

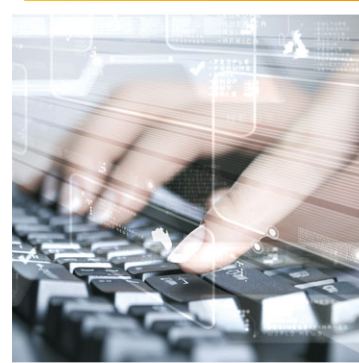
 **FOUNDER HOLDINGS LIMITED**
方正控股有限公司

(Incorporated in Bermuda with limited liability)

Stock Code: 00418



2015
INTERIM
REPORT





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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive directors

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

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

PRINCIPAL BANKERS

Bank of Beijing
China Merchants Bank
DBS Bank (Hong Kong) 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 registrar

MUFG Fund Services (Bermuda) Limited
The Belvedere Building
69 Pitts Bay Road
Pembroke HM 08
Bermuda

Hong Kong branch share registrar 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 WEBSITE

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 2015, together with the comparative figures for the corresponding period in 2014. The condensed consolidated interim financial statements have not been audited, but have been reviewed by the Company's audit committee.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE SIX MONTHS ENDED 30 JUNE 2015

	NOTES	For the six months ended 30 June	
		2015 (Unaudited) HK\$'000	2014 (Unaudited) HK\$'000
REVENUE	2	398,415	430,180
Cost of sales		(254,725)	(288,010)
Gross profit		143,690	142,170
Other income and gains	3	27,510	26,698
Selling and distribution expenses		(99,378)	(93,569)
Administrative expenses		(36,261)	(32,176)
Other expenses, net		(51,364)	(63,081)
Finance costs	4	(4,546)	(4,621)
Share of profits and losses of associates		(348)	19
LOSS BEFORE TAX	5	(20,697)	(24,560)
Income tax expense	6	(17,899)	(4,363)
LOSS FOR THE PERIOD		(38,596)	(28,923)
Attributable to:			
Owners of the parent		(38,538)	(28,823)
Non-controlling interests		(58)	(100)
		(38,596)	(28,923)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	7		
– Basic		HK(3.21) cents	HK(2.47) cents
– Diluted		HK(3.21) cents	HK(2.47) cents

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2015

	For the six months ended 30 June	
	2015 (Unaudited) HK\$'000	2014 (Unaudited) HK\$'000
LOSS FOR THE PERIOD	(38,596)	(28,923)
OTHER COMPREHENSIVE INCOME/(LOSS)		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Changes in fair value of available-for-sale investment	–	(2,784)
Income tax effect	–	696
	–	(2,088)
Share of other comprehensive income/(loss) of associates	(140)	82
Exchange differences on translation of foreign operations	417	(15,841)
Net other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods	277	(17,847)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF TAX	277	(17,847)
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD	(38,319)	(46,770)
Attributable to:		
Owners of the parent	(38,261)	(46,661)
Non-controlling interests	(58)	(109)
	(38,319)	(46,770)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 JUNE 2015

	NOTES	30 June 2015 (Unaudited) HK\$'000	31 December 2014 (Audited) HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment		296,218	302,725
Investment properties		96,328	96,321
Intangible assets	9	15,880	7,403
Investment in associates		5,701	6,189
Available-for-sale investment		8,253	9,564
Total non-current assets		422,380	422,202
CURRENT ASSETS			
Inventories		69,319	71,196
Gross amount due from contract customers		29,767	45,400
Trade and bills receivables	10	181,659	257,597
Prepayments, deposits and other receivables		344,802	344,028
Equity investment at fair value through profit or loss		555	–
Pledged deposits		9,831	25,691
Cash and cash equivalents		481,381	524,545
Tax recoverable		426	1,428
Total current assets		1,117,740	1,269,885
CURRENT LIABILITIES			
Trade and bills payables	11	62,391	130,504
Gross amount due to contract customers		17,495	12,304
Receipts in advance, other payables and accruals		333,638	361,228
Interest-bearing bank borrowings	12	171,248	194,135
Tax payable		2,024	2,298
Total current liabilities		586,796	700,469
NET CURRENT ASSETS		530,944	569,416
TOTAL ASSETS LESS CURRENT LIABILITIES		953,324	991,618

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 JUNE 2015

	30 June 2015 (Unaudited) HK\$'000	31 December 2014 (Audited) HK\$'000
NON-CURRENT LIABILITIES		
Deferred tax liabilities	30,118	30,093
Net assets	923,206	961,525
EQUITY		
Equity attributable to owners of the parent		
Issued capital	119,975	119,975
Reserves	802,908	841,169
	922,883	961,144
Non-controlling interests	323	381
Total equity	923,206	961,525

