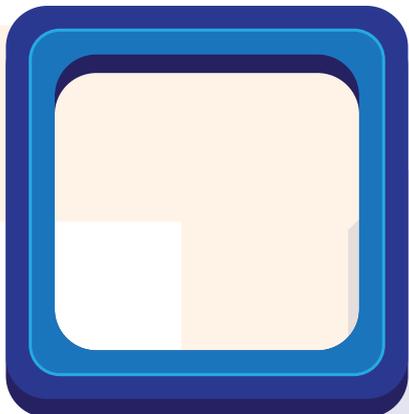
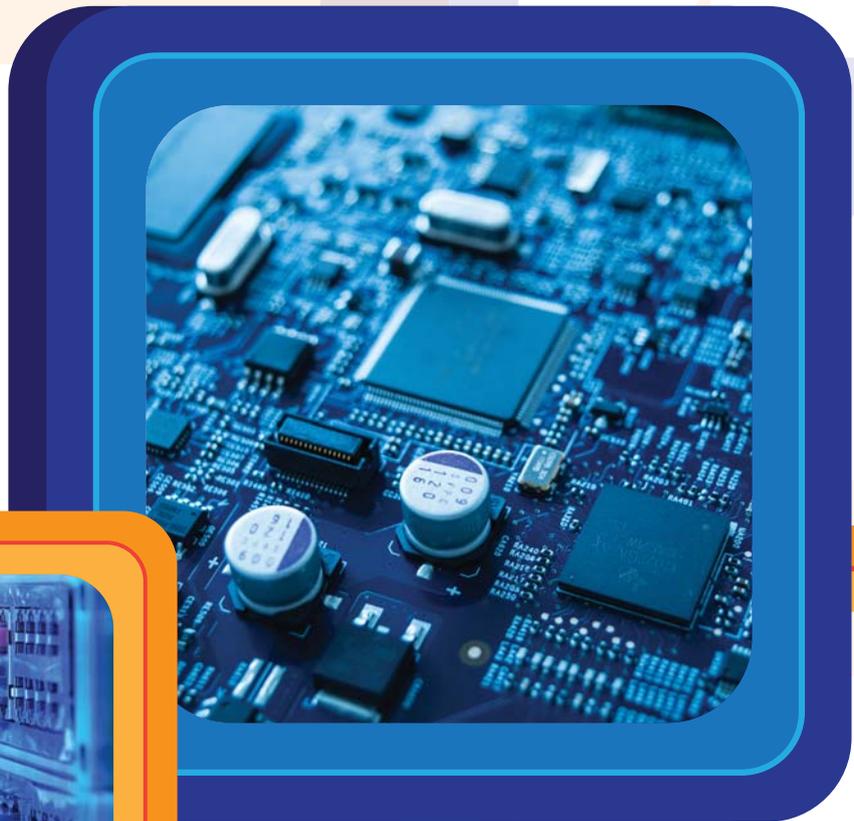


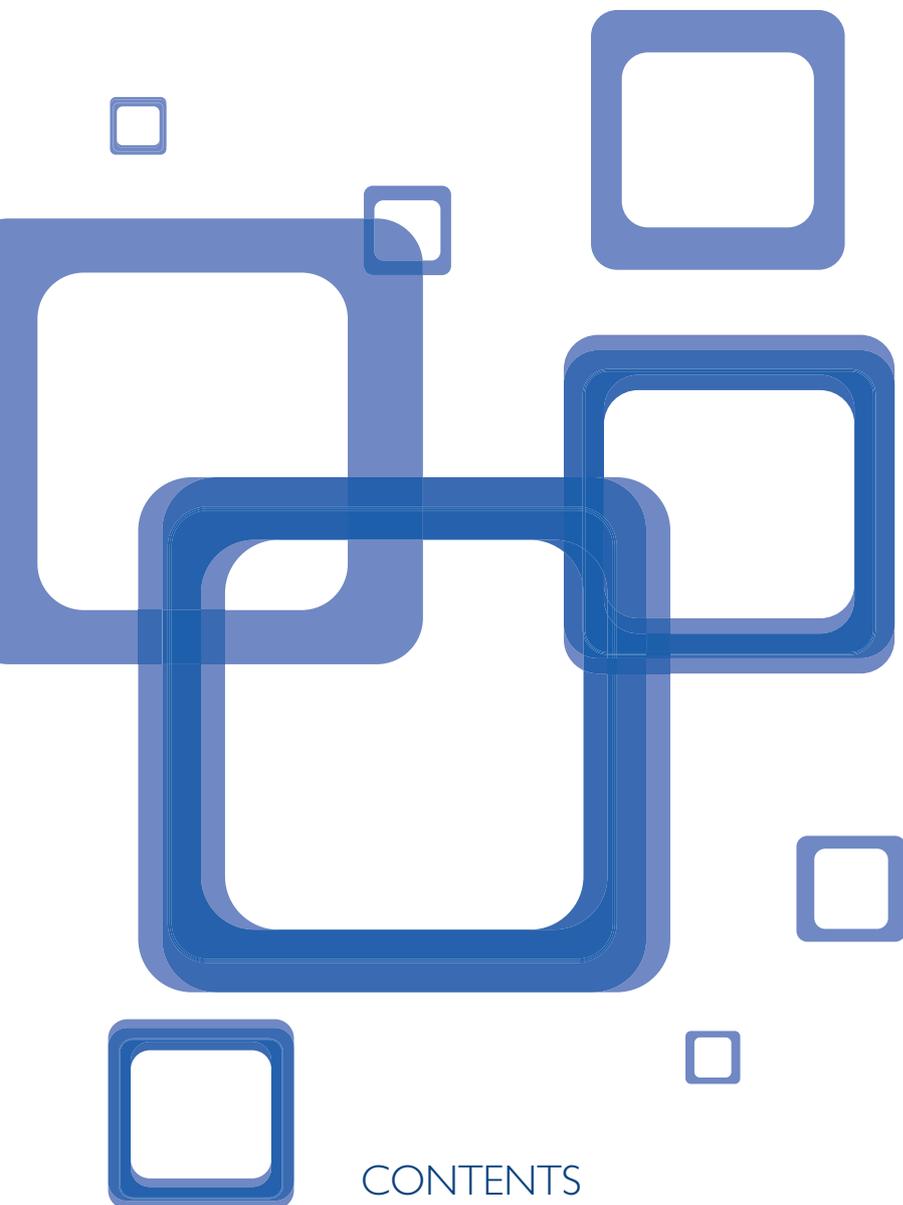
FOUNDER HOLDINGS LIMITED
方正控股有限公司

(Incorporated in Bermuda with limited liability)

