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FOUNDER HOLDINGS LIMITED
方正控股有限公司 *

(Incorporated in Bermuda with limited liability)

(Stock Code: 00418)

INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 JUNE 2020

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 2020, together with the comparative figures for the corresponding period in 2019. 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 2020

		For the six months ended 30 June	
		2020	2019
		(Unaudited)	(Unaudited)
		HK\$'000	HK\$'000
	<i>Notes</i>		
REVENUE	3	290,606	423,692
Cost of sales		(157,880)	(218,012)
Gross profit		132,726	205,680
Other income and gains	4	21,912	41,296
Selling and distribution expenses		(82,277)	(104,440)
Administrative expenses		(34,741)	(37,250)
Other expenses, net		(65,427)	(99,337)
Finance costs	5	(1,406)	(4,470)
Share of profits/(losses) of associates		73	(51)
(LOSS)/PROFIT BEFORE TAX	6	(29,140)	1,428
Income tax	7	1,941	1,962
(LOSS)/PROFIT FOR THE PERIOD		(27,199)	3,390
Attributable to:			
Owners of the parent		(27,199)	3,390
(LOSS)/EARNINGS PER SHARE			
ATTRIBUTABLE TO ORDINARY EQUITY			
HOLDERS OF THE PARENT			
– Basic and diluted	8	HK(2.27) cents	HK0.28 cents

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2020

	For the six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
(LOSS)/PROFIT FOR THE PERIOD	<u>(27,199)</u>	<u>3,390</u>
OTHER COMPREHENSIVE LOSS		
Other comprehensive loss that may be reclassified to profit or loss in subsequent periods:		
Share of other comprehensive income/(loss) of associates	221	(25)
Exchange differences on translation of foreign operations	<u>(7,571)</u>	<u>(1,057)</u>
Net other comprehensive loss that may be reclassified to profit or loss in subsequent periods	<u>(7,350)</u>	<u>(1,082)</u>
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:		
Changes in fair value of equity investments at fair value through other comprehensive income	<u>5,412</u>	<u>(2,839)</u>
Net other comprehensive income that will not be reclassified to profit or loss in subsequent periods	<u>5,412</u>	<u>(2,839)</u>
OTHER COMPREHENSIVE LOSS FOR THE PERIOD, NET OF TAX	<u>(1,938)</u>	<u>(3,921)</u>
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD	<u><u>(29,137)</u></u>	<u><u>(531)</u></u>
Attributable to:		
Owners of the parent	<u>(29,137)</u>	<u>(531)</u>
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD	<u><u>(29,137)</u></u>	<u><u>(531)</u></u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2020

	<i>Notes</i>	30 June 2020 (Unaudited) HK\$'000	31 December 2019 (Audited) HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment		313,078	324,301
Investment properties		146,078	146,184
Right-of-use assets		2,139	2,805
Investment in associates		2,928	2,634
Equity investments at fair value through other comprehensive income		7,887	2,641
Deferred tax assets		115,749	115,793
Pledged deposit		3,550	4,109
		<hr/>	<hr/>
Total non-current assets		591,409	598,467
CURRENT ASSETS			
Inventories		93,813	71,131
Trade and bills receivables	9	137,272	178,019
Contract assets		18,815	17,334
Prepayments, other receivables and other assets		68,848	78,453
Financial assets at fair value through profit or loss		1,086	563
Pledged deposits		6,398	10,123
Cash and cash equivalents		354,118	553,866
Tax recoverable		–	1,186
		<hr/>	<hr/>
Total current assets		680,350	910,675
CURRENT LIABILITIES			
Trade and bills payables	10	33,479	62,040
Contract liabilities		77,071	77,385
Other payables and accruals		177,976	255,080
Interest-bearing bank borrowings		10,980	107,093
Lease liabilities		1,442	1,979
Tax payable		3,392	7,157
		<hr/>	<hr/>
Total current liabilities		304,340	510,734
		<hr/>	<hr/>
NET CURRENT ASSETS		376,010	399,941
		<hr/>	<hr/>
TOTAL ASSETS LESS CURRENT LIABILITIES		967,419	998,408
		<hr/>	<hr/>

	30 June 2020 (Unaudited) HK\$'000	31 December 2019 (Audited) HK\$'000
NON-CURRENT LIABILITIES		
Lease liabilities	354	460
Deferred tax liabilities	54,820	56,566
	<hr/>	<hr/>
Total non-current liabilities	55,174	57,026
	<hr/>	<hr/>
Net assets	912,245	941,382
	<hr/> <hr/>	<hr/> <hr/>
EQUITY		
Equity attributable to owners of the parent		
Issued capital	119,975	119,975
Reserves	792,270	821,407
	<hr/>	<hr/>
	912,245	941,382
	<hr/>	<hr/>
Total equity	912,245	941,382
	<hr/> <hr/>	<hr/> <hr/>

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 June 2020

1. BASIS OF PREPARATION

These unaudited condensed consolidated interim financial statements for the six months ended 30 June 2020 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 2019, 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 applied in the preparation of the Group’s annual consolidated financial statements for the year ended 31 December 2019, except for the adoption of the following revised Hong Kong Financial Reporting Standards (“HKFRSs”) for the first time for the current period’s financial information.

