreements and management agreements with a subsidiary of Peking Founder to lease certain office premises in Beijing, the PRC, for terms of three years from 1 January 2012 to 31 December 2014 for the aggregate of annual rental and management fees of RMB6,900,000 and RMB4,845,000 (equivalent to approximately HK\$8,657,000 and HK\$6,079,000).

On 1 March 2013, Founder EasiPrint entered into a supplemental agreement with the subsidiary of Peking Founder to revise the annual rental and management fee for the period from 1 March 2013 to 31 December 2014. The aggregate amount of annual rental and management fee were revised to RMB6,463,000 and RMB4,593,000 (equivalent to approximately HK\$8,109,000 and HK\$5,763,000).

* For identification purpose only

Notes to Condensed Consolidated Interim Financial Statements

30 June 2013

14. RELATED PARTY TRANSACTIONS *(continued)*

(I) Transactions with related parties (continued)

(a) *(continued)*

During the period, rental and management fees of approximately HK\$7,080,000 (six months ended 30 June 2012: HK\$7,211,000) were paid by Founder Electronics and Founder EasiPrint to a subsidiary of Peking Founder. The directors consider that the rental and management fees were paid in accordance with the terms of the lease agreement.

- (b) On 29 August 2011, the Company entered into a master agreement with EC-Founder 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 2011 to 31 December 2013.

During the period, information products in the amount of approximately HK\$1,283,000 (six months ended 30 June 2012: HK\$603,000) were purchased from EC-Founder Group. The directors consider that the purchases of information products were made in accordance with the master agreement.

- (c) On 29 August 2011, the Company entered into a HP Master Agreement with EC-Founder to govern the sales of HP products to EC-Founder Group for a term of three years from 1 January 2011 to 31 December 2013.

During the period, sales of HP products of approximately HK\$45,777,000 (six months ended 30 June 2012: HK\$87,606,000) were made to EC-Founder Group and commission fee of approximately HK\$136,000 (six months ended 30 June 2012: HK\$255,000) was received from EC-Founder Group. The directors consider that the sales of HP products and commission fee were made in accordance with the HP Master Agreement.

- (d) On 1 November 2011, the Company entered into a master agreement with Peking Founder for the purchase of information products and research and development services from Peking Founder and its subsidiaries (collectively "Peking Founder Group") for a term of three years from 1 January 2012 to 31 December 2014.

During the period, products and services of approximately HK\$710,000 (six months ended 30 June 2012: HK\$850,000) were purchased from Peking Founder Group. The directors consider that the purchase of products and services were made in accordance with the master agreement.

Notes to Condensed Consolidated Interim Financial Statements

30 June 2013

14. RELATED PARTY TRANSACTIONS *(continued)*

(I) Transactions with related parties (continued)

- (e) On 3 August 2010, the Company entered into a master agreement with Peking Founder to govern the sales of information products to Peking Founder Group for a term of three years ended 31 December 2012.

On 14 December 2012, the Company entered into a new master agreement with Peking Founder for the sales of information products to Peking Founder Group for a term of three years from 1 January 2013 to 31 December 2015.

During the period, sales of information products of approximately HK\$17,269,000 (six months ended 30 June 2012: HK\$44,383,000) were made to Peking Founder Group and commission fee of approximately HK\$52,000 (six months ended 30 June 2012: HK\$170,000) was received from Peking Founder Group. The directors consider that the sales of information products and commission fee were made in accordance with the master agreement.

- (f) On 1 November 2011, the Company renewed an entrusted loan master agreement entered with Peking Founder on 15 July 2009, pursuant to which the Group would provide short term loans through a financial institution to Peking Founder Group for the three years ending 31 December 2014. Such loans will be unsecured and interest-bearing at the prevailing benchmark Renminbi lending rate for loan period of six months offered by the PBOC plus 15%.