Stock Code: 00418



Interim Report 2017



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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive directors

Mr Cheung Shuen Lung (*Chairman*)

Mr Shao Xing (*President*)

Ms Zuo Jin

Mr Hu Bin

Mr Cui Yun Tao

Ms Liao Hang

Independent non-executive directors

Mr Li Fat Chung

Ms Wong Lam Kit Yee

Mr Chan Chung Kik, Lewis

COMMITTEES

Audit Committee

Mr Li Fat Chung (*Chairman*)

Ms Wong Lam Kit Yee

Mr Chan Chung Kik, Lewis

Remuneration Committee

Mr Li Fat Chung (*Chairman*)

Mr Cheung Shuen Lung

Ms Wong Lam Kit Yee

Nomination Committee

Mr Cheung Shuen Lung (*Chairman*)

Ms Wong Lam Kit Yee

Mr Chan Chung Kik, Lewis

COMPANY SECRETARY

Ms Tang Yuk Bo, Yvonne

AUTHORISED REPRESENTATIVES

Mr Cheung Shuen Lung

Mr Shao Xing

AUDITORS

Ernst & Young

Certified Public Accountants

LEGAL ADVISERS

Freshfields Bruckhaus Deringer

PRINCIPAL BANKERS

Bank of Beijing

China Merchants Bank

DBS Bank (China) Limited

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 IN HONG KONG

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 HM08

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 2017, together with the comparative figures for the corresponding period in 2016. 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 2017

	NOTES	For the six months ended 30 June	
		2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000
REVENUE	2	364,064	415,387
Cost of sales		(216,177)	(254,969)
Gross profit		147,887	160,418
Other income and gains	3	36,976	33,195
Selling and distribution expenses		(93,353)	(113,425)
Administrative expenses		(28,324)	(33,648)
Other expenses, net		(57,275)	(40,111)
Finance costs	4	(3,135)	(3,866)
Share of losses of associates		(320)	(40)
PROFIT BEFORE TAX	5	2,456	2,523
Income tax	6	(1,016)	(4,687)
PROFIT/(LOSS) FOR THE PERIOD		1,440	(2,164)
Attributable to:			
Owners of the parent		1,442	(2,113)
Non-controlling interests		(2)	(51)
		1,440	(2,164)
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	7		
– Basic and diluted		HK0.12 cents	HK(0.18) cents

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2017

	For the six months ended 30 June	
	2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000
PROFIT/(LOSS) FOR THE PERIOD	1,440	(2,164)
OTHER COMPREHENSIVE INCOME/(LOSS)		
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:		
Change in fair value of available-for-sale investment	4,262	–
Share of other comprehensive income of associates	575	79
Exchange differences on translation of foreign operations	14,687	(8,565)
Net other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods	19,524	(8,486)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF TAX	19,524	(8,486)
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD	20,964	(10,650)
Attributable to:		
Owners of the parent	20,963	(10,597)
Non-controlling interests	1	(53)
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD	20,964	(10,650)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 JUNE 2017

	NOTES	30 June 2017 (Unaudited) HK\$'000	31 December 2016 (Audited) HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment		320,074	316,910
Investment properties		102,834	102,684
Investment in associates		3,402	5,155
Available-for-sale investment		7,956	3,467
Intangible assets	9	380	4,084
Deferred tax asset		1,463	1,975
Pledged deposit		4,556	3,649
Total non-current assets		440,665	437,924
CURRENT ASSETS			
Inventories		77,946	61,103
Gross amount due from contract customers		18,724	11,704
Trade and bills receivables	10	122,421	133,666
Prepayments, deposits and other receivables		512,569	319,516
Equity investments at fair value through profit or loss		1,028	591
Pledged deposits		14,432	13,638
Cash and cash equivalents		328,063	604,905
Total current assets		1,075,183	1,145,123
CURRENT LIABILITIES			
Trade and bills payables	11	49,504	54,464
Gross amount due to contract customers		14,013	21,696
Other payables and accruals		244,363	322,301
Interest-bearing bank borrowings		155,400	149,011
Tax payable		1,522	4,408
Total current liabilities		464,802	551,880
NET CURRENT ASSETS		610,381	593,243
TOTAL ASSETS LESS CURRENT LIABILITIES		1,051,046	1,031,167

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
30 JUNE 2017

	30 June 2017 (Unaudited) HK\$'000	31 December 2016 (Audited) HK\$'000
NON-CURRENT LIABILITIES		
Deferred tax liabilities	57,163	58,248
Net assets	993,883	972,919
EQUITY		
Equity attributable to owners of the parent		
Issued capital	119,975	119,975
Reserves	873,728	852,765
	993,703	972,740
Non-controlling interests	180	179
Total equity	993,883	972,919

