



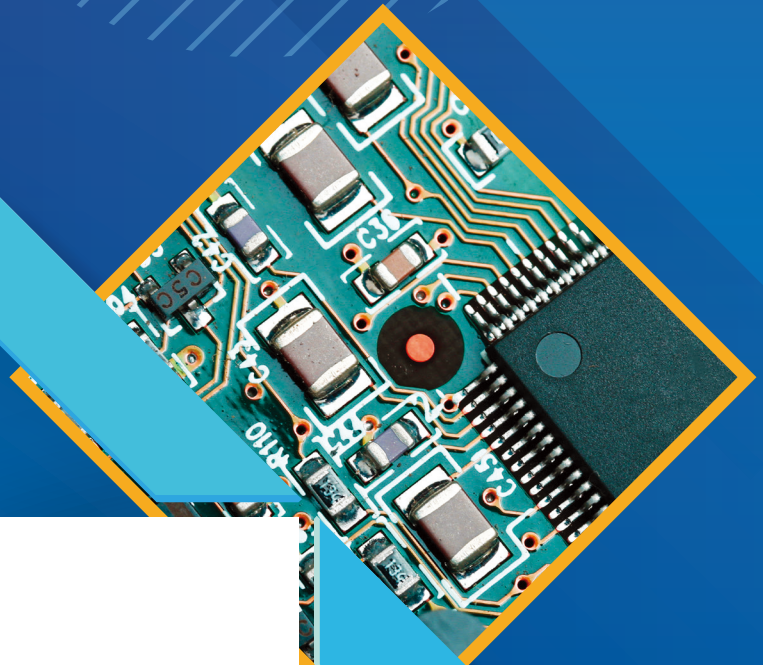
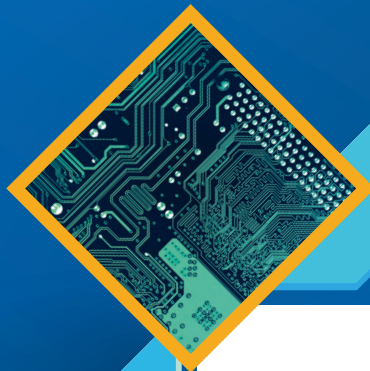
FOUNDER HOLDINGS LIMITED
方正控股有限公司

(Incorporated in Bermuda with limited liability)

Stock Code: 00418

2019

Interim Report





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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive directors

Mr Cheung Shuen Lung (*Chairman*)
Mr Shao Xing (*President*)
Professor Xiao Jian Guo
Ms Zuo Jin
Mr Hu Bin
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 Cheang Yee Wah Eva

AUTHORISED REPRESENTATIVES

Mr Cheung Shuen Lung
Mr Shao Xing

AUDITORS

Ernst & Young
Certified Public Accountants

LEGAL ADVISER

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

Victoria Place, 5th Floor
31 Victoria Street
Hamilton HM 10
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 and transfer office

MUFG Fund Services (Bermuda) Limited
4th floor North
Cedar House
41 Cedar Avenue
Hamilton HM 12
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.founder.com.hk



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 2019, together with the comparative figures for the corresponding period in 2018. The condensed consolidated interim financial statements have not been audited, but have been reviewed by the audit committee of the Company.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE SIX MONTHS ENDED 30 JUNE 2019

	NOTES	For the six months ended 30 June	
		2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000
REVENUE	3	423,692	437,752
Cost of sales		(218,012)	(237,094)
Gross profit		205,680	200,658
Other income and gains	4	41,296	36,941
Selling and distribution expenses		(104,440)	(122,497)
Administrative expenses		(37,250)	(34,084)
Other expenses, net		(99,337)	(85,098)
Finance costs	5	(4,470)	(4,006)
Share of (losses)/profits of associates		(51)	127
PROFIT/(LOSS) BEFORE TAX	6	1,428	(7,959)
Income tax	7	1,962	(255)
PROFIT/(LOSS) FOR THE PERIOD		3,390	(8,214)
Attributable to:			
Owners of the parent		3,390	(8,212)
Non-controlling interests		–	(2)
		3,390	(8,214)
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
– Basic and diluted	8	HK0.28 cents	HK(0.7) cents

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2019

	For the six months ended 30 June	
	2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000
PROFIT/(LOSS) FOR THE PERIOD	3,390	(8,214)
OTHER COMPREHENSIVE LOSS		
Other comprehensive loss to be reclassified to profit or loss in subsequent periods:		
Share of other comprehensive loss of associates	(25)	(403)
Exchange differences on translation of foreign operations	(1,057)	(903)
Net other comprehensive loss to be reclassified to profit or loss in subsequent periods	(1,082)	(1,306)
Other comprehensive loss not to be reclassified to profit or loss in subsequent periods:		
Tax effect of revaluation surplus of land and buildings	–	(2,456)
Net loss on financial assets at fair value through other comprehensive income	(2,839)	(8,238)
Net other comprehensive loss not to be reclassified to profit or loss in subsequent periods	(2,839)	(10,694)
OTHER COMPREHENSIVE LOSS FOR THE PERIOD, NET OF TAX	(3,921)	(12,000)
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD	(531)	(20,214)
Attributable to:		
Owners of the parent	(531)	(20,211)
Non-controlling interests	–	(3)
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD	(531)	(20,214)



CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 JUNE 2019

	NOTES	30 June 2019 (Unaudited) HK\$'000	31 December 2018 (Audited) HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment		329,755	337,289
Investment properties		147,217	147,223
Right-of-use assets		2,669	–
Investment in associates		2,468	2,544
Equity investments at fair value through other comprehensive income		3,810	6,709
Deferred tax asset		7,286	4,569
Pledged deposit		4,085	4,804
Total non-current assets		497,290	503,138
CURRENT ASSETS			
Inventories		80,492	93,569
Contract assets		43,419	45,003
Trade and bills receivables	10	139,595	139,700
Prepayments, other receivables and other assets		491,587	472,591
Financial assets at fair value through profit or loss		620	803
Pledged deposits		8,687	8,073
Cash and cash equivalents		488,510	548,222
Tax recoverable		1,186	–
Total current assets		1,254,096	1,307,961
CURRENT LIABILITIES			
Trade and bills payables	11	44,611	69,987
Contract liabilities		106,503	86,373
Other payables and accruals		162,038	246,133
Interest-bearing bank and other borrowings		190,080	160,914
Tax payable		5,596	3,982
Total current liabilities		508,828	567,389
NET CURRENT ASSETS		745,268	740,572
TOTAL ASSETS LESS CURRENT LIABILITIES		1,242,558	1,243,710

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
30 JUNE 2019

	30 June 2019 (Unaudited) HK\$'000	31 December 2018 (Audited) HK\$'000
NON-CURRENT LIABILITIES		
Interest-bearing bank and other borrowings	344	–
Deferred tax liabilities	57,044	58,009
Total non-current liabilities	57,388	58,009
Net assets	1,185,170	1,185,701
EQUITY		
Equity attributable to owners of the parent		
Issued capital	119,975	119,975
Reserves	1,065,195	1,065,726
	1,185,170	1,185,701
Total equity	1,185,170	1,185,701



CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2019

	Attributable to owners of the parent								
	Issued capital (Unaudited) HK\$'000	Share premium account (Unaudited) HK\$'000	Contributed surplus (Unaudited) HK\$'000	Land and buildings revaluation reserve (Unaudited) HK\$'000	Equity investments at fair value through other comprehensive income revaluation reserve (Unaudited) HK\$'000	Exchange fluctuation reserve (Unaudited) HK\$'000	General reserve (Unaudited) HK\$'000	Accumulated losses (Unaudited) HK\$'000	Total equity (Unaudited) HK\$'000
At 31 December 2018	119,975	53,597*	867,910*	249,287*	(7,294)*	(19,055)*	79,868*	(158,587)*	1,185,701
Profit for the period	-	-	-	-	-	-	-	3,390	3,390
Share of other comprehensive loss of associates	-	-	-	-	-	(25)	-	-	(25)
Change in fair value of financial assets at fair value through other comprehensive income	-	-	-	-	(2,839)	-	-	-	(2,839)
Exchange differences on translation of foreign operations	-	-	-	-	-	(1,057)	-	-	(1,057)
Total comprehensive loss for the period	-	-	-	-	(2,839)	(1,082)	-	3,390	(531)
Transfer of revaluation reserve of land and buildings to accumulated losses	-	-	-	(3,325)	-	-	-	3,325	-
At 30 June 2019	119,975	53,597*	867,910*	245,962*	(10,133)*	(20,137)*	79,868*	(151,872)*	1,185,170

* These reserve accounts comprise the consolidated reserves of HK\$1,065,195,000 (31 December 2018: HK\$1,065,726,000) in the condensed consolidated statement of financial position.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 JUNE 2018

	Attributable to owners of the parent											
	Issued capital (Unaudited) HK\$'000	Share premium account (Unaudited) HK\$'000	Contributed surplus (Unaudited) HK\$'000	Land and buildings revaluation reserve (Unaudited) HK\$'000	Available-for-sale investment revaluation reserve (Unaudited) HK\$'000	Equity investments at fair value through other comprehensive income 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 31 December 2017	119,975	53,597	867,910	263,337	15,834	-	21,561	68,276	(271,540)	1,138,950	184	1,139,134
Prior year adjustment	-	-	-	-	(15,834)	5,701	-	-	10,133	-	-	-
Restated balance at 1 January 2018	119,975	53,597	867,910	263,337	-	5,701	21,561	68,276	(261,407)	1,138,950	184	1,139,134
Loss for the period	-	-	-	-	-	-	-	-	(8,212)	(8,212)	(2)	(8,214)
Share of other comprehensive loss of associates	-	-	-	-	-	-	(434)	31	-	(403)	-	(403)
Tax effect of revaluation surplus of land and buildings	-	-	-	(2,456)	-	-	-	-	-	(2,456)	-	(2,456)
Change in fair value of financial assets at fair value through other comprehensive income	-	-	-	-	-	(8,238)	-	-	-	(8,238)	-	(8,238)
Exchange differences on translation of foreign operations	-	-	-	-	-	-	(902)	-	-	(902)	(1)	(903)
Total comprehensive income for the period	-	-	-	(2,456)	-	(8,238)	(1,336)	31	(8,212)	(20,211)	(3)	(20,214)
Transfer of revaluation reserve of land and buildings to accumulated losses	-	-	-	(3,880)	-	-	-	-	3,880	-	-	-
At 30 June 2018	119,975	53,597	867,910	257,001	-	(2,537)	20,225	68,307	(265,739)	1,118,739	181	1,118,920



CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2019

		For the six months ended 30 June	
		2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000
	NOTES		
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before tax		1,428	(7,959)
Adjustments for:			
Finance costs	5	4,470	4,006
Share of losses/(profits) of associates		51	(127)
Interest income	4	(17,284)	(12,873)
Gain on disposal of items of property, plant and equipment	4	(587)	(25)
Fair value losses on equity investment at fair value through profit or loss	6	183	733
Depreciation of property, plant and equipment	6	10,109	8,364
Depreciation of right-of-use assets	6	1,023	–
Impairment/(reversal of impairment) of trade receivables	6	6,970	(171)
Impairment of other receivables	6	44	2,121
Impairment of contract assets	6	4,234	–
Provision for obsolete inventories	6	3,201	5,488
		13,842	(443)
Decrease in inventories		9,876	14,195
(Increase)/decrease in contract assets		(2,650)	2,122
Increase in trade and bills receivables		(6,865)	(25,097)
Increase in prepayments, other receivables and other assets		(19,955)	(12,701)
Decrease in trade and bills payables		(25,376)	(28,662)
Increase in contract liabilities		20,130	2,661
Decrease in other payables and accruals		(84,095)	(80,284)
Exchange differences		(17)	(1,003)
Cash used in operations		(95,110)	(129,212)
Bank interest received		3,558	2,357
Interest paid		(4,393)	(4,006)
Interest element of lease payments		(77)	–
Mainland of the People's Republic of China ("Mainland China" or the "PRC") corporate income tax paid		(1,302)	(4,937)
Net cash flows used in operating activities		(97,324)	(135,798)

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED 30 JUNE 2019

	For the six months ended 30 June	
	2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	13,936	10,809
Purchases of items of property, plant and equipment	(2,732)	(7,437)
Disposal of equity investments at fair value through profit or loss	–	529
Proceeds from disposal of items of property, plant and equipment	587	212
Increase in non-pledged time deposits with original maturity of more than three months when acquired	(2,448)	(46,593)
Advances of entrusted loans to related companies	(419,950)	(441,491)
Repayment of entrusted loans from related companies	420,320	441,780
Decrease in pledged deposits	105	1,053
Net cash flows from/(used in) investing activities	9,818	(41,138)
CASH FLOWS FROM FINANCING ACTIVITIES		
New bank loans	141,053	71,162
Repayment of bank loans	(113,813)	(67,986)
Principal portion of lease payments	(964)	–
Net cash flows from financing activities	26,276	3,176
NET DECREASE IN CASH AND CASH EQUIVALENTS		
Cash and cash equivalents at beginning of period	471,542	475,615
Effect of foreign exchange rate changes, net	(930)	219
CASH AND CASH EQUIVALENTS AT END OF PERIOD	409,382	302,074



CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED 30 JUNE 2019

	For the six months ended 30 June	
	2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000
<hr/>		
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	352,687	240,225
Non-pledged time deposits	135,823	142,104
<hr/>		
Cash and cash equivalents as stated in the condensed consolidated statement of financial position	488,510	382,329
Non-pledged time deposits with original maturity of more than three months when acquired	(79,128)	(80,255)
<hr/>		
Cash and cash equivalents as stated in the condensed consolidated statement of cash flows	409,382	302,074
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NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 JUNE 2019

1. BASIS OF PREPARATION

These unaudited condensed consolidated interim financial statements for the six months ended 30 June 2019 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 statements do 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 2018, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) (which include all HKFRSs, HKASs and Interpretations).

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual consolidated financial statements for the year ended 31 December 2018, except for the adoption of new and revised standards effective as of 1 January 2019.

Amendments to HKFRS 9	<i>Prepayment Features with Negative Compensation</i>
HKFRS 16	<i>Leases</i>
Amendments to HKAS 19	<i>Plan Amendment, Curtailment or Settlement</i>
Amendments to HKAS 28	<i>Long-term Interests in Associates and Joint Ventures</i>
HK(IFRIC)Int 23	<i>Uncertainty over Income Tax Treatments</i>
<i>Annual Improvements 2015–2017 Cycle</i>	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23



2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(continued)*

Other than as explained below regarding the impact of HKFRS 16 *Leases* and HK(IFRIC)-Int 23 *Uncertainty over Income Tax Treatments*, the new and revised standards are not relevant to the preparation of the Group's interim condensed consolidated financial information. The nature and impact of the new and revised HKFRSs are described below:

(a) Adoption of HKFRS 16

HKFRS 16 replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases – Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model. Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in HKAS 17. Therefore, HKFRS 16 did not have any financial impact on leases where the Group is the lessor.

The Group adopted HKFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2019, and the comparative information for 2018 was not restated and continues to be reported under HKAS 17.

New definition of a lease

Under HKFRS 16, a contract is, or contains a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 at the date of initial application. Contracts that were not identified as leases under HKAS 17 and HK(IFRIC)-Int 4 were not reassessed. Therefore, the definition of a lease under HKFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease and non-lease component on the basis of their standard-alone prices. A practical expedient is available to a lessee, which the Group has adopted, not to separate non-lease components and to account for the lease and the associated non-lease components (e.g., property management services for leases of properties) as a single lease component.