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2015

	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	Land and buildings revaluation reserve (Unaudited) HK\$'000	Available-for-sale investment 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 2015	119,975	53,597*	867,910*	-	246,810*	-	44,872*	54,684*	(426,704)*	961,144	381	961,525
Loss for the period	-	-	-	-	-	-	-	-	(38,538)	(38,538)	(58)	(38,596)
Other comprehensive loss for the period:												
Share of other comprehensive loss of associates	-	-	-	-	-	-	(140)	-	-	(140)	-	(140)
Exchange differences on translation of foreign operations	-	-	-	-	-	-	417	-	-	417	-	417
Total comprehensive loss for the period	-	-	-	-	-	-	277	-	(38,538)	(38,261)	(58)	(38,319)
At 30 June 2015	119,975	53,597*	867,910*	-	246,810*	-	45,149*	54,684*	(465,242)*	922,883	323	923,206
At 1 January 2014	115,985	40,778	867,910	5,479	238,772	-	59,842	54,562	(433,442)	949,886	385	950,271
Loss for the period	-	-	-	-	-	-	-	-	(28,823)	(28,823)	(100)	(28,923)
Other comprehensive income for the period:												
Changes in fair value of available-for-sale investment, net of tax	-	-	-	-	-	(2,088)	-	-	-	(2,088)	-	(2,088)
Share of other comprehensive income of associates	-	-	-	-	-	-	82	-	-	82	-	82
Exchange differences on translation of foreign operations	-	-	-	-	-	-	(15,832)	-	-	(15,832)	(9)	(15,841)
Total comprehensive loss for the period	-	-	-	-	-	(2,088)	(15,750)	-	(28,823)	(46,661)	(109)	(46,770)
Exercise of share options	887	2,834	-	(1,096)	-	-	-	-	-	2,625	-	2,625
At 30 June 2014	116,872	43,612	867,910	4,383	238,772	(2,088)	44,092	54,562	(462,265)	905,850	276	906,126

* These reserve accounts comprise the consolidated reserves of HK\$802,908,000 (31 December 2014: HK\$841,169,000) in the condensed consolidated statement of financial position.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2015

	NOTES	For the six months ended 30 June	
		2015 (Unaudited) HK\$'000	2014 (Unaudited) HK\$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		(20,697)	(24,560)
Adjustments for:			
Finance costs	4	4,546	4,621
Share of profits and losses of associates		348	(19)
Interest income	3	(9,047)	(9,319)
Gain on disposal of items of property, plant and equipment	5	(185)	(39)
Equity investment at fair value through profit or loss	3	(577)	–
Depreciation	5	8,531	8,310
Amortisation of intangible assets	5	3,861	1,061
Impairment of trade receivables	5	5,960	6,183
Impairment of other receivables	5	3,368	3,600
Impairment of available-for-sale investment	5	659	–
Loss on termination of finance lease	5	–	4,444
		(3,233)	(5,718)
Decrease in inventories		1,877	4,359
Decrease in gross amount due from contract customers		15,633	6,819
Decrease in trade and bills receivables		69,978	3,766
Increase in prepayments, deposits and other receivables		(17,493)	(20,554)
Decrease in trade and bills payables		(68,113)	(43,323)
Increase/(decrease) in gross amount due to contract customers		5,191	(173)
Decrease in other payables and accruals		(27,590)	(56,834)
Exchange differences		810	2,136
Cash used in operations		(22,940)	(109,522)
Interest received		1,952	1,894
Interest paid		(4,546)	(4,621)
Hong Kong profits tax refund/(paid)		880	(24)
Mainland of the People's Republic of China ("Mainland China" or the "PRC") corporate income tax paid		(18,051)	(6,470)
Net cash flows used in operating activities		(42,705)	(118,743)

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2015

	NOTE	For the six months ended 30 June	
		2015 (Unaudited) HK\$'000	2014 (Unaudited) HK\$'000
Net cash flows used in operating activities		(42,705)	(118,743)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		8,166	11,105
Dividend received from an associate		–	415
Purchases of items of property, plant and equipment		(1,865)	(2,528)
Addition of intangible assets	9	(12,310)	(1,497)
Proceeds from disposal of items of property, plant and equipment		185	44
Decrease in non-pledged time deposits with original maturity of more than three months when acquired		8,114	–
Advances of entrusted loans to related companies		(237,120)	(248,600)
Repayment of entrusted loans from related companies		249,400	230,220
Decrease in pledged deposits		15,860	1,404
Net cash flows generated from/(used in) investing activities		30,430	(9,437)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares upon exercise of share options		–	2,625
New bank loans		25,587	34,890
Repayment of bank loans		(4,821)	(63,100)
Decrease in trust receipt loans		(40,053)	(18,013)
Net cash flows used in financing activities		(19,287)	(43,598)
NET DECREASE IN CASH AND CASH EQUIVALENTS			
Cash and cash equivalents at beginning of period		507,683	561,448
Effect of foreign exchange rate changes, net		260	(14,407)
CASH AND CASH EQUIVALENTS AT END OF PERIOD		476,381	375,263

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2015

	For the six months ended 30 June	
	2015 (Unaudited) HK\$'000	2014 (Unaudited) HK\$'000
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	372,543	220,151
Non-pledged time deposits	108,838	155,112
Cash and cash equivalents as stated in the condensed consolidated statement of financial position	481,381	375,263
Non-pledged time deposits with original maturity of more than three months when acquired	(5,000)	–
Cash and cash equivalents as stated in the condensed consolidated statement of cash flows	476,381	375,263

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 JUNE 2015

1. ACCOUNTING POLICIES

These unaudited condensed consolidated interim financial statements for the six months ended 30 June 2015 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 2014, 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:

Amendments to HKAS 19	<i>Defined Benefit Plans: Employee Contributions</i>
Annual Improvements 2010-2012 Cycle	<i>Amendments to a number of HKFRSs</i>
Annual Improvements 2011-2013 Cycle	<i>Amendments to a number of HKFRSs</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.