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2017

	Attributable to owners of the parent										
	Issued capital	Share premium account	Contributed surplus	Land and buildings revaluation reserve	Available-for-sale revaluation reserve	Exchange fluctuation reserve	General reserve	Accumulated losses	Total	Non-controlling interests	Total equity
	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000
At 1 January 2017	119,975	53,597*	867,910*	278,396*	-	(22,763)*	61,585*	(385,960)*	972,740	179	972,919
Profit for the period	-	-	-	-	-	-	-	1,442	1,442	(2)	1,440
Other comprehensive income for the period:											
Share of other comprehensive income of associates	-	-	-	-	-	575	-	-	575	-	575
Change in fair value of available-for-sale investment	-	-	-	-	4,262	-	-	-	4,262	-	4,262
Exchange differences on translation of foreign operations	-	-	-	-	-	14,684	-	-	14,684	3	14,687
Total comprehensive income for the period	-	-	-	-	4,262	15,259	-	1,442	20,963	1	20,964
Transfer to general reserve	-	-	-	-	-	-	433	(433)	-	-	-
At 30 June 2017	119,975	53,597*	867,910*	278,396*	4,262*	(7,504)*	62,018*	(384,951)*	993,703	180	993,883
At 1 January 2016	119,975	53,597	867,910	293,997	-	10,102	56,542	(421,156)	980,967	245	981,212
Loss for the period	-	-	-	-	-	-	-	(2,113)	(2,113)	(51)	(2,164)
Other comprehensive loss for the period:											
Share of other comprehensive income of associates	-	-	-	-	-	79	-	-	79	-	79
Exchange differences on translation of foreign operations	-	-	-	-	-	(8,563)	-	-	(8,563)	(2)	(8,565)
Total comprehensive loss for the period	-	-	-	-	-	(8,484)	-	(2,113)	(10,597)	(53)	(10,650)
Transfer to general reserve	-	-	-	-	-	-	795	(795)	-	-	-
At 30 June 2016	119,975	53,597	867,910	293,997	-	1,618	57,337	(424,064)	970,370	192	970,562

* These reserve accounts comprise the consolidated reserves of HK\$873,728,000 (31 December 2016: HK\$852,765,000) in the condensed consolidated statement of financial position.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2017

	NOTES	For the six months ended 30 June	
		2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		2,456	2,523
Adjustments for:			
Finance costs	4	3,135	3,866
Share of losses of associates		320	40
Interest income	3	(9,744)	(6,635)
Gain on disposal of items of property, plant and equipment	3	(20)	(63)
Fair value (gain)/loss on equity investment at fair value through profit or loss	5	(376)	326
Gain on transfer of intangible assets	3	(6,636)	–
Depreciation	5	7,463	8,942
Amortisation of intangible assets	5	1,744	2,855
(Reversal of impairment)/impairment of trade receivables	5	(480)	52
(Reversal of impairment)/impairment of other receivables	5	(1,679)	3,832
Impairment of available-for-sale investment	5	–	2,899
		(3,817)	18,637
(Increase)/decrease in inventories		(16,722)	1,348
Increase in gross amount due from contract customers		(7,020)	(11,622)
Decrease/(increase) in trade and bills receivables		11,725	(19,900)
(Increase)/decrease in prepayments, deposits and other receivables		(27,186)	4,528
Decrease in trade and bills payables		(4,960)	(523)
Decrease in gross amount due to contract customers		(7,683)	(7,444)
Decrease in other payables and accruals		(77,938)	(55,005)
Exchange differences		327	(681)
Cash used in operations		(133,274)	(70,662)
Interest received		1,302	1,559
Interest paid		(3,135)	(3,866)
Hong Kong profits tax refund		–	276
Mainland of the People's Republic of China ("Mainland China" or the "PRC") corporate income tax paid		(5,439)	(5,595)
Net cash flows used in operating activities		(140,546)	(78,288)

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED 30 JUNE 2017

	For the six months ended 30 June	
	2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000
Net cash flows used in operating activities	(140,546)	(78,288)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	10,674	5,295
Dividend received from an associate	–	67
Purchases of items of property, plant and equipment	(5,199)	(1,648)
Proceeds from capital reduction of associates	2,008	–
Proceeds from disposal of items of property, plant and equipment	38	88
Proceeds from disposal of intangible assets	8,671	–
Decrease in non-pledged time deposits with original maturity of more than three months when acquired	1,022	71,012
Advances of entrusted loans to related companies	(424,020)	(197,710)
Repayment of entrusted loans from related companies	257,600	200,600
(Increase)/decrease in pledged deposits	(1,701)	5,753
Net cash flows (used in)/generated from investing activities	(150,907)	83,457
CASH FLOWS FROM FINANCING ACTIVITIES		
New bank loans	52,487	52,407
Repayment of bank loans	(51,544)	(18,116)
Increase/(decrease) in trust receipt loans	2,977	(1,132)
Net cash flows from financing activities	3,920	33,159
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(287,533)	38,328
Cash and cash equivalents at beginning of period	602,960	470,857
Effect of foreign exchange rate changes, net	11,713	(6,632)
CASH AND CASH EQUIVALENTS AT END OF PERIOD	327,140	502,553

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED 30 JUNE 2017

	For the six months ended 30 June	
	2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	248,486	471,167
Non-pledged time deposits	79,577	102,390
Cash and cash equivalents as stated in the condensed consolidated statement of financial position	328,063	573,557
Non-pledged time deposits with original maturity of more than three months when acquired	(923)	(71,004)
Cash and cash equivalents as stated in the condensed consolidated statement of cash flows	327,140	502,553

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 JUNE 2017

1. ACCOUNTING POLICIES

These unaudited condensed consolidated interim financial statements for the six months ended 30 June 2017 have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting”, issued by the Hong Kong Institute of Certified Public Accountants and the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The unaudited condensed consolidated interim financial information does not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group’s annual financial statements for the year ended 31 December 2016, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) (which include all HKFRSs, HKASs and Interpretations).