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(continued)*

(a) **Adoption of HKFRS 16** *(continued)*

As a lessee – Leases previously classified as operating leases

Nature of the effect of adoption of HKFRS 16

The Group has lease contracts for properties. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under HKFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low value assets (elected on a lease by lease basis) and short-term leases (elected by class of underlying asset). The Group has elected not to recognise right-of-use assets and lease liabilities for leases, that at the commencement date, have a lease term of 12 months or less. Instead, the Group recognises the lease payments associated with those leases as an expense on a straight-line basis over the lease term.

Impacts on transition

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019 and included in interest-bearing bank and other borrowings.

The right-of-use assets were measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before 1 January 2019. All these assets were assessed for any impairment based on HKAS 36 on that date. The Group elected to present the right-of-use assets separately in the statement of financial position.

For the leasehold land and buildings (that were held to earn rental income and/or for capital appreciation) previously included in property, plant and equipment and investment properties and measured at fair value, the Group has continued to include them as property, plant and equipment and investment properties at 1 January 2019. They continue to be measured at fair value applying HKAS 40.

The Group has used the following elective practical expedients when applying HKFRS 16 at 1 January 2019:

- Applied the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application
- Used hindsight in determining the lease term where the contract contains options to extend/terminate the lease



2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(continued)*

(a) Adoption of HKFRS 16 *(continued)*

As a lessee – Leases previously classified as operating leases (continued)

Impacts on transition *(continued)*

The impacts arising from the adoption of HKFRS 16 as at 1 January 2019 are as follows:

	Increase/ (decrease) (Unaudited) HK\$'000
Assets	
Increase in right-of-use assets	3,679
Decrease in prepayments, other receivables and other assets	(335)
Increase in total assets	3,344
Liabilities	
Increase in interest-bearing bank and other borrowings	3,344
Increase in total liabilities	3,344

The lease liabilities as at 1 January 2019 reconciled to the operating lease commitments as at 31 December 2018 is as follows:

	(Unaudited) HK\$'000
Operating lease commitments as at 31 December 2018	24,065
Weighted average incremental borrowing rate as at 1 January 2019	5.46%
Discounted operating lease commitments as at 1 January 2019	20,930
Less: Commitments relating to short-term leases and those leases with a remaining lease term ending on or before 31 December 2019	17,586
Lease liabilities as at 1 January 2019	3,344

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(continued)*

(a) **Adoption of HKFRS 16** *(continued)*

Summary of new accounting policies

The accounting policy for leases as disclosed in the annual financial statements for the year ended 31 December 2018 is replaced with the following new accounting policies upon adoption of HKFRS 16 from 1 January 2019:

Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease. Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. When the right-of-use assets relate to interests in leasehold land held as inventories, they are subsequently measured at the lower of cost and net realisable value in accordance with the Group's policy for "inventories". The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of the estimated useful life and the lease term. When a right-of-use asset meets the definition of investment property, it is included in investment properties. The corresponding right-of-use asset is initially measured at cost, and subsequently measured at fair value, in accordance with the Group's policy for "investment properties".

Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in-substance fixed lease payments or a change in assessment to purchase the underlying asset.

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(continued)*

(a) Adoption of HKFRS 16 *(continued)*

Significant judgement in determining the lease term of contracts with renewal options

The Group determines the lease term as the non-cancellable term of the lease.

Amounts recognised in the interim condensed consolidated statement of financial position and profit or loss

The carrying amounts of the Group's right-of-use assets and lease liabilities (included within "interest-bearing bank and other borrowings"), and the movement during the period are as follows:

	Right-of-use assets Properties HK\$'000	Lease liabilities HK\$'000
As at 1 January 2019	3,679	3,344
Depreciation charge	(1,023)	–
Interest expense	–	77
Payments	–	(1,041)
Exchange realignment	13	(4)
As at 30 June 2019	2,669	2,376

The Group recognised rental expenses from short-term leases of approximately HK\$9,768,000 for the six months ended 30 June 2019.

- (b) HK(IFRIC)-Int 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of HKAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. The interpretation did not have any significant impact on the Group's interim condensed consolidated financial information.

3. REVENUE AND OPERATING SEGMENT INFORMATION

An analysis of revenue is as follows:

	For the six months ended 30 June	
	2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000
<i>Revenue from contracts with customers</i>		
Software development, system integration and information product distribution	421,547	435,207
<i>Revenue from other sources</i>		
Gross rental income	2,145	2,545
	423,692	437,752

Disaggregated revenue information for revenue from contracts with customers

For the six months ended 30 June 2019

	(Unaudited) HK\$'000
Type of goods or services	
Sale of information products and software	350,307
Sale of software development and system integration service	71,240
Total revenue from contracts with customers	421,547
Geographical markets	
Mainland China	421,512
Others	35
Total revenue from contracts with customers	421,547
Timing of revenue recognition	
Goods transferred at a point in time	350,307
Services transferred over time	71,240
Total revenue from contracts with customers	421,547

3. REVENUE AND OPERATING SEGMENT INFORMATION *(continued)*
Disaggregated revenue information for revenue from contracts with customers *(continued)*