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 2015 and 2014:

	Software development, systems integration and information products distribution for media business		Information products distribution for non-media business		Corporate		Others		Total	
	2015 (Unaudited) HK\$'000	2014 (Unaudited) HK\$'000	2015 (Unaudited) HK\$'000	2014 (Unaudited) HK\$'000	2015 (Unaudited) HK\$'000	2014 (Unaudited) HK\$'000	2015 (Unaudited) HK\$'000	2014 (Unaudited) HK\$'000	2015 (Unaudited) HK\$'000	2014 (Unaudited) HK\$'000
Segment revenue:										
Sales to external customers	374,322	349,299	23,888	80,652	-	-	205	229	398,415	430,180
Segment results	(14,751)	(29,239)	(1,974)	5,930	(6,678)	(5,576)	157	199	(23,246)	(28,686)
<i>Reconciliation:</i>										
Interest income									9,047	9,319
Finance costs									(4,546)	(4,621)
Share of profits and losses of associates									(348)	19
Foreign exchange differences, net									(1,604)	(591)
Loss before tax									(20,697)	(24,560)

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 JUNE 2015

3. OTHER INCOME AND GAINS

	For the six months ended 30 June	
	2015 (Unaudited) HK\$'000	2014 (Unaudited) HK\$'000
Bank interest income	1,952	1,894
Other interest income	7,095	7,425
Gross rental income	1,395	805
Government grants	15,191	15,158
Equity investment at fair value through profit or loss	577	–
Others	1,300	1,416
	27,510	26,698

4. FINANCE COSTS

	For the six months ended 30 June	
	2015 (Unaudited) HK\$'000	2014 (Unaudited) HK\$'000
Interest on bank loans	4,546	4,621

5. LOSS BEFORE TAX

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

	NOTE	For the six months ended 30 June	
		2015 (Unaudited) HK\$'000	2014 (Unaudited) HK\$'000
Cost of goods sold		254,725	288,010
Depreciation		8,531	8,310
Amortisation of intangible assets	9	3,861	1,061
Gain on disposal of items of property, plant and equipment		(185)	(39)
Loss on termination of finance lease		–	4,444
Impairment of trade receivables		5,960	6,183
Impairment of other receivables		3,368	3,600
Impairment of available-for-sale investment		659	–
Provision for obsolete inventories		5,742	1,675
Foreign exchange differences, net		1,604	591

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 JUNE 2015

6. INCOME TAX

	For the six months ended 30 June	
	2015 (Unaudited) HK\$'000	2014 (Unaudited) HK\$'000
Group:		
Current – Hong Kong		
Charge for the period	122	191
Current – PRC		
Charge for the period	1,559	–
Underprovision/(overprovision) in prior year	(320)	4,172
Other tax provision made in current period	16,538	–
Total tax charge for the period	17,899	4,363

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 (six months ended 30 June 2014: 16.5%).

PRC corporate income tax ("CIT") 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% during the six months ended 30 June 2015 and 2014. During the six months ended 30 June 2015, one of the Company's PRC subsidiaries, Beijing Founder Electronics Co., Ltd. ("Founder Electronics") provided corporate income tax in aggregate amount of HK\$16,538,000 in respect of the government grants received. The amount was fully paid to the local tax bureau by 30 June 2015.

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

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\$38,538,000 (six months ended 30 June 2014 HK\$28,823,000), and the weighted average number of ordinary shares of approximately 1,199,747,000 (six months ended 30 June 2014: 1,164,855,000) in issue during the period.

No adjustment has been made to the basic loss per share amounts presented for the six months ended 30 June 2014 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. The Group had no potentially dilutive ordinary shares in issue during six months ended 30 June 2015.

8. INTERIM DIVIDEND

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2015 (six months ended 30 June 2014: Nil).

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 JUNE 2015

9. INTANGIBLE ASSETS

	NOTES	Patents and acquired software (Unaudited) HK\$'000	Development expenditure on media software (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
30 June 2015				
Cost at 1 January 2015, net of accumulated amortisation		–	7,403	7,403
Acquisition from related companies	14	12,310	–	12,310
Amortisation provided during the period	5	(1,988)	(1,873)	(3,861)
Exchange realignment		28	–	28
At 30 June 2015		10,350	5,530	15,880
At 30 June 2015:				
Cost		12,343	11,270	23,613
Accumulated amortisation		(1,993)	(5,740)	(7,733)
Net carrying amount		10,350	5,530	15,880
30 June 2014				
Cost at 1 January 2014, net of accumulated amortisation		–	7,632	7,632
Addition – internal development		–	1,497	1,497
Amortisation provided during the period	5	–	(1,061)	(1,061)
Exchange realignment		–	(201)	(201)
At 30 June 2014		–	7,867	7,867
At 30 June 2014:				
Cost		–	10,254	10,254
Accumulated amortisation		–	(2,387)	(2,387)
Net carrying amount		–	7,867	7,867

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 JUNE 2015

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 2015 (Unaudited) HK\$'000	31 December 2014 (Audited) HK\$'000
Within 6 months	130,384	213,757
7 to 12 months	24,059	35,532
13 to 24 months	27,216	8,308
	181,659	257,597