For the year ended 31 December 2012, entrusted loans in the amount of RMB200,000,000 (equivalent to approximately HK\$249,000,000) were provided to Peking Founder Group. The entrusted loans were unsecured and borne interest at rates ranging from 6.44% to 7.02% per annum, and were settled by 7 July 2012 as to the amount of RMB100,000,000 (equivalent to approximately HK\$124,500,000). The entrusted loan of RMB100,000,000 (equivalent to approximately HK\$124,500,000) and related interest receivable of HK\$3,653,000 remained undue and were included in prepayments, deposits and other receivables as at 31 December 2012, and were fully settled by 18 January 2013.

For the six months ended 30 June 2013, an entrusted loan in the amount of RMB150,000,000 (equivalent to approximately HK\$189,600,000) was provided to Peking Founder Group. The entrusted loan is unsecured and bears interest at rate 6.44% per annum. The entrusted loan of RMB150,000,000 (equivalent to approximately HK\$189,600,000) and related interest receivable of approximately HK\$2,883,000 remained undue and were included in prepayments, deposits and other receivables as at 30 June 2013.

During the period, interest income earned by the Group from Peking Founder Group amounted to approximately HK\$3,266,000 (six months ended 30 June 2012: HK\$4,190,000). The directors consider that the provision of entrusted loans to and the receipt of interest income from Peking Founder Group was made in accordance with the entrusted loan master agreement.

Notes to Condensed Consolidated Interim Financial Statements

30 June 2013

14. RELATED PARTY TRANSACTIONS *(continued)*

(1) Transactions with related parties (continued)

- (g) On 3 December 2010, the Company, PKU Founder Group Finance Co., Ltd. ("Founder Finance") and Peking Founder entered into a financial service agreement, pursuant to which Founder Finance would provide the Group with (i) deposit service; (ii) loan service; and (iii) miscellaneous financial service subject to the terms and conditions provided therein for the three years ending 31 December 2013. Peking Founder has provided guarantee to the Company in the financial services agreement.

As at 30 June 2013, the Group made deposits of nil (31 December 2012: HK\$55,652,000) in Founder Finance. During the six months ended 30 June 2013, the Group earned interest income of approximately HK\$793,000 (six months ended 30 June 2012: HK\$584,000). The interest rates on the deposits offered by Founder Finance were the prevailing interest rates offered by the PBOC. The directors consider that the deposit service was provided in accordance with the financial service agreement.

- (h) On 7 December 2012, the Company entered into a Master Sales Agreement with EC-Founder, pursuant to which the Group would provide EC-Founder Group with the information products developed by the Group, the systems integration products and the related services on a non-exclusive basis, from the date of the agreement to 31 December 2014.

During the period, the Group did not provide any information products, systems integration products or related services to EC-Founder Group.

- (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 2013 of approximately HK\$114,889,000 (31 December 2012: HK\$44,235,000) were utilised to the extent of approximately HK\$47,350,000 (31 December 2012: HK\$44,235,000).

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

Notes to Condensed Consolidated Interim Financial Statements

30 June 2013

14. RELATED PARTY TRANSACTIONS *(continued)*

(II) Outstanding balances with related parties

- (a) As at 30 June 2013, other than the entrusted loan receivables from Peking Founder Group as disclosed in note 14(i)(f) to the condensed consolidated interim financial statements, balances due from Peking Founder Group included in prepayments, deposits and other receivables were approximately HK\$10,099,000 (31 December 2012: HK\$17,493,000) and balances due to Peking Founder Group included in other payables and accruals were approximately HK\$35,542,000 (31 December 2012: HK\$31,011,000). These balances are unsecured, interest-free and have no fixed terms of repayment.
- (b) The balances due from EC-Founder Group included in prepayments, deposits and other receivables as at 30 June 2013 are approximately HK\$1,278,000 (31 December 2012: HK\$4,207,000). 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 in the condensed consolidated statement of financial position as at 30 June 2013 are approximately HK\$30,000 (31 December 2012: HK\$37,000). The balances are unsecured, interest free and have no fixed terms of repayment.
- (d) Details of the Group's trade balances with its related companies as at the end of the reporting period are disclosed in notes 10 and 11 to the condensed consolidated interim financial statements.
- (e) As at 30 June 2013, included in the Group's cash and cash equivalents were time deposits and cash and bank balances of nil (31 December 2012: HK\$54,966,000) and nil (31 December 2012: HK\$686,000), respectively, placed with Founder Finance.