For the six months ended 30 June 2018

	(Unaudited) HK\$'000
<hr/>	
Type of goods or services	
Sale of information products and software	350,146
Sale of software development and system integration service	85,061
<hr/>	
Total revenue from contracts with customers	435,207
<hr/>	
Geographical markets	
Mainland China	435,172
Others	35
<hr/>	
Total revenue from contracts with customers	435,207
<hr/>	
Timing of revenue recognition	
Goods transferred at a point in time	350,146
Services transferred over time	85,061
<hr/>	
Total revenue from contracts with customers	435,207
<hr/>	

Given that the chief operating decision maker of the Company considers that the Group's business is operated and managed as a single segment of software development, systems integration and information products distribution, accordingly, no segment information is presented.

4. OTHER INCOME AND GAINS

	For the six months ended 30 June	
	2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000
Bank interest income	3,558	2,357
Other interest income	13,726	10,516
Government grants	20,533	22,199
Gain on disposal of items of property, plant and equipment	587	25
Foreign exchange differences, net	–	269
Others	2,892	1,575
	41,296	36,941

5. FINANCE COSTS

	For the six months ended 30 June	
	2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000
Interest on bank and other borrowings	4,470	4,006

6. PROFIT/(LOSS) BEFORE TAX

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

	For the six months ended 30 June	
	2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000
Cost of inventories sold	181,597	191,196
Depreciation of properties, plant and equipment	10,109	8,364
Depreciation of right-of-use assets	1,023	–
Impairment/(reversal of impairment) of trade receivables*	6,970	(171)
Impairment of other receivables*	44	2,121
Impairment of contract assets*	4,234	–
Fair value losses on equity investment at fair value through profit or loss*	183	733
Provision for obsolete inventories	3,201	5,488
Research and development costs: Current period expenditure*	84,810	79,961

* These items are included in "Other expenses, net" in the condensed consolidated statement of profit or loss.

7. INCOME TAX

	For the six months ended 30 June	
	2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000
Current – Hong Kong		
Charge for the period	–	847
Current – Mainland China		
Charge for the period	3,871	1,053
(Overprovision)/underprovision in prior year	(2,141)	1,669
Deferred	(3,692)	(3,314)
Total tax charge for the period	(1,962)	255

No provision for Hong Kong profits tax has been made as no assessable profits arise in Hong Kong during the period. Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong during the six months ended 30 June 2018.

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.

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

The calculation of basic earnings/(loss) per share amounts is based on the unaudited profit/(loss) 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 2018: 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 2019 and 2018.

9. INTERIM DIVIDEND

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2019 (six months ended 30 June 2018: Nil).

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 ageing 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 2019 (Unaudited) HK\$'000	31 December 2018 (Audited) HK\$'000
Within 6 months	93,531	111,440
7 to 12 months	26,082	10,476
13 to 24 months	9,052	7,492
Over 24 months	10,930	10,292
	139,595	139,700

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\$14,719,000 (31 December 2018: HK\$12,304,000), 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 ageing 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 2019 (Unaudited) HK\$'000	31 December 2018 (Audited) HK\$'000
Within 6 months	26,111	28,297
7 to 12 months	10,081	2,894
13 to 24 months	1,478	9,855
Over 24 months	6,941	28,941
	44,611	69,987

Included in the Group's trade and bills payables are amounts due to subsidiaries of Peking Founder of approximately HK\$1,214,000 (31 December 2018: HK\$1,410,000), 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

As at 30 June 2019, the Group did not have any significant contingent liabilities (31 December 2018: 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	
	<i>NOTES</i>	2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000
Management fee income received from subsidiaries of Peking Founder	<i>(i)</i>	1,157	1,001
Interest income from Peking Founder	<i>(ii)</i>	13,693	10,426
Sales of goods to Peking Founder	<i>(i)</i>	1,974	1,000
Banking facility guarantees given by Peking Founder	<i>(iii)</i>	181,600	190,720
Rental and management expense paid to a subsidiary of Peking Founder	<i>(iv)</i>	7,638	8,298
Service fee payable to Peking University Founder Information Industry Group Co., Ltd. ("PKU Founder Information")	<i>(v)</i>	–	700
Purchase of goods from Peking Founder	<i>(i)</i>	366	–

Notes:

- (i) These transactions were conducted on the terms agreed between the parties involved.
- (ii) The interest income was attributable to the entrusted loans provided to Peking Founder, which was unsecured and interest-bearing at rates of 7.0% per annum (2018: 7.0% per annum).
- (iii) The banking facility guarantees of HK\$181,600,000 (31 December 2018: HK\$181,760,000) were given to PRC banks for credit facilities granted to subsidiaries of the Company which were utilised to the extent of approximately HK\$125,348,000 at 30 June 2019 (31 December 2018: HK\$120,936,000).
- (iv) The expenses were attributable to the lease agreement and management agreement with a subsidiary of Peking Founder to lease the premises in Beijing.
- (v) The sharing of the administrative service fee between the Group and PKU Founder Information was conducted on a cost basis.