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\$4,028,000 (31 December 2014: HK\$16,148,000), 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 2015

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 2015 (Unaudited) HK\$'000	31 December 2014 (Audited) HK\$'000
Within 6 months	52,256	109,304
7 to 12 months	2,698	9,029
13 to 24 months	2,650	3,909
Over 24 months	4,787	8,262
	62,391	130,504

Included in the Group's trade and bills payables are amounts due to subsidiaries of Peking Founder of approximately HK\$1,881,000 (31 December 2014: HK\$5,471,000), and a subsidiary of Peking University Resources (Holdings) Company Limited ("PKU Resources"), a subsidiary of Peking Founder, of approximately HK\$341,000 (31 December 2014: HK\$264,000), 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 3 December 2014, 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 an uncommitted short term loan 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 25% 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 2015, no banking facility was drawn by the Group under the Facility Agreement.

13. CONTINGENT LIABILITIES

At the end of the reporting period, the Group did not have any significant contingent liabilities (31 December 2014: Nil).

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 JUNE 2015

14. RELATED PARTY TRANSACTIONS

(I) Transactions with related parties

- (a) In addition to the related party transactions and balances disclosed elsewhere in these financial statements, the Group had the following material transactions with related parties during the period:

	NOTE	For the six months ended 30 June	
		2015 (Unaudited) HK\$'000	2014 (Unaudited) HK\$'000
Management fee income received from PKU Resources and its subsidiary	(i)	854	836
Handling fee income received from a subsidiary of Peking Founder	(i)	60	120

Note:

- (i) These transactions were conducted on the basis of rates agreed between the Group and the related companies.
- (b) On 1 November 2011, 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\$8,588,000 and HK\$6,031,000).

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\$8,045,000 and HK\$5,717,000).

* For identification purpose only

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 JUNE 2015

14. RELATED PARTY TRANSACTIONS *(continued)*

(i) Transactions with related parties *(continued)*

(b) *(continued)*

On 13 February 2015, Founder Electronics, Founder EasiPrint and 北京方正數字印刷技術有限公司 (Beijing Founder Digital Printing Technology Co. Ltd. *) ("Founder Digital Printing") renewed the lease agreement and management agreement with a subsidiary of Peking Founder to lease the premises in Beijing from 15 February 2015 to 31 December 2015, for the aggregate of annual rental and management fees of RMB7,855,000 and RMB4,737,000 (equivalent to approximately HK\$9,777,000 and HK\$5,896,000). Further details of the transaction were set out in the announcement of the Company dated 13 February 2015.

During the period, rental and management fees in aggregate of approximately HK\$6,717,000 (six months ended 30 June 2014: HK\$6,959,000) were paid by the Group 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.

- (c) On 9 December 2013, the Company renewed a master agreement with PKU Resources, pursuant to which the Group would purchase information products from PKU Resources and its subsidiaries (collectively "PKU Resources Group") for a term of three years from 1 January 2014 to 31 December 2016.

During the period, information products in the amount of nil (six months ended 30 June 2014: HK\$98,000) were purchased from PKU Resources Group. The directors consider that the purchases of information products were made in accordance with the master agreement.

* For identification purpose only

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 JUNE 2015

14. RELATED PARTY TRANSACTIONS *(continued)*

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

- (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.

On 30 December 2014, the Company and Peking Founder entered into the Master Purchase Agreement to extend the term for the period from 1 January 2015 to 31 December 2017.

During the period, products and services of approximately HK\$1,810,000 (six months ended 30 June 2014: HK\$1,215,000) were purchased from Peking Founder Group. The directors consider that the purchase of products and services were made in accordance with the master agreement.

- (e) On 14 December 2012, the Company renewed a master agreement with Peking Founder for the sales of information products and system integration services 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 and systems integration services of approximately HK\$1,002,000 (six months ended 30 June 2014: HK\$5,430,000) were made to Peking Founder Group and commission fee of approximately HK\$6,000 (six months ended 30 June 2014: HK\$16,000) was received from Peking Founder Group. The directors consider that the sales of information products and system integration services and payment of the 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 People's Bank of China ("PBOC") plus 15%.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 JUNE 2015

14. RELATED PARTY TRANSACTIONS *(continued)*

(i) **Transactions with related parties** *(continued)*

(f) *(continued)*

On 28 July 2014, the Company entered into an Entrusted Loan Master Agreement with Peking Founder, 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 2016. Such loans will be unsecured and interest-bearing at the prevailing benchmark Renminbi lending interest rate for loan period of six months offered by the PBOC plus 15% of such rate.

For the year ended 31 December 2014, entrusted loans in the amount of RMB400,000,000 (equivalent to approximately HK\$498,800,000) were provided to Peking Founder Group. The entrusted loans were unsecured and bore interest at rate of 6.44% per annum, and were settled by 27 August 2014 as to the amount of RMB140,000,000 (equivalent to approximately HK\$174,580,000) and 19 December 2014 as to the amount of RMB60,000,000 (equivalent to approximately HK\$74,820,000). The entrusted loans of RMB200,000,000 (equivalent to approximately HK\$249,400,000) and the related interest receivable of RMB3,227,000 (equivalent to approximately HK\$4,024,000) remained undue and were included in prepayments, deposits and other receivables as at 31 December 2014 and were fully settled by 22 June 2015.