The accounting policies and basis of preparation adopted in the preparation of the unaudited condensed consolidated interim financial statements are the same as those used in the annual consolidated financial statements for the year ended 31 December 2016, except in relation to the following new and revised Hong Kong Financial Reporting Standards that affect the Group and are adopted for the first time for the current period’s financial statements:

Amendments to HKAS 7	<i>Disclosure Initiative</i>
Amendments to HKAS 12	<i>Recognition of Deferred Tax Assets for Unrealised Losses</i>
<i>Annual Improvements 2012–2014 Cycle</i>	<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 2017 and 2016:

	Software development, systems integration and information products distribution for media business		Information products distribution for non-media business		Corporate		Others		Total	
	2017 (Unaudited) HK\$’000	2016 (Unaudited) HK\$’000	2017 (Unaudited) HK\$’000	2016 (Unaudited) HK\$’000	2017 (Unaudited) HK\$’000	2016 (Unaudited) HK\$’000	2017 (Unaudited) HK\$’000	2016 (Unaudited) HK\$’000	2017 (Unaudited) HK\$’000	2016 (Unaudited) HK\$’000
Segment revenue:										
Sales to external customers	361,837	410,580	–	4,537	–	–	2,227	270	364,064	415,387
Segment results	(954)	6,048	(4)	18	(6,574)	(4,348)	2,172	183	(5,360)	1,901
<i>Reconciliation:</i>										
Interest income									9,744	6,635
Foreign exchange differences, net									1,527	(2,107)
Finance costs									(3,135)	(3,866)
Share of losses of associates									(320)	(40)
Profit before tax									2,456	2,523

3. OTHER INCOME AND GAINS

	For the six months ended 30 June	
	2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000
Bank interest income	1,302	1,559
Other interest income	8,442	5,076
Government grants	17,523	22,623
Fair value gain on equity investments at fair value through profit or loss	376	–
Gain on disposal of items of property, plant and equipment	20	63
Gain on transfer of intangible assets (note 13(l)(h))	6,636	–
Foreign exchange differences, net	1,527	–
Others	1,150	3,874
	36,976	33,195

4. FINANCE COSTS

	For the six months ended 30 June	
	2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000
Interest on bank loans	3,135	3,866

5. PROFIT BEFORE TAX

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

	NOTE	For the six months ended 30 June	
		2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000
Cost of inventories sold		178,960	212,744
Depreciation		7,463	8,942
Amortisation of intangible assets	9	1,744	2,855
(Reversal of impairment)/impairment of trade receivables		(480)	52
(Reversal of impairment)/impairment of other receivables		(1,679)	3,832
Impairment of available-for-sale investment		–	2,899
Fair value (gain)/loss on equity investment at fair value through profit or loss		(376)	326
Provision for obsolete inventories		5,561	4,114
Foreign exchange differences, net		(1,527)	2,107

6. INCOME TAX

	For the six months ended 30 June	
	2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000
Current – Hong Kong		
Charge for the period	286	–
Current – Mainland China		
Charge for the period	705	3,857
Underprovision in prior year	1,849	1,145
Deferred	(1,824)	(315)
Total tax charge for the period	1,016	4,687

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 2016: 16.5%).

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 one PRC subsidiary which is entitled to a preferential tax rate at 10% and one PRC subsidiary which is entitled to a preferential tax rate at 15%.

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

7. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic earnings per share amounts is based on the unaudited profit for the period attributable to ordinary equity holders of the parent and the weighted average number of ordinary shares of approximately 1,199,747,000 (six months ended 30 June 2016: 1,199,747,000) in issue during the period.

The Group had no potentially dilutive ordinary shares in issue during the six months ended 30 June 2017 and 2016.

8. INTERIM DIVIDEND

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2017 (six months ended 30 June 2016: Nil).

9. INTANGIBLE ASSETS

	<i>NOTES</i>	Patents and acquired software (Unaudited) HK\$'000	Development expenditure on media software (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
30 June 2017				
Cost at 1 January 2017, net of accumulated amortisation and impairment		2,971	1,113	4,084
Amortisation provided during the period	5	(993)	(751)	(1,744)
Transfer of intangible assets		(2,035)	–	(2,035)
Exchange realignment		57	18	75
At 30 June 2017		–	380	380
At 30 June 2017:				
Cost		2,292	10,349	12,641
Accumulated amortisation and impairment		(2,292)	(9,969)	(12,261)
Net carrying amount		–	380	380
30 June 2016				
Cost at 1 January 2016, net of accumulated amortisation and impairment		6,233	3,562	9,795
Amortisation provided during the period	5	(1,555)	(1,300)	(2,855)
Exchange realignment		(64)	(30)	(94)
At 30 June 2016		4,614	2,232	6,846
At 30 June 2016:				
Cost		11,503	10,502	22,005
Accumulated amortisation and impairment		(6,889)	(8,270)	(15,159)
Net carrying amount		4,614	2,232	6,846

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

	30 June 2017 (Unaudited) HK\$'000	31 December 2016 (Audited) HK\$'000
Within 6 months	88,038	106,662
7 to 12 months	14,757	8,684
13 to 24 months	9,734	8,653
Over 24 months	9,892	9,667
	122,421	133,666

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\$14,677,000 (31 December 2016: HK\$14,535,000), which are repayable on similar credit terms to those offered to the major customers of the Group.

* For identification purpose only

11. TRADE AND BILLS PAYABLES

An aging 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 2017 (Unaudited) HK\$'000	31 December 2016 (Audited) HK\$'000
Within 6 months	35,373	24,425
7 to 12 months	4,546	10,259
13 to 24 months	191	7,620
Over 24 months	9,394	12,160
	49,504	54,464

Included in the Group's trade and bills payables are amounts due to subsidiaries of Peking Founder of approximately HK\$906,000 (31 December 2016: HK\$935,000), 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. CONTINGENT LIABILITIES

At the end of the reporting period, the Group did not have any significant contingent liabilities (31 December 2016: Nil).