The above related party transactions for the current year also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

13. RELATED PARTY TRANSACTIONS *(continued)*

(II) Outstanding balances with related parties

(a) As at 30 June 2019, the outstanding balance of entrusted loans and related interest receivables from Peking Founder and its subsidiaries (collectively "Peking Founder Group") amounted to approximately HK\$419,950,000 (31 December 2018: HK\$420,320,000), and HK\$733,000 (31 December 2018: HK\$943,000), respectively. The entrusted loans are unsecured, bear at rates of 7.0% per annum and repayable within one year. In addition, included in prepayments, other receivables and other assets were balances due from Peking Founder Group of approximately HK\$8,575,000 (31 December 2018: HK\$6,050,000), and included in other payables and accruals were balances due to Peking Founder Group of approximately HK\$11,590,000 (31 December 2018: HK\$13,566,000). These balances are unsecured, interest-free and have no fixed terms of repayment.

(b) 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	
	2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000
Short term employee benefits	2,351	2,381
Pension scheme contributions	37	37
Total compensation paid to key management personnel	2,388	2,418

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 2019 (Unaudited) HK\$'000	As at 31 December 2018 (Audited) HK\$'000	As at 30 June 2019 (Unaudited) HK\$'000	As at 31 December 2018 (Audited) HK\$'000
Financial assets				
Due from associates	31	31	31	31
Pledged deposit, non-current portion	4,085	4,804	3,784	4,505
Equity investments at fair value through other comprehensive income	3,810	6,709	3,810	6,709
Bills receivable	24,781	27,715	24,781	27,715
Financial assets at fair value through profit or loss	620	803	620	803
	33,327	40,062	33,026	39,763
Financial liabilities				
Interest-bearing bank and other borrowings, non-current portion	344	–	344	–
	344	–	344	–

Management has assessed that the fair values of cash and cash equivalents, the current portion of pledged deposits, trade and bills receivables, contract assets, trade and bills payables, financial assets included in prepayments, other receivables and other assets, financial liabilities included in other payables and accruals and the current portion of interest-bearing bank and other borrowings, 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 value of non-current portion of pledged deposits and interest-bearing bank and other borrowings has 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 and other borrowings as at 30 June 2019 was assessed to be insignificant.

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

The fair values of listed financial assets at fair value through other comprehensive income 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 2019

	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	
Equity investments at fair value through other comprehensive income	3,810	–	–	3,810
Financial assets at fair value through profit or loss	620	–	–	620
Bills receivable	–	24,781	–	24,781
	4,430	24,781	–	29,211

As at 31 December 2018

	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	
Equity investments at fair value through other comprehensive income	6,709	–	–	6,709
Financial assets at fair value through profit or loss	803	–	–	803
Bills receivable	–	27,715	–	27,715
	7,512	27,715	–	35,227

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

Fair value hierarchy *(continued)*

Assets measured at fair value: (continued)

The Group did not have any financial liabilities measured at fair value during the six months ended 30 June 2019 and the year ended 31 December 2018. During the six months ended 30 June 2019 and the year ended 31 December 2018, 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 2019

	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	–	3,784	–	3,784

As at 31 December 2018

	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	–	4,505	–	4,505



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 2019 of approximately HK\$3.4 million (six months ended 30 June 2018: loss of HK\$8.2 million). The Group's turnover for the current interim period decreased slightly by 3.2% to approximately HK\$423.7 million (six months ended 30 June 2018: HK\$437.8 million) due to decrease in sales of printing business. Gross profit for the current interim period increased by 2.5% to approximately HK\$205.7 million (six months ended 30 June 2018: HK\$200.7 million). Gross profit ratio increased from 45.8% for the last interim period to 48.5% 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. an increase in the gross profit by 2.5% to approximately HK\$205.7 million (six months ended 30 June 2018: HK\$200.7 million);
- b. an increase in other income and gains by 11.8% to approximately HK\$41.3 million (six months ended 30 June 2018: HK\$36.9 million) attributable to the increase in bank and other interest income; and
- c. a slight decrease in total selling and distribution expenses, administrative expenses and other expenses, net by 0.3% to approximately HK\$241.0 million (six months ended 30 June 2018: HK\$241.7 million) as a result of strict control on operating expenses.

Basic and diluted earnings per share attributable to equity holders of the parent for the six months ended 30 June 2019 were HK0.28 cents (six months ended 30 June 2018: loss of HK0.7 cents).

OPERATING REVIEW AND PROSPECTS

Font Library Business

Against the backdrop that China is vigorously propelling cultural creative industries, the font library, as a Chinese culture carrier, has been receiving a wider recognition. The value of fonts has been recognized by more and more enterprises and the public. Meanwhile, with a gradual improvement in the copyright protection environment in China and increasingly intense competition in the industry, new font design companies and individual font designers came into the font library market one after another.

In the first half of 2019, hot topics regarding intellectual property emerged continuously. The "font fever" in the design industry gained wider popularity and the value of fonts has been recognized by more and more enterprises and the public.

- (1) Font library copyright aspect: 北京北大方正電子有限公司 (Beijing Founder Electronics Co., Ltd. *) ("Founder Electronics"), the wholly-owned subsidiary of the Company, actively maintained the intellectual property rights of our font library by legal means and organized activities such as "The Foundertype Poster Exhibition (方正字庫海報設計邀請展)", "Tokyo TDC Selected Works + Font Design Forum (東京TDC選作展及字體設計論壇)", through which we have made font design knowledge more popular in the whole society, attracted numerous young font designers and design lovers and conveyed the value of fonts.