For the six months ended 30 June 2015, two entrusted loans in the amount of RMB130,000,000 (equivalent to approximately HK\$162,240,000) and RMB60,000,000 (equivalent to approximately HK\$74,880,000) was provided to Peking Founder Group. The entrusted loans are unsecured and bear interest at rate 6.63% – 6.96% per annum. The entrusted loan of RMB190,000,000 (equivalent to approximately HK\$237,120,000) and related interest receivable of RMB2,366,000 (equivalent to approximately HK\$2,953,000) remained undue and were included in prepayments, deposits and other receivables as at 30 June 2015.

During the period, interest income earned by the Group from Peking Founder Group amounted to approximately HK\$7,095,000 (six months ended 30 June 2014: HK\$7,382,000). 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 2015

14. RELATED PARTY TRANSACTIONS *(continued)*

(l) Transactions with related parties *(continued)*

- (g) On 7 December 2012, the Company entered into a Master Sales Agreement with PKU Resources, pursuant to which the Group would provide PKU Resources 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 year ended 31 December 2014, the Group did not provide any information products, systems integration products or related services to PKU Resources Group.

- (h) On 31 October 2014, Founder Electronics entered into the Technology Transfer Agreement I and the Fixed Assets Transfer Agreement I with 上海方正數字出版技術有限公司 (Founder Digital Publishing Technology (Shanghai) Co., Ltd.*) ("Shanghai Founder"), a non-wholly-owned subsidiary of Peking Founder, pursuant to which Founder Electronics will acquire and Shanghai Founder will sell certain patents and fixed assets at a consideration of approximately RMB7.89 million (equivalent to approximately HK\$9.97 million) and approximately RMB0.18 million (equivalent to approximately HK\$0.23 million) respectively.

On the same date, Founder Electronics entered into the Technology Transfer Agreement II with 方正移動傳媒技術(北京)有限公司 (Founder Mobile Media Technology (Beijing) Co., Ltd.*) ("Founder Mobile"), a non-wholly-owned subsidiary of Peking Founder, pursuant to which Founder Electronics will acquire and Founder Mobile will sell certain patents at a consideration of RMB2 million (equivalent to approximately HK\$2.53 million).

The consideration of RMB2 million and RMB8.1 million was paid to Founder Mobile and Shanghai Founder in July 2014 and January 2015, respectively. The above transactions with Shanghai Founder and Founder Mobile were completed in January and February 2015, respectively.

- (i) The banking facilities guarantees given by Peking Founder to PRC banks for the credit facilities granted to subsidiaries of the Company at 30 June 2015 of approximately HK\$250,474,000 (31 December 2014: HK\$203,810,000) were utilised to the extent of approximately HK\$129,346,000 (31 December 2014: HK\$120,348,000).
- (j) As at 31 December 2014, the banking facilities guaranteed by a Standby Letter of Credit opened by Peking Founder for the trade financing facilities granted to a subsidiary of the Company of HK\$37,410,000 were utilised to the extent of HK\$7,500,000. The Standby Letter of Credit was expired during the period.

* For identification purpose only

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 JUNE 2015

14. RELATED PARTY TRANSACTIONS *(continued)*

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

The related party transactions in respect of items (a) to (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 2015, 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\$9,927,000 (31 December 2014: HK\$9,118,000) and balances due to Peking Founder Group included in other payables and accruals were approximately HK\$57,332,000 (31 December 2014: HK\$55,448,000). These balances are unsecured, interest-free and have no fixed terms of repayment.
- (b) The balances due from PKU Resources Group included in prepayments, deposits and other receivables as at 30 June 2015 were approximately HK\$457,000 (31 December 2014: HK\$379,000). The balances are unsecured, interest-free and have no fixed terms of repayment.
- (c) The balances due from a subsidiary of Peking Founder included in gross amount due from contract customers as at 30 June 2015 were approximately HK\$546,000 (31 December 2014: HK\$63,000) and balances due to a subsidiary of Peking Founder included in gross amount due to contract customers were approximately HK\$3,017,000 (31 December 2014: HK\$3,859,000).
- (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.

(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	
	2015 (Unaudited) HK\$'000	2014 (Unaudited) HK\$'000
Short term employee benefits	1,631	2,821
Total compensation paid to key management personnel	1,631	2,821

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 JUNE 2015

15. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to fair value, are as follows:

	Carrying amounts		Fair values	
	As at 30 June 2015 (Unaudited) HK\$'000	As at 31 December 2014 (Audited) HK\$'000	As at 30 June 2015 (Unaudited) HK\$'000	As at 31 December 2014 (Audited) HK\$'000
Financial assets				
Available-for-sale investment	8,253	9,564	8,253	9,564
Equity investment at fair value through profit or loss	555	–	555	–
	8,808	9,564	8,808	9,564
Financial liabilities				
Interest-bearing bank borrowings	171,248	194,135	171,248	194,135
	171,248	194,135	171,248	194,135

Management has assessed that the fair values of cash and cash equivalents, pledged deposits, trade and bills receivables, trade and bills payables, financial assets included in prepayments, deposits and other receivables and financial liabilities included in other payables and accruals, approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The following methods and assumptions were used to estimate the fair values:

The fair values of interest-bearing bank borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for interest-bearing bank borrowings as at 30 June 2015 was assessed to be insignificant.