Notes to Condensed Consolidated Interim Financial Statements

30 June 2013

14. 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	
	2013	2012
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Short term employee benefits	2,598	3,983
Equity-settled share option expenses	599	1,235
Post employment benefits	—	7
	<u>3,197</u>	<u>5,225</u>
Total compensation paid to key management personnel	<u>3,197</u>	<u>5,225</u>

15. EVENT AFTER THE REPORTING PERIOD

On 26 July 2013, the Company and the placing agent entered into a placing agreement, pursuant to which the placing agent has conditionally agreed to endeavor to place up to 220,000,000 new shares to not less than six independent placees at a price of HK\$0.36 per placing share. Up to the date of the approval of the condensed consolidated interim financial statements, the placing has not been completed.

Management Discussion and Analysis

Overall Performance

The Group reported an unaudited consolidated loss attributable to equity holders of the parent for the six months ended 30 June 2013 of HK\$52.7 million (six months ended 30 June 2012: HK\$18.2 million). The Group recorded a decrease in turnover during the current interim period by approximately 27.3% to HK\$502.7 million (six months ended 30 June 2012: HK\$691.4 million) due to the decline in sales of information products for non-media segment and sales of hardware for media segment. The gross profit margin increased from 21.3% to 26.1% during the current interim period due to the increase in the proportion of sales of technical services with higher gross profit margin.

The decline in the Group's operating results for the period attributable to the equity holders of the parent was mainly the net results of:

- a. a decrease in the revenue of software development and systems integration by 27.3% to HK\$502.7 million (six months ended 30 June 2012: HK\$691.4 million);
- b. a decrease in other income and gains by 29.9% to HK\$20.8 million (six months ended 30 June 2012: HK\$29.7 million) as a result of decline in government grants for the sale of software approved by the PRC tax authority;
- c. an increase in total selling and distribution costs, administrative expenses and other expenses, net by 5.9% to HK\$201.7 million (six months ended 30 June 2012: HK\$190.5 million) as a result of expansion of sales and research and development teams to maintain growth and profitability under the competitive operating environment; and
- d. increase in impairment of trade receivables by HK\$5.6 million to HK\$10.1 million (six months ended 30 June 2012: HK\$4.5 million) and provision for obsolete inventories by HK\$3.5 million to HK\$3.3 million (six months ended 30 June 2012: reversal of provision of HK\$0.2 million). The increase in impairment of trade receivables was attributable to lengthening of aging of debtors. The increase in provision of obsolete inventories was attributable to increase in inventory level of digital printing products for anticipated sales in the second half of the year.

Basic and diluted loss per share attributable to equity holders of the parent for the current interim period were HK4.66 cents (six months ended 30 June 2012: HK1.61 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 decreased by 17.2% to approximately HK\$336.0 million (six months ended 30 June 2012: HK\$405.8 million) while the segment results recorded a loss of approximately HK\$49.0 million (six months ended 30 June 2012: HK\$21.3 million). The gross profit margin for the Media Business increased from 34.2% to 37.9% during the current interim period as a result of increase in proportion of sales of technical services with higher gross profit margin.

Management Discussion and Analysis

The operating results of Media Business was influenced by the slow growth of traditional newspaper, media and printing industry in the PRC. In view of the loss-making results for the digital broadcasting business of Beijing Founder Electronics Co., Ltd. ("Founder Electronics"), the wholly owned subsidiary of the Group, for the previous two years and the increasing competition in digital broadcasting industry, Founder Electronics entered into intellectual properties transfer agreement and patents licence agreement on 18 March 2013 to transfer and assign the rights of patents relating to the broadcasting business to China Digital Video (Beijing) Limited. Further details are set out in the announcement of the Company dated 18 March 2013 and circular of the Company dated 16 April 2013. The transaction was expected to be completed in the second half of 2013.