* For identification purpose only

- (2) Marketing and service aspect: We have stepped up our efforts in promoting positive publicity by establishing cooperation relationships with design companies and advertising companies and launching the “Love-dynamic Font (心動字體)”. We also continued to establish a comprehensive service system covering the official website of Founder font library, “Font +” mobile APP, and a PC client-end three-in-one “Font +”. Moreover, we have successfully expanded the Founder population census font library solution which was widely adopted by various customers in industries such as banking, social security, taxation and education which helping them to solve problems regarding names of people and places which have characters that are rarely used.
- (3) Font design aspect: Founder Electronics continued to launch new font types and font libraries of collaborative font design manufacturers such as Monotype, TypeTogether and Production Type have been launched on both the official website of Founder font library and client-end “Font +”, providing clients with complete font solutions that have abundant fonts and support more than 95% of the languages in the world. Customized fonts for clients such as Vivo have been delivered to clients and put into use. We are now working on the supporting project for heritage and development of excellent Chinese tradition and culture named “Exquisite Chinese Font Library Project (中華精品字庫工程)”. The first batch comprising a font library of 15 ancient calligraphers will be launched before the 70th National Day.

Printing business

The printing industry has entered into a period of deep adjustment, during which over-capacity existed throughout the industry and hot topics such as developing in a more digitalised, intelligent and environmentally-friendly manner were emerging continuously. With deep understanding of this development trend of the industry, 北京方正印捷數碼技術有限公司 (Beijing Founder EasiPrint Digital Technical Co., Ltd*) (“Founder EasiPrint”), the wholly-owned subsidiary of the Company, continued to invest in the research and development of inkjet printing technology and smart production software system. It has consolidated the market position of variable coding through the launch of V-structured coding equipment for variable data, and enhanced and expanded the digital printing capability of government printing market by supporting domestic operation systems and upgrading two-color machines. It has also boosted CTP sales through establishment of electronic film system for People’s Education Press and ensured the steady development of retail sales business by strengthening the cooperation with manufacturers. Under intense market competition, the business of Founder EasiPrint still maintains its continued stability.

In the first half of 2019, Founder POD project achieved breakthroughs in new market for large inkjet printing revolving equipment, enabling the introduction of a new record of 13 new production lines. Meanwhile, we continued to improve the back-end system covering research and development, production, implementation and servicing, and achieved rapid development in terms of teambuilding. Founder Yunshu (方正雲舒) softwares, as an ancillary facility, have been deployed in major publishing press such as Higher Education Press.

The 2019 annual meeting of Hongyan POD Alliance (鴻雁POD聯盟) was held successfully, during which we have signed contracts for POD projects with clients such as Guangzhou Dayang and increased our influence in the industry.

* For identification purpose only



Media Business

The traditional media industry continued to be subdued. In particular, the advertising revenue on newspaper dropped continuously, resulting in uncertainty over the trends of market demand. Meanwhile, the promotion of macroeconomic policies has offered new market opportunities to media and publishing businesses. In January this year, the CPC central committee made further strategic deployment to accelerate in-depth integration of traditional media and emerging media. It was proposed that the government will promote the vertical development of media integration with a view to establishing the "All Rounded Media in Four Aspects (四全媒體)", namely process, format, manpower and efficiency (全程媒體、全息媒體、全員媒體、全效媒體), thereby creating the layout of powerful media dissemination. The mainstream media nationwide implemented this strategic deployment in relation to vertical development of media integration proposed by the central government by accelerating the use of new technologies such as mobile network, cloud computing, big data and artificial intelligence, at the same time pushing forward the comprehensive integration of media "from addition to integration" and "from integrated media to smart media". In the meantime, the development of integrated media centers at province, district and county level was making progress in an orderly manner, bringing both demand and opportunities for the development of provincial platforms for integrated media centers at district and county level, as well as self-developed platforms for certain integrated media centers at district and county level. The integrated development of the publishing industry has entered into a new stage, where the publishing industry re-built its production process to adapt to integrated publishing and re-constructed the organization model based on such integrated publishing procedure, thereby effectively utilizing various production elements and media resources to usher integrated publishing into a rapid-growing period.

Under such conditions, we have achieved innovation in aspects of products, markets and business models on a continuous basis.

In respect of products, on the basis of "Founder Solution for Hyper-integration of Media 1.0" launched last year, Founder Electronics launched "Founder Solution for Hyper-integration of Media 2.0" by fully leveraging the new technologies such as mobile network, cloud computing, big data and artificial intelligence in an effort to help media building up an integrated media platform. "Founder Solution for Hyper-integration of Media 2.0" not only realized the integration of media businesses, management, users and data, but also realised the optimization of new mobile media platform and mobilization of core businesses by adhering to our strategy that take mobile media as priority. Meanwhile, the solution empowered media integration with the use of big data and artificial intelligence technologies. At the same time, "Founder Media Cloud Solution" was launched during the year, which facilitated the building of a media cloud platform for the media industry, covering integrated media centers at district and county level as well as new media for government and corporate affairs, thereby creating a new ecological environment for media integration. As for the publishing business, Founder Electronics has stepped up its efforts in the research and development of digital joint compilation system with strong emphasis on the research and development of technologies and products in relation to smart review, automatic typesetting and others. The automatic typesetting cloud service platform for the publishing market has been launched accordingly. Meanwhile, it continued to increase the investment in the research and development of technologies and products in relation to knowledge service and launched "Founder Flying H5 (Digital Version) (方正飛翔H5(數字版))" and upgraded the Founder Flying cloud service platform (方正飛翔雲服務平台).