13. 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:

		For the six months ended 30 June	
NOTES		2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000
Management fee income received from Peking University Resources (Holdings) Company Limited ("PKU Resources"), a subsidiary of Peking Founder, and its subsidiary	(i)	897	865
Handling fee income received from a subsidiary of Peking Founder	(i)	60	60
Service fee payable to 北大方正信息產業集團有限公司 (Peking University Founder Information Industry Group Co., Ltd. *) ("PKU Founder Information"), the substantial shareholder of the Company	(ii)	-	898

Notes:

- (i) These transactions were conducted on the basis of rates agreed between the Group and the related companies.
- (ii) The sharing of administrative services fee between the Group and PKU Founder Information, was conducted on cost basis.
- (b) On 31 December 2015, Beijing Founder Electronics Co., Ltd. ("Founder Electronics"), 北京方正印捷數碼技術有限公司 (Beijing Founder EasiPrint Digital Technology Co., Ltd. *) ("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") entered into lease agreements and management agreements with a subsidiary of Peking Founder to lease the premises in Beijing from 1 January 2016 to 31 December 2017, for the aggregate of annual rental and management fees of RMB7,900,000 and RMB4,135,000 (equivalent to approximately HK\$9,202,000 and HK\$4,816,000) for the year 2016 and RMB8,931,000 and RMB4,135,000 (equivalent to approximately HK\$10,120,000 and HK\$4,685,000) for the year 2017. Further details of the transaction were set out in the announcement of the Company dated 31 December 2015.

* For identification purpose only

13. RELATED PARTY TRANSACTIONS *(continued)*

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

(b) *(continued)*

On 8 August 2016, Founder Electronics entered into a new lease agreement and management agreement with the subsidiary of Peking Founder to lease certain premises in Beijing from 8 August 2016 to 31 December 2017, for the aggregate of rental and management fees of RMB364,000 and RMB131,000 (equivalent to approximately HK\$424,000 and HK\$153,000) for the period from 8 August 2016 to 31 December 2017 and RMB847,000 and RMB293,000 (equivalent to approximately HK\$960,000 and HK\$332,000) for the year ending 31 December 2017. Further details of the transaction were set out in the announcement of the Company dated 8 August 2016. On 1 January 2017, the new lease agreement and management agreement were terminated.

During the period, rental and management fees in aggregate of approximately HK\$7,403,000 (six months ended 30 June 2016: HK\$7,115,000) were paid by the Group to the 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 the three years ended 31 December 2016.

No information products were purchased from PKU Resources Group during the period ended 30 June 2016 and 2017.

- (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 a master purchase agreement to extend the term for the period from 1 January 2015 to 31 December 2017. Further details of the transaction were set out in the announcement of the Company dated 30 December 2014.

During the period, products and services of approximately HK\$198,000 (six months ended 30 June 2016: HK\$521,000) were purchased from Peking Founder Group. The directors consider that the purchases of products and services were made in accordance with the master agreements.

13. RELATED PARTY TRANSACTIONS *(continued)*

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

- (e) On 16 June 2016, the Company entered into a master agreement with Peking Founder for the sales of information products, hardware and software development services and system integration services to Peking Founder Group for a term of three years from 1 January 2016 to 31 December 2018. Further details of the transaction were set out in the announcement of the Company dated 16 June 2016.

During the period, sales of information products, hardware and software development services and system integration services of approximately HK\$1,080,000 (six months ended 30 June 2016: HK\$863,000) were made to Peking Founder Group. The directors consider that the sales of information products, hardware and software development services and system integration services were made in accordance with the master agreement.

- (f) On 28 July 2014, the Company renewed an entrusted loan master agreement entered 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 ended 31 December 2016. 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 (the "PBOC") plus 15%. Further details of the transaction were set out in the announcement of the Company dated 28 July 2014.

For the year ended 31 December 2016, entrusted loans in the amounts of RMB260,000,000 (equivalent to approximately HK\$291,200,000), RMB140,000,000 (equivalent to approximately HK\$156,800,000) and RMB80,000,000 (equivalent to approximately HK\$89,600,000) were provided to Peking Founder, PKU Founder Information and a subsidiary of Peking Founder, respectively. The entrusted loans were unsecured and bore interest at rates ranging from 6.0% to 6.31% per annum. The entrusted loans were settled by 15 July 2016 as to the amount of RMB40,000,000 (equivalent to approximately HK\$44,800,000), 16 November 2016 as to the amount of RMB130,000,000 (equivalent to approximately HK\$145,600,000) and 15 December 2016 as to the amount of RMB80,000,000 (equivalent to approximately HK\$89,600,000). The remaining entrusted loans of RMB230,000,000 (equivalent to approximately HK\$257,600,000) and the related interest receivable of RMB1,886,000 (equivalent to approximately HK\$2,112,000) were included in prepayments, deposits and other receivables as at 31 December 2016 and were fully settled during the six months ended 30 June 2017.

On 25 October 2016, the Company renewed 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 2019. Such loans will be unsecured and interest-bearing at the prevailing benchmark Renminbi lending rate for a loan period of six months offered by the PBOC plus 15%. Further details of the transaction were set out in the announcement of the Company dated 25 October 2016.