Despite such harsh economic environment, Founder Electronics attained remarkable results with continuous excellence in products, technology, research and development as follows:

1. Successful Upgrade of Founder Electronics' Computer Information System to Grade 2 Integration Qualification

Founder Electronics has successfully passed the review of "Grade 2 Computer Information System Integration Qualification" (計算機信息系統集成二級資質) by the Ministry of Industry and Information Technology, which was another successful qualification upgrade since 2010 when the Company obtained the accreditation of "Grade 3 Computer Information System Integration Qualification" (計算機信息系統集成三級資質). This signifies that the system integration level of the Company has moved to a new horizon, laying a solid foundation for its business departments to undertake more system integration projects across the nation.

2. Founder Electronics' Proclaimed New Concept of "All-in-one" Solution in China Print 2013 Won Huge Recognition from Clients on the Spot

During the Eighth Beijing International Printing Technology Exhibition (第八屆北京國際印刷技術展覽會), the most anticipated event in the domestic and foreign printing industry, Founder Electronics successfully demonstrated its new concept of "all-in-one" solution to 170,000 visitors with its main theme "Founder-Your Versatile All-in-one Printer" and introduced its range of comprehensive solutions and leading products and technologies.

Management Discussion and Analysis

3. Founder's Intelligent Education: Facilitating Education Publishing Reform and Promoting Innovative Teaching Models

In the Fifth Chinese Digital Publishing Expo (第五屆中國數字出版博覽會), Founder Electronics organised the sub-forum titled "Embracing Mobile Internet, Application Driven by Technology" where it shared with the participants solutions in respect of mobile publishing, self-publishing, print on demand (POD) publishing and professional knowledge service platform. Further, Founder Electronics launched its latest solution for the digital education sector, "Founder's Intelligent Education Overall Solution", which tailored entirely for promoting the digital transformation of China's publishing and education industry. Mr. Hao Zhensheng (郝振省), Head of China Press and Publication Research Institute (中國新聞出版研究院), Mr. Liu Yongqian (劉雍潛), Secretary-General of China Educational Technology Association (中國教育技術協會), Mr. Wu Yuanming (武遠明), Deputy Head of Science and Technology Division under Department of Science and Technology of General Administration of Press and Publication, Radio, Film and Television (國家新聞出版廣電總局科技司科技處), Mr. Wang Jian (王劍), Vice president of Founder Electronics and other leaders participated in the launching of this new solution in the presence of more than 180 representatives from over 100 publishing and media units of China.

4. Call for "Fonts Specially Used for Primary School Textbooks" – The 7th "Founder Award" Chinese Font Design Contest Officially Kicked Off with Themed Font: "Chinese Textbook Font"

The seventh "Founder Award" Chinese Font Design Contest, jointly organized by the Chinese Text Font Design And Research Center (中國文字字體設計與研究中心) and Founder Electronics, the largest provider of font library products in China, was officially commenced. The organizers set the contest-themed font as the "Chinese textbooks font". This competition highlights organizers' emphasis and deliberation on the design of traditional Chinese characters and provides positive contribution to the exploration of font application in teaching Chinese characters at primary school level.

The competition is divided into three modules: themed font-textbook font design, typographic font design and creative font design. "Chinese textbook font" is the highlight of the competition. According to the requirements, textbook fonts, i.e. fonts specially used for textbooks, must satisfy the needs of contemporary education and the application needs of primary school textbooks and proves to be the best ideal fonts for use in the Chinese textbooks which can illustrate effectively how to learn, write and understand Chinese characters for children and teenagers. Entries must fit the specific cognitive development mode of children and teenagers, and match with children's psychological and physiological characteristics as well as ensuring font specification is based on the science of Chinese characters and truly beautiful and practical. The competition creates a new special award "Cangjie Award", whose winner will be granted a bonus of RMB50,000 and the award-winning font will have a chance to be included in Founder's font library.