The fair values of listed available-for-sale investment and listed equity investment at fair value through profit or loss are based on quoted market prices.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 JUNE 2015

15. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS *(continued)*

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

As at 30 June 2015

	Fair value measurement using			Total (Unaudited) HK\$'000
	Quoted prices in active markets (Level 1) (Unaudited) HK\$'000	Significant observable inputs (Level 2) (Unaudited) HK\$'000	Significant unobservable inputs (Level 3) (Unaudited) HK\$'000	
Available-for-sale investment:				
Equity investment	8,253	–	–	8,253
Equity investment at fair value through profit or loss	555	–	–	555
	8,808	–	–	8,808

As at 31 December 2014

	Fair value measurement using			Total (Audited) HK\$'000
	Quoted prices in active markets (Level 1) (Audited) HK\$'000	Significant observable inputs (Level 2) (Audited) HK\$'000	Significant unobservable inputs (Level 3) (Audited) HK\$'000	
Available-for-sale investment:				
Equity investment	9,564	–	–	9,564

The Group did not have any financial liabilities measured at fair value as at 30 June 2015 and 31 December 2014.

During the six months ended 30 June 2015 and the year ended 31 December 2014, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 JUNE 2015

15. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS *(continued)*

Fair value hierarchy *(continued)*

Liabilities for which fair values are disclosed:

As at 30 June 2015

	Fair value measurement using			Total (Unaudited) HK\$'000
	Quoted prices in active markets (Level 1) (Unaudited) HK\$'000	Significant observable inputs (Level 2) (Unaudited) HK\$'000	Significant unobservable inputs (Level 3) (Unaudited) HK\$'000	
Interest-bearing bank borrowings	–	171,248	–	171,248

As at 31 December 2014

	Fair value measurement using			Total (Audited) HK\$'000
	Quoted prices in active markets (Level 1) (Audited) HK\$'000	Significant observable inputs (Level 2) (Audited) HK\$'000	Significant unobservable inputs (Level 3) (Audited) HK\$'000	
Interest-bearing bank borrowings	–	194,135	–	194,135

The Group did not have any financial assets disclosed at fair value as at 30 June 2015 and 31 December 2014.

MANAGEMENT DISCUSSION AND ANALYSIS

OVERALL PERFORMANCE

The Group reported an unaudited consolidated loss attributable to owners of the parent for the six months ended 30 June 2015 of approximately HK\$38.5 million (six months ended 30 June 2014: HK\$28.8 million). The Group's turnover for the current interim period decreased by 7.4% to approximately HK\$398.4 million (six months ended 30 June 2014: HK\$430.2 million) due to decrease in sales of information products for non-media segment. Gross profit for the current interim period was maintained at around HK\$143.7 million. Gross profit ratio increased from 33.0% for the last interim period to 36.1% for the current interim period as a result of increase in proportion of sales of software and technical services with higher gross profit margin.

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

- a. a decrease in revenue by 7.4% to approximately HK\$398.4 million (six months ended 30 June 2014: HK\$430.2 million); and
- b. an increase in tax from approximately HK\$4.4 million to HK\$17.9 million as a result of other tax provision made in current period in respect of the government grants received.

Basic and diluted loss per share attributable to equity holders of the parent for the year were HK3.21 cents (six months ended 30 June 2014: HK2.47 cents).

OPERATING REVIEW AND PROSPECTS

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

The turnover of the media business of the Group for the current interim period increased by 7.2% to approximately HK\$374.3 million (six months ended 30 June 2014: HK\$349.3 million). The segment results recorded a loss of approximately HK\$14.8 million (six months ended 30 June 2014: HK\$29.2 million). The gross profit ratio for the media business was maintained at 38%. The improvement in segment results was due to increase in segment revenue and strict control on expenses.

Font Library Business

Benefitting from an improved environment of font library copyright after Beijing Founder Electronics Co., Ltd. ("Founder Electronics", the wholly-owned subsidiary of the Company) won the lawsuits for an infringement against the use of Founder QianTi font (方正倩體) and Founder PingHeTi font (方正平和體) at Nanjing Railway Transportation Court and the Third Intermediate People's Court of Beijing respectively at the end of last year, we officially started the Support Program of Public Service Genuine Fonts (正版字體支持計劃) and launched various new fonts, including but not limited to RuShuiYun (銳水雲), QuSong (趣宋), RuiZhengHei (銳正黑), GongYeHei (工業黑), Heli (黑隸) series, GuFang (古仿), JinLing font (金陵體) and LongZhua font (龍爪體), attracting more and more enterprises to purchase the authorization of Founder Electronics font library. A kick-off meeting in respect of the Chinese font library project we undertook, i.e. the 17th and 20th pack (the 17th pack: word collection and sorting for contemporary names of people and places; the 20th pack: intermediate font library, the finished font library such as Song (宋體) and Kai (楷體)), a major scientific and technological project in press and publication industry, was held on 24 March 2015, declaring the start of the project development. In respect of B2C business, the latest V2.25 of "Mr. writing" (寫字先生), a social platform designed for people to practice calligraphy, write and share, greatly improved the user experience and was freely recommended by 360 Store (360商店) and MI Store (小米商店).