13. RELATED PARTY TRANSACTIONS *(continued)*

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

(f) *(continued)*

For the six months ended 30 June 2017, entrusted loan in the amounts of RMB170,000,000 (equivalent to approximately HK\$194,820,000) was provided to PKU Founder Information and RMB200,000,000 (equivalent to approximately HK\$229,200,000) was provided to 北大資源集團有限公司 (PKU Resources Group Co., Ltd.*) ("PKU Resources Group"), a subsidiary of Peking Founder. The entrusted loans were unsecured and bore interest at rate of 6.3% per annum. The entrusted loans of RMB370,000,000 (equivalent to approximately HK\$424,020,000) and the related interest receivable of RMB2,108,000 (equivalent to approximately HK\$2,416,000) remained undue and were included in prepayments, deposits and other receivables as at 30 June 2017. Subsequent to the end of the reporting period, the entrusted loans of RMB50,000,000 (equivalent to approximately HK\$57,300,000) and interest receivables of RMB520,000 (equivalent to approximately HK\$596,000) were settled by PKU Founder information and the entrusted loans of RMB200,000,000 (equivalent to approximately HK\$229,200,000) were settled by PKU Resources Group.

During the period, interest income earned by the Group from Peking Founder Group amounted to HK\$8,442,000 (six months ended 30 June 2016: HK\$5,076,000). The directors consider that the provision of entrusted loans to and the receipt of interest income from Peking Founder Group were made in accordance with the entrusted loan master agreement.

(g) On 4 March 2015, the Company, PKU Founder Group Finance Co., Ltd. ("Founder Finance"), a subsidiary of Peking Founder, and Peking Founder entered into a financial service agreement, pursuant to which Founder Finance would provide the Group with deposit service. As at 30 June 2017, the Group made a deposits for approximately HK\$1,228,000 (31 December 2016: HK\$1,140,000). The interest rates on the deposits offered by Founder Finance were the prevailing interest rates offered by the PBOC.

(h) On 28 December 2016, Founder Electronics entered into the Technology Transfer Agreement with PKU Founder Information, pursuant to which PKU Founder Information will acquire, and Founder Electronics will sell, certain intellectual property rights at a consideration of approximately RMB7,630,000 (equivalent to approximately HK\$8,671,000). Further details are set out in the announcement of the Company dated 28 December 2016. The consideration was paid to Founder Electronics on 19 January 2017. The transfer was completed during current period, and disposal gain of approximately HK\$6,636,000 was recognized in the condensed consolidated statement of profit or loss.

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13. RELATED PARTY TRANSACTIONS *(continued)*

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

- (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 2017 of approximately HK\$99,702,000 (31 December 2016: HK\$89,600,000) were utilised to the extent of approximately HK\$92,826,000 (31 December 2016: HK\$70,128,000). The banking facilities guarantees given by Peking Founder to a PRC bank for credit facilities granted to a subsidiary of the Company, Peking Founder and PKU Founder Information at 30 June 2017 of approximately HK\$160,440,000 (31 December 2016: HK\$156,800,000) were utilised to the extent of approximately HK\$16,961,000 (31 December 2016: HK\$86,647,000).
- (j) The banking facilities guarantees jointly given by Peking Founder and Founder Finance to a PRC bank for the credit facilities granted to a subsidiary of the Company as at 31 December 2016 of approximately HK\$56,000,000 were utilised to the extent of approximately HK\$16,800,000.

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

(II) Outstanding balances with related parties

- (a) As at 30 June 2017, other than the entrusted loans and related interest receivables from Peking Founder Group as disclosed in note 13(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\$5,235,000 (31 December 2016: HK\$5,670,000) and balances due to Peking Founder Group included in other payables and accruals were approximately HK\$12,381,000 (31 December 2016: HK\$1,310,000). These balances are unsecured, interest-free and have no fixed terms of repayment.
- (b) The balances due from subsidiaries of Peking Founder included in gross amount due from contract customers as at 30 June 2017 were approximately HK\$3,285,000 (31 December 2016: HK\$1,580,000) and balances due to subsidiaries of Peking Founder included in gross amount due to contract customers were approximately HK\$521,000 (31 December 2016: HK\$80,000).
- (c) 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.

13. 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	
	2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000
Short term employee benefits	2,120	2,543
Pension scheme contributions	34	41
Total compensation paid to key management personnel	2,154	2,584

14. 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 2017 (Unaudited) HK\$'000	As at 31 December 2016 (Audited) HK\$'000	As at 30 June 2017 (Unaudited) HK\$'000	As at 31 December 2016 (Audited) HK\$'000
Financial assets				
Pledged deposit, non-current portion	4,556	3,649	4,556	3,649
Equity investments at fair value through profit or loss	1,028	591	1,028	591
Available-for-sale investment	7,956	3,467	7,956	3,467
	13,540	7,707	13,540	7,077
Financial liabilities				
Interest-bearing bank borrowings	155,400	149,011	155,400	149,011

Management has assessed that the fair values of cash and cash equivalents, the current portion of 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.

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

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 non-current portion of pledged deposits and 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 non-current portion of pledged deposits and interest-bearing bank borrowings as at 30 June 2017 were assessed to be insignificant.

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

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 2017

	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 investments:				
Equity investments	7,956	–	–	7,956
Equity investments at fair value through profit or loss	1,028	–	–	1,028
	8,984	–	–	8,984

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

Fair value hierarchy *(continued)*

Assets measured at fair value: (continued)

As at 31 December 2016

	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 investments:				
Equity investments	3,467	–	–	3,467
Equity investments at fair value through profit or loss	591	–	–	591
	4,058	–	–	4,058

During the six months ended 30 June 2017 and the year ended 31 December 2016, 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.