In respect of markets, in addition to reinforcing the presence in inventory markets such as central and provincial newspapers, prefecture-level city newspaper and industry newspaper, we further expanded into incremental markets such as integrated media centers at district and county level, corporate news centers, radio and television, new media for government affairs, etc., while actively expanding into overseas media markets. This year, we entered into contracts with "New Gangsu Cloud (新甘肅雲)" of Gangsu Daily, i.e. the provincial media cloud platform of Gansu Province, and "Hangzhou Cloud (杭州雲)" of Hangzhou Daily, i.e. the city-level media cloud platform of Hangzhou in the integrated media market at district and county level. For corporate news centers, we entered into contracts with media center market such as Liaohe Oilfield. For radios and televisions, we have established cooperation with "Blue Cloud (藍雲)" platform of Zhejiang Radio & TV, "Lichee Cloud (荔枝雲)" platform of Jiangsu Broadcasting Corporation, as well as Henan Daxiang Merged Media (河南大象融媒).

As for business models, we actively promoted the transformation from software solution towards SaaS service and data service. In particular, the SaaS service platform for Xinkong Cloud pan-media and the SaaS service platform for media big data encompass 150 media clients by now. In addition, we have launched "Smart Flying" (智翔) multimedia content-monitoring cloud service platform.

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 our 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 a 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 2019, the number of employees of the Group was approximately 1,242 (31 December 2018: 1,246).

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 2019, the Group had interest-bearing bank and other borrowings of approximately HK\$190.4 million (31 December 2018: HK\$160.9 million), of which HK\$150.4 million (31 December 2018: HK\$120.9 million) were fixed interest bearing and HK\$40.0 million (31 December 2018: HK\$40.0 million) were floating interest bearing. The bank and other borrowings were denominated in Hong Kong Dollars ("HKD"), Renminbi ("RMB") and United States Dollars ("U.S. dollars"), of which HK\$190.1 million (31 December 2018: HK\$160.9 million) were repayable within one year and HK\$0.3 million (31 December 2018: Nil) were repayable within two to five years. 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 2019, the Group recorded total assets of HK\$1,751.4 million which were financed by liabilities of HK\$566.2 million and equity of HK\$1,185.2 million. The Group's net asset value per share as at 30 June 2019 amounted to HK\$0.99 (31 December 2018: HK\$0.99).

The Group had total cash and bank balances of HK\$501.3 million as at 30 June 2019 (31 December 2018: HK\$561.1 million). After deducting total bank borrowings of HK\$190.4 million (31 December 2018: HK\$160.9 million), the Group recorded net cash and bank balances of HK\$310.9 million as at 30 June 2019 as compared to HK\$400.2 million as at 31 December 2018. 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 2019, the Group's gearing ratio, measured on the basis of total borrowings as a percentage of total shareholders' equity, was 0.16 (31 December 2018: 0.14) while the Group's working capital ratio was 2.46 (31 December 2018: 2.31).

As at 30 June 2019, the Group did not have any material capital expenditure commitments.

* For identification purpose only



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

Contracts

As at 30 June 2019, the major contracts for the software development and systems integration business amounted to approximately HK\$381.6 million (31 December 2018: HK\$339.4 million), which are all expected to be completed within one year.

Material acquisitions and disposals of subsidiaries, associates and joint ventures

The Group had no material acquisitions or disposals of subsidiaries, associates and joint ventures during the six months ended 30 June 2019.

Charges on assets

As at 30 June 2019, the Group's investment properties of approximately HK\$79.0 million and bank deposits of approximately HK\$12.8 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 2019. 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 2019, 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 2019, 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 Shao Xing	Directly beneficially owned	8,989,556	0.75

Save as disclosed above, as at 30 June 2019, 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 2019, 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 purposes only



OTHER INFORMATION

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 2019, 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

Neither the Company, nor any of its subsidiaries has purchased, redeemed or sold any of the Company’s listed securities during the six months ended 30 June 2019.

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 of Hong Kong Limited (the “Listing Rules”) throughout the six months ended 30 June 2019.

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 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 of the Company has reviewed the Group’s condensed consolidated interim financial statements for the six months ended 30 June 2019, including the accounting principles adopted by the Group, with the Company’s management.

CHANGES IN INFORMATION OF DIRECTOR(S)

Pursuant to Rule 13.51B(1) of the Listing Rules, the changes in information of director(s) of the Company subsequent to the date of the 2018 annual report of the Company is set out below:

Mr Cui Yun Tao resigned as an executive director of the Company with effect from 4 April 2019.

Professor Xiao Jian Guo was appointed as an executive director of the Company with effect from 4 April 2019.

Save as disclosed above, there is no other information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

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), Professor Xiao Jian Guo, Ms Zuo Jin, Mr Hu Bin 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
29 August 2019