MANAGEMENT DISCUSSION AND ANALYSIS

Internet Large-scale Data Business

Leveraging on existing technologies and businesses, Founder Electronics intends to fully enter into the internet large-scale data business, specifically, to construct and operate an internet large-scale data analysis service platform based on internet search and analysis technology with proprietary intellectual property rights, by putting into more investment and inducing more talents. In order to strengthen our expansion into this industry for technological products and business model tailored to the needs of our users, we proceeded to an organization restructuring throughout the business department by adding an Amoeba team responsible for industry expansion to our existing platform of data center maintenance and core technologies research and development. Inside our team, we proactively implemented the business model of “technology + service”, and promoted it to the whole industry. Currently, the initial effect has been seen: in respect of traditional internet public sentiment information service and national network security technology service, most large-scale construction projects we undertook progressed well to the satisfactory of customers, which brought more opportunities for projects to consolidate our traditional strength and market position. Meanwhile, we succeeded in cooperating with relevant competent authorities and famous brands around the world in such field as education, travelling and household appliances, forming a service model of large-scale data analysis oriented to industrial application and with good marketing prospect. Looking forward, we will focus on the industry to pool our efforts and increase investments, striving to be one of the large-scale data application market leaders in the PRC market.

Printing Business

Founder Electronics continued to help the clients for their business integration and transformation via our “all-in-one” (全能印廠) network printing intelligent production solutions, driving our transformation of business model to the provision of network and service, and continued to strengthen the market leading position of our main products. Founder Diaolong (方正雕龍) CTP recorded steady sales growth, and Founder EagleJet (方正榮鷹) H500 played a leading position in the coding market of drug supervision code and two-dimension code. We comprehensively achieved safety transmission of primary and secondary school teaching materials through our electronic film solutions with national coverage. We solved such urgent requirements as cloud typesetting and content accuracy and consistency of publication through our digital printing cloud platform solutions, and have sought sample users. We launched K and V series EagleJet (榮鷹) inkjet printers based on the inkjet core technologies, and maintained our leading position in domestic inkjet digital printer market. Currently, Founder Electronics is expanding into package industry by getting into the area of QR code anti-counterfeiting and source-tracing firstly, where we have certain initial technological barrier in place and will keep working hard in the coming years.

Digital Media Business

By capitalizing on the historic opportunities of integration of traditional media with new media to actively drive the development of integration media overall solutions and rapidly boost industry layout, we recorded strong sales of Omni-media System for News Business (暢享全媒體新聞業務系統) and cooperated with a number of heavyweight clients, further consolidating and strengthening the Company’s core competitiveness and enhancing our market share. Meanwhile, we actively promoted sales of Omni-media System for Operating Business (暢營全媒體運營業務系統) and successfully established such main clients as Guangzhou Daily (廣州日報) and Chongqing Daily (重慶日報), playing a leading position in the market. Based on our extensive practical experience in the media field and with market trend analysis and continuous technology innovation and product upgrade, the Company also launched such new systems as Client Resources Operating Platform (客戶資源運營平台), YueXiang News (悅享新聞) APP and Internet Hot News Monitoring (互聯網新聞熱點監控) based on cloud computing, large-scale data and mobile internet application, which were widely recognized in the industry. In addition, the Group conducted active industry expansion in operation of news schools and vertical industry information service field, laying a solid foundation for the sustainable and stable development of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

Digital Publishing Business

News publishing industry ushered in the trend of “integration”. Founder Electronics led digital publishing technology innovation based on SMAC philosophy and created “Intelligent Publishing” (智慧出版) solution to achieve the transformation and upgrading of digital publishing industry and business model innovation, and provide such digital transformation and upgrading services as digital process upgrading, know-how service, new media application and service, O2O digital operation service and self publishing for the publishing industry, boosting the rapid development and integration of the publishing industry. “Intelligent Publishing” solution has obtained dozens of major orders from the Central Cultural Enterprise Digital Upgrading (中央文化企業數字化升級改造) project, the National Digital Composite Publishing System Project (國家數字複合出版系統工程) of the State Administration of Press, Publication, Radio, Film and Television, Jilin Publishing Group (吉林出版集團), Hubei Changjiang Publishing Group (湖北長江出版集團), Inner Mongolia Publishing Group (內蒙古出版集團) and Central China Publishing & Media Group (中原出版集團), continuing to lead the development of digital publishing industry technologies and solutions.

Digital Education Business

Founder Electronics preliminarily formed a development mechanism based on the development of educational software, characterized by development of mobile terminal interactive resources and supported by digital education and teaching service. Founder smart education solutions have been used by over 100 schools in more than 20 provinces of the PRC to conduct class interactive and mobile learning experience. Smart education solutions have won the bidding in a number of textbook development projects, such as the digital textbook development project of People’s Education Press and Beijing primary and secondary school premium curriculum resource customized purchase project. Through in-depth cooperation with publishers, we undertook the resource development, education cloud service platform development and operation service support of China Labor & Social Security Publishing House (中國勞動社會保障出版社) and the Open University of China Publishing & Media Group (國家開放大學出版傳媒集團), and strategically cooperated with educational publishers, such as Publishing House of Jinan (濟南出版社). Looking ahead, we will continue to increase research and development investment and expand our businesses, striving to become a leading educational resources development service provider and a professional digital teaching service provider in the PRC.