Assets for which fair values are disclosed:

As at 30 June 2017

	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	
Pledged deposit, non-current portion	–	4,556	–	4,556

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

Fair value hierarchy *(continued)*

Assets for which fair values are disclosed: *(continued)*

As at 31 December 2016

	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	
Pledged deposit, non-current portion	–	3,649	–	3,649

Liabilities for which fair values are disclosed:

As at 30 June 2017

	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	–	155,400	–	155,400

As at 31 December 2016

	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	–	149,011	–	149,011

MANAGEMENT DISCUSSION AND ANALYSIS

OVERALL PERFORMANCE

The Group reported an unaudited consolidated profit attributable to owners of the parent for the six months ended 30 June 2017 of approximately HK\$1.4 million (six months ended 30 June 2016: loss of HK\$2.1 million). The Group's turnover for the current interim period decreased by 12.4% to approximately HK\$364.1 million (six months ended 30 June 2016: HK\$415.4 million) due to decrease in sales of systems integration for media segment. Gross profit for the current interim period decreased by 7.8% to approximately HK\$147.9 million (six months ended 30 June 2016: HK\$160.4 million). Gross profit ratio increased from 38.6% for the last interim period to 40.6% 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 improvement in the Group's operating results for the current interim period attributable to the equity holders of the parent was mainly due to the net effect of:

- a. a decrease in the gross profit by 7.8% to approximately HK\$147.9 million (six months ended 30 June 2016: HK\$160.4 million);
- b. an increase in other income and gains by 11.4% to approximately HK\$37.0 million (six months ended 30 June 2016: HK\$33.2 million) as a result of gain on disposal of intellectual property rights of approximately HK\$6.6 million;
- c. a decrease in total selling and distribution expenses, administrative expenses and other expenses, net by 4.4% to approximately HK\$179.0 million (six months ended 30 June 2016: HK\$187.2 million) as a result of strict control on expenses imposed by the management under the competitive operating environment; and
- d. a decrease in tax by approximately HK\$3.7 million to approximately HK\$1.0 million (six month ended 30 June 2016: HK\$4.7 million) as a result of decrease in taxable profit of certain subsidiaries.

Basic and diluted earnings per share attributable to equity holders of the parent for the six months ended 30 June 2017 were HK0.12 cents (six months ended 30 June 2016: loss of HK0.18 cents).

OPERATING REVIEW AND PROSPECTS

(A) **Software development, systems integration and information products distribution for media business ("Media Business")**

The turnover of the Media Business of the Group for the current interim period decreased by 11.9% to approximately HK\$361.8 million (six months ended 30 June 2016: HK\$410.6 million). The segment results recorded a loss of approximately HK\$1.0 million (six months ended 30 June 2016: profit of HK\$6.0 million). The gross profit ratio for the Media Business for the current interim period increased slightly to 40.3% (six months ended 30 June 2016: 39.0%). The decline in segment results was due to decrease in segment revenue as a result of delay in completion of certain sales contracts.

Font Library Business

Against the backdrop of the government's vigorous promotion of the cultural market and digital creative industry, the font library, as a culture carrier, has been receiving wider recognition, and the increasing demand for personalized fonts in the design community has created a "font fever" in the market. With gradual improvement in the copyright environment in China, enterprises and individuals in developed coastal areas have developed a strong awareness of copyright issues, but there are still different opinions regarding the marketing model of fonts in the legal sector and society. Meanwhile, the competition in the industry has intensified with the influx of new font design companies and individual font designers into the font library market.

In the first half of 2017, Beijing Founder Electronics Co., Ltd. ("Founder Electronics"), the wholly-owned subsidiary of the Company, continued to consolidate its absolute leading position in the font library market by introducing new fonts that leads new trend in the font industry.

- 1) Legal aspect: we attempted to handle the lawsuits in Nanjing in a class action mode and effectively handled 32 cases, under which we have had real contact with 27 defendants. As at 30 June 2017, a total of 20 cases have been completely settled.
- 2) Marketing and promotion aspect: Founder Electronics has stepped up its efforts in promoting positive publicity by establishing cooperation relationship with designers, studios and advertising companies, and introducing its fonts to advertisers through design proposals. It also explored the online shop market by enhancing the cooperation and interaction with design websites. Moreover, Founder Electronics further cooperated with software, hardware and game manufacturers to launch more creative display fonts and personalized fonts. With the introduction of the font library community, Founder Electronics was able to enhance its interaction with font lovers, customers and designers, thereby achieving seamless connection between Web-Mobile-PC products.
- 3) Font production aspect: In addition to the establishment of its own exquisite font library, Founder Electronics also strengthened its external cooperation to join hands with independent font designers, medium-to-small font library manufacturers and other manufacturers in Hong Kong, Taiwan, Japan and English-speaking countries with a view to introducing new fonts in a faster and more efficient manner.

Printing business

The printing industry has entered into a period of deep adjustment, during which the problem of over-capacity throughout the industry, environmental protection requirements and rise in paper prices have resulted in a significant decrease in yield rate of printing corporations. In addition, in light of the saturated CTP market and uncertainties in the digital printing market, equipment manufacturers have switched the focus of their competition in the packaging market.

Despite the adverse market environment, Beijing Founder EasiPrint Digital Technology Co., Ltd. ("Founder EasiPrint"), the wholly-owned subsidiary of the Company, still maintained moderate business growth with the orders signed in respect of P series inkjet printers accounted for more than 80% of the overall market in the first half of 2017, ranking No. 1 in the industry. Besides, the highly adaptive and cost-effective models launched by Founder EasiPrint have become the market benchmark for the industry.

In 2017, Founder EasiPrint focused on investing in and developing the POD project with an aim to achieve industry upgrade through the application of inkjet technology. It also replaced bulk-printing by on-demand printing, and made improvement in various stages from design, publishing, production, logistics to issuance with the help of internet and software technology to cater for the need of on-demand printing. In the first half of 2017, Founder EasiPrint had extensive communication and exchange with domestic and foreign equipment manufacturers, ancillary equipment manufacturers and consumables manufacturers, and reached cooperation intent with certain upstream and downstream enterprises. Furthermore, the construction of a POD testing center in Beijing has been completed. The first POD equipment for library printing has been delivered to the center and has now proceeded with installation and testing.