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 decreased by 41.7% to approximately HK\$166.5 million (six months ended 30 June 2012: HK\$285.4 million) while its segment results has recorded a loss of approximately HK\$0.9 million (six months ended 30 June 2012: profit of HK\$7.6 million).

The major products provided by the Non-Media Business include various information products such as servers, storage devices and workstations of a number of internationally famed and branded information products manufacturers such as HP, Cisco and Hitachi. The decrease in segment revenue was mainly due to decrease in sales of information products in the banking sector in the PRC and decrease in sales of HP products to a subsidiary of EC-Founder, a related company of the Company. The demand of information products was lower during the current interim period after the banking systems and other information systems have been upgraded by the customers in the previous year. The deterioration of segment results was due to increase in impairment of trade receivables as a result of lengthening of aging of debtors.

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 in 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. The Group will further make investment in technological research and development and strengthen its business expansion, especially inkjet digital printing machines and major-scale data information services within vertical areas. In addition, the Group will closely monitor the performance of each of its business sectors to achieve effective cost control and maximise shareholders' value.

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 2013, the number of employees of the Group was approximately 1,259 (31 December 2012: 1,362).

Management Discussion and Analysis

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 2013, the Group had interest-bearing bank borrowings of HK\$176.3 million (31 December 2012: HK\$229.8 million) which are floating interest bearing. The bank borrowings were denominated in Hong Kong Dollars ("HKD"), Renminbi ("RMB") and United States Dollars ("U.S. dollars"), and were repayable within one year. 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 the subsidiary of Peking Founder's bank deposits. At 30 June 2013, the Group recorded total assets of HK\$1,376.0 million which were financed by liabilities of HK\$647.2 million, non-controlling interests of HK\$0.2 million and equity of HK\$728.6 million. The Group's net asset value per share as at 30 June 2013 amounted to HK\$0.64 (31 December 2012: HK\$0.68).

The Group had total cash and bank balances of HK\$326.5 million as at 30 June 2013 (31 December 2012: HK\$442.0 million). After deducting total bank borrowings of HK\$176.3 million (31 December 2012: HK\$229.8 million), the Group recorded net cash and bank balances of HK\$150.2 million as at 30 June 2013 as compared to HK\$212.2 million as at 31 December 2012. The Group's borrowings, which are subject to little seasonality, consist of mainly short term bank loans and trust receipt loans. As at 30 June 2013, the Group's gearing ratio, measured on the basis of total borrowings as a percentage of total shareholders' equity, was 0.24 (31 December 2012: 0.30) while the Group's current ratio was 1.65 (31 December 2012: 1.64).

At 30 June 2013, the Group did not have any material capital expenditure commitments.

On 26 July 2013, the Company and a placing agent entered into a placing agreement, pursuant to which the placing agent has conditionally agreed to endeavor to place up to 220,000,000 new shares to not less than six independent placees at a price of HK\$0.36 per placing share. Further details are set out in the announcement of the Company dated 28 July 2013. Up to the date of the approval of the condensed consolidated interim financial statements, the placing has not been completed. The Placing represents an opportunity to raise additional funds for the Company while broadening the shareholder and capital base of the Company.

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.

Management Discussion and Analysis

Exposure to fluctuations in exchange rates and related hedges

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

Contracts

At 30 June 2013, the major contracts in hand for the software development and systems integration business amounted to approximately HK\$354.0 million (31 December 2012: HK\$275.8 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 during the six months ended 30 June 2013.

Charges on assets

At 30 June 2013, the Group's land and buildings in Hong Kong of approximately HK\$66.2 million, investment properties of approximately HK\$55.4 million and bank deposits of approximately HK\$11.6 million were pledged to banks to secure banking facilities granted.

Future plans for material investments or capital assets

The Group did not have any concrete future plans for material investments or capital assets as at 30 June 2013.

Contingent liabilities

At 30 June 2013, the Group did not have any significant contingent liabilities.