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

The turnover of the Non-Media Business of the Group for the current interim period decreased by 70.4% to approximately HK\$23.9 million (six months ended 30 June 2014: HK\$80.7 million) while its segment results has recorded a loss of approximately HK\$2.0 million (six months ended 30 June 2014: profit of HK\$5.9 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, Hitachi, IBM, Oracle Systems and Siemon. The decrease in segment revenue were mainly due to decrease in sales of information products in the banking sector in the PRC. The decline in segment results was due to decrease in the proportion of service income with higher gross profit margin.

MANAGEMENT DISCUSSION AND ANALYSIS

PROSPECTS

To deal with the business growth, the management of the Group will closely monitor changes in the PRC'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 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.

As at 30 June 2015, the number of employees of the Group was approximately 1,212 (31 December 2014: 1,216).

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 2015, the Group had interest-bearing bank borrowings of approximately HK\$171.2 million (31 December 2014: HK\$194.1 million), of which HK\$75.7 million (31 December 2014: HK\$75.7 million) were fixed interest bearing and HK\$95.5 million (31 December 2014: HK\$118.4 million) were 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 北大方正集團有限公司 (Peking University Founder Group Company Limited*) ("Peking Founder"), a substantial shareholder of the Company, the Government of Hong Kong under the SME Loan Guarantee Scheme, certain of the Group's land and buildings, investment properties and bank deposits.

As at 30 June 2015, the Group recorded total assets of HK\$1,540.1 million which were financed by liabilities of HK\$617.0 million, non-controlling interests of HK\$0.3 million and equity of HK\$922.8 million. The Group's net asset value per share as at 30 June 2015 amounted to HK\$0.77 (31 December 2014: HK\$0.80).

The Group had total cash and bank balances of HK\$491.2 million as at 30 June 2015 (31 December 2014: HK\$550.2 million). After deducting total bank borrowings of HK\$171.2 million (31 December 2014: HK\$194.1 million), the Group recorded net cash and bank balances of HK\$320.0 million as at 30 June 2015 as compared to HK\$356.1 million as at 31 December 2014. 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 2015, the Group's gearing ratio, measured on the basis of total borrowings as a percentage of total shareholders' equity, was 0.19 (31 December 2014: 0.20) while the Group's working capital ratio was 1.90 (31 December 2014: 1.81).

At 30 June 2015, the Group did not have any material capital expenditure commitments.

* For identification purpose only

MANAGEMENT DISCUSSION AND ANALYSIS

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 the PRC. 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. The conversion of RMB into foreign currencies is subject to the rules and regulations of the foreign exchange controls promulgated by the Chinese government. The Group has minimal exposure to exchange rate fluctuation. No financial instrument was used for hedging purposes. Subsequent to these interim results, the exchange rate of RMB has devalued and the Group will closely monitor the currency exchange risk of RMB in the near term as a result.

Contracts

As at 30 June 2015, the major contracts for the software development and systems integration business amounted to approximately HK\$430.2 million (31 December 2014: HK\$351.6 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 disposal of subsidiaries and associates during the six months ended 30 June 2015.

Charges on assets

As at 30 June 2015, the Group's land and buildings in Hong Kong of approximately HK\$66.9 million and investment properties of approximately HK\$87.0 million and bank deposits of approximately HK\$9.8 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 2015. However, the Group always seeks for new investment opportunities in the software development and systems integration business to broaden the revenue and profit base of the Group and enhance shareholders' value in long term.

Contingent liabilities

As at 30 June 2015, the Group did not have any significant contingent liabilities.

OTHER INFORMATION

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2015, the interests and short positions of the directors in the share capital, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), were as follows:

Long positions in ordinary shares of the Company:

Name of director	Capacity and nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital
Mr Fang Zhong Hua	Directly beneficially owned	7,388,000	0.62
Professor Xiao Jian Guo	Directly beneficially owned	7,388,000	0.62
Professor Yang Bin	Directly beneficially owned	7,388,000	0.62
Ms Yi Mei	Directly beneficially owned	7,388,000	0.62

Save as disclosed above, as at 30 June 2015, none of the directors had registered an interest or short position in the shares, underlying shares or debenture 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.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 30 June 2015, 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 (other than a director or chief executive of the Company):

Long positions:

Name	Notes	Capacity and nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital
北大資產經營有限公司 (Peking University Asset Management Company Limited*)	1	Through a controlled corporation	367,179,610	30.60
北大方正集團有限公司 (Peking University Founder Group Company Limited*) ("Peking Founder")	2	Through a controlled corporation	367,179,610	30.60
北大方正信息產業集團有限公司 (Peking University Founder Information Industry Group Co., Ltd. *)		Directly beneficially owned	367,179,610	30.60

* For identification purpose only

OTHER INFORMATION

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

Long positions: *(continued)*

Notes:

1. 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.
2. Peking Founder was deemed to be interested in the 367,179,610 shares under the SFO by virtue of its interest in Peking University Founder Information Industry Group Co., Ltd.

Save as disclosed above, as at 30 June 2015, no person, other than the directors of the Company, whose interests are set out in the section "Directors' interests and short positions in shares, underlying shares and debentures" 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 2015. 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 2015.

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 (the "Listing Rules") on the Stock Exchange throughout the six months ended 30 June 2015, except for the following deviations:

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 4 June 2015 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 2015, 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

Hong Kong
26 August 2015