Media Business

The traditional newspaper and publication industry remained subdued, recording a decline in overall results with the newspaper advertising revenue in free fall over the last few years. Meanwhile, with the top-down requirements such as the policies emphasizing the development of mainstream media, the comprehensive integration of media in the newspaper industry, the strategy to take mobile media as priority, the breakthrough in terms of reform of collecting, editing and publishing as well as the implementation of the “centralized kitchen (中央廚房)” leading project, and under the government’s vigorous promotion of policies in the publishing areas such as “Demonstration of Application Service in the Industrialization of Digital Publication (數字出版產業化應用服務示範工程)”, “Promotion of Nationwide Digital Reading (全民數字閱讀推廣工程)” and “Promotion of Digital Publication in respect of Ethnic Group Culture (少數民族文化數字出版促進工程)”, the media business has embraced new market opportunities.

Against this backdrop, Founder Electronics actively worked on the structure, analysis and application technologies of large-scale data. The “One Platform and Four Systems” was thus rearranged, including the management platform of large-scale data from the integrated media, command system for news reporting, intelligent management system for decision-making and operation management system. Meanwhile, Founder Electronics actively explored the SaaS service by launching Xinkong Cloud, media platform and media service for large-scale data, extending its service from solutions of software products to data service and SaaS service, with a view to laying a solid foundation for sustainable development in the future.

In respect of sales, Founder Electronics actively sought for cooperation with leading companies in the media publishing field, exerting all efforts in expanding its market share in the fields of new media, pan-media and pan-publishing. Meanwhile, it maintained its strengths in the establishment of platforms for integrated media in the newspaper industry in provinces as well as in provincial capitals and cities, securing projects from tenders of Liaoning Daily, Chengdu Daily and Guangzhou Daily with values over RMB10 million.

Internet Information Business

Leveraging on the technologies, data and experience accumulated in over 10 years, the internet information business of Founder Electronics kept abreast of the national economic development in key cities and contributed to the economic strategy of “One Belt One Road”, which provided support to relevant state authorities in respect of decision-making through the overall solution of “knowledge base” and data analysis capability. Focusing on the understanding of industry features together with results of scientific research carried out by Institute of Computer Science and Technology of Peking University, the internet information business gradually won the competition of knowledge base, thereby laying a foundation for its business development.

(B) Information products distribution for non-media business (“Non-Media Business”)

The turnover of the Non-Media Business of the Group for the current interim period was nil (six months ended 30 June 2016: HK\$4.5 million) while its segment results has recorded a loss of approximately HK\$4,000 (six months ended 30 June 2016: profit of HK\$18,000). The decrease in segment revenue were mainly due to decrease in sales of information products in the banking sector in the PRC.

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. 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 interim period.

As at 30 June 2017, the number of employees of the Group was approximately 1,178 (31 December 2016: 1,163).

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 2017, the Group had interest-bearing bank borrowings of approximately HK\$155.4 million (31 December 2016: HK\$149.0 million), of which HK\$115.4 million (31 December 2016: HK\$106.4 million) were fixed interest bearing and HK\$40 million (31 December 2016: HK\$42.6 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, 北大方正集團有限公司 (Peking University Founder Group Company Limited*) ("Peking Founder") (a substantial shareholder of the Company), PKU Founder Group Finance Co., Ltd. (a subsidiary of Peking Founder), certain of the Group's land and buildings, investment properties and bank deposits.

As at 30 June 2017, the Group recorded total assets of HK\$1,515.8 million which were financed by liabilities of HK\$521.9 million, non-controlling interests of HK\$0.2 million and equity of HK\$993.7 million. The Group's net asset value per share as at 30 June 2017 amounted to HK\$0.83 (31 December 2016: HK\$0.81).

The Group had total cash and bank balances of HK\$347.1 million as at 30 June 2017 (31 December 2016: HK\$622.2 million). After deducting total bank borrowings of HK\$155.4 million (31 December 2016: HK\$149.0 million), the Group recorded net cash and bank balances of HK\$191.7 million as at 30 June 2017 as compared to HK\$473.2 million as at 31 December 2016. 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 2017, the Group's gearing ratio, measured on the basis of total borrowings as a percentage of total shareholders' equity, was 0.16 (31 December 2016: 0.15) while the Group's working capital ratio was 2.31 (31 December 2016: 2.07).

As at 30 June 2017, the Group did not have any material capital expenditure commitments.

Treasury policies

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

* For identification purpose only

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. The Group will closely monitor the currency exchange risk of RMB in the near term as a result.

Contracts

As at 30 June 2017, the major contracts for the software development and systems integration business amounted to approximately HK\$404.5 million (31 December 2016: HK\$512.8 million), which are all expected to be completed within one year time.

Material acquisitions and disposals of subsidiaries, associates and joint ventures

The Group had no material acquisition or disposal of subsidiaries, associates and joint ventures during the six months ended 30 June 2017.

Charges on assets

As at 30 June 2017, the Group's land and buildings in Hong Kong of approximately HK\$67.8 million and investment properties of approximately HK\$94.5 million and bank deposits of approximately HK\$19.0 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 2017. 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 2017, 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 2017, 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 Securities and Futures Ordinance (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").

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

As at 30 June 2017, 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

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 2017, 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 2017. 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 2017.

CORPORATE GOVERNANCE

The Company has complied with all code provisions of the Corporate Governance 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 2017.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUER (THE "MODEL CODE")

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 2017, including the accounting principles adopted by the Group, with the Company's management.

BOARD OF DIRECTORS

As at the date of this report, the board of directors of the Company comprises executive directors of Mr Cheung Shuen Lung (Chairman), Mr Shao Xing (President), Ms Zuo Jin, Mr Hu Bin, Mr Cui Yun Tao and Ms Liao Hang, and the independent non-executive directors of Mr Li Fat Chung, Ms Wong Lam Kit Yee and Mr Chan Chung Kik, Lewis.

By Order of the Board
FOUNDER HOLDINGS LIMITED
Cheung Shuen Lung
Chairman

Hong Kong
30 August 2017