Other Information

Directors' Interests and Short Positions in Shares and Underlying Shares

At 30 June 2013, 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 share options of the Company:

Name of directors	Number of options directly beneficially owned
Mr Fang Zhong Hua	7,388,000
Professor Xiao Jian Guo	7,388,000
Professor Yang Bin	7,388,000
Ms Yi Mei	7,388,000
	<hr/>
	29,552,000

Save as disclosed above, as at 30 June 2013, none of the directors had registered an interest or short position in the shares or underlying shares of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Other Information

Share Option Scheme

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

The following share options were outstanding under the share option scheme at 1 January 2013 and at the end of the period:

Name or category of participant	Number of share options outstanding as at 1 January 2013 and 30 June 2013	Date of grant of share options <i>(Note 1)</i>	Exercise period of share options <i>(Note 2)</i>	Exercise price of share options <i>(Note 3)</i> HK\$ per share
Executive Directors				
Mr Fang Zhong Hua	7,388,000	17.11.2011	17.11.2012 to 16.11.2014	0.296
Professor Xiao Jian Guo	7,388,000	17.11.2011	17.11.2012 to 16.11.2014	0.296
Professor Yang Bin	7,388,000	17.11.2011	17.11.2012 to 16.11.2014	0.296
Ms Yi Mei	7,388,000	17.11.2011	17.11.2012 to 16.11.2014	0.296
Subtotal	<u>29,552,000</u>			
Other employees of the Group				
In aggregate	29,551,900	17.11.2011	17.11.2012 to 16.11.2014	0.296
Other employees of the substantial shareholder of the Company				
In aggregate	14,776,000	17.11.2011	17.11.2012 to 16.11.2014	0.296
Total	<u>73,879,900</u>			

Other Information

Share Option Scheme *(Continued)*

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

1. The vesting period of the share options is from the date of the grant until the commencement of the exercise period.
2. The options are exercisable in the following two tranches:
 - (i) First 40% of the options are exercisable from 17 November 2012 to 16 November 2013; and
 - (ii) The remaining 60% of the options are exercisable from 17 November 2013 to 16 November 2014.
3. The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

Save as disclosed above, at no time during the period were rights to acquire benefits by means of the acquisition of shares in the Company granted to any of the directors or their respective spouses or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

Substantial Shareholders' and Other Persons' Interests in Shares

At 30 June 2013, 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	<u>367,179,610</u>	<u>32.49</u>

* *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.

Other Information

Substantial Shareholders' and Other Persons' Interests in Shares *(Continued)*

Save as disclosed above, as at 30 June 2013, no person, other than the directors of the Company, whose interests are set out in the section "Directors' interests and short positions in shares and underlying shares" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

Purchase, Redemption or Sale of Listed Securities of the Company

The Company has not redeemed any of its listed securities during the six months ended 30 June 2013. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's listed securities during the six months ended 30 June 2013.

Corporate Governance

The Company has complied with all code provisions of the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") throughout the six months ended 30 June 2013, except for the following deviations:

Provision A.6.7 of the CG Code provides that independent non-executive directors and other non-executive directors should attend general meetings and develop a balanced understanding of the views of shareholders. Mr Fung Man Yin, Sammy (independent non-executive director of the Company) could not attend the special general meeting of the Company held on 22 January 2013 due to other business engagement. However, all other independent non-executive directors of the Company were present thereat to be available to answer any question to ensure effective communication with shareholders of the Company.

Provision E.1.2 of the CG Code provides that the Chairman of the board should attend the annual general meeting. Mr Fang Zhong Hua could not attend the annual general meeting of the Company held on 29 May 2013 due to business commitment in the PRC. Professor Yang Bin, the President of the Company, was present thereat to be available to answer questions at the annual general meeting.

Model Code for Securities Transactions by Directors of Listed Issuer

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. Having made specific enquiry by the Company, all directors have confirmed that they have complied with the Model Code regarding directors' securities transactions throughout the accounting period covered by the interim report.

Audit Committee

The Audit Committee has reviewed the Group's condensed consolidated interim financial statements for the six months ended 30 June 2013, including the accounting principles adopted by the Group, with the Company's management.

By Order of the Board
FOUNDER HOLDINGS LIMITED
Fang Zhong Hua
Chairman