Amendments to HKFRS 3	<i>Definition of a Business</i>
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	<i>Interest Rate Benchmark Reform</i>
Amendment to HKFRS 16	<i>Covid-19-Related Rent Concessions (early adopted)</i>
Amendments to HKAS 1 and HKAS 8	<i>Definition of Material</i>

The nature and impact of the revised HKFRSs are described below:

- (a) Amendments to HKFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group has applied the amendments prospectively to transactions or other events that occurred on or after 1 January 2020. The amendments did not have any impact on the financial position and performance of the Group.
- (b) Amendments to HKFRS 9, HKAS 39 and HKFRS 7 address the effects of interbank offered rate reform on financial reporting. The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments did not have any impact on the financial position and performance of the Group as the Group does not have any interest rate hedge relationships.

- (c) Amendment to HKFRS 16 provides a practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the covid-19 pandemic. The practical expedient applies only to rent concessions occurring as a direct consequence of the covid-19 pandemic and only if (i) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; (ii) any reduction in lease payments affects only payments originally due on or before 30 June 2021; and (iii) there is no substantive change to other terms and conditions of the lease. The amendment is effective retrospectively for annual periods beginning on or after 1 June 2020 with earlier application permitted.

During the period ended 30 June 2020, a quarterly lease payment for the lease of the Group's warehouse has been reduced or waived by the lessor as a result of the covid-19 pandemic and there are no other changes to the terms of the lease. The Group has early adopted the amendment on 1 January 2020 and elected not to apply lease modification accounting for all rent concessions granted by the lessors as a result of the covid-19 pandemic during the period ended 30 June 2020. Accordingly, a reduction in the lease payments arising from the rent concessions of HK\$289,839 has been accounted for as a variable lease payment by derecognising part of the lease liabilities and crediting to profit or loss for the period ended 30 June 2020.

- (d) Amendments to HKAS 1 and HKAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. The amendments did not have any impact on the Group's interim condensed consolidated financial information.

3. REVENUE

An analysis of revenue is as follows:

	For the six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
<i>Revenue from contracts with customers</i>		
Software development, system integration and information product distribution	288,120	421,547
<i>Revenue from other sources</i>		
Gross rental income	2,486	2,145
	290,606	423,692

Disaggregated revenue information for revenue from contracts with customers

For the six months ended 30 June 2020

	(Unaudited) HK\$'000
Type of goods or services	
Sale of information products and software	267,809
Sale of software development and system integration service	<u>20,311</u>
Total revenue from contracts with customers	<u><u>288,120</u></u>
Geographical markets	
Mainland China	288,043
Others	<u>77</u>
Total revenue from contracts with customers	<u><u>288,120</u></u>
Timing of revenue recognition	
Goods transferred at a point in time	267,809
Services transferred over time	<u>20,311</u>
Total revenue from contracts with customers	<u><u>288,120</u></u>

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	<u>71,240</u>
Total revenue from contracts with customers	<u><u>421,547</u></u>
Geographical markets	
Mainland China	421,512
Others	<u>35</u>
Total revenue from contracts with customers	<u><u>421,547</u></u>
Timing of revenue recognition	
Goods transferred at a point in time	350,307
Services transferred over time	<u>71,240</u>
Total revenue from contracts with customers	<u><u>421,547</u></u>

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	
	2020	2019
	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Bank interest income	4,737	3,558
Other interest income	329	13,726
Government grants	13,792	20,533
Gain on disposal of items of property, plant and equipment	20	587
Others	3,034	2,892
	<u>21,912</u>	<u>41,296</u>

5. FINANCE COSTS

	For the six months ended 30 June	
	2020	2019
	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Interest on lease liabilities	64	77
Interest on bank borrowings	1,342	4,393
	<u>1,406</u>	<u>4,470</u>

6. (LOSS)/PROFIT BEFORE TAX

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

	For the six months ended 30 June	
	2020	2019
	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Cost of inventories sold**	85,793	138,042
Cost of services provided**	24,706	43,555
Depreciation of properties, plant and equipment	9,471	10,109
Depreciation of right-of-use assets	1,497	1,023
Impairment of trade receivables*	994	6,970
(Reversal of impairment)/impairment of other receivables*	(7,417)	44
Impairment of contract assets*	77	4,234
Loss on write-off of inventories*	2	–
Fair value (gain)/loss on equity investment at fair value through profit or loss*	(428)	183
Provision for obsolete inventories**	9,632	3,201
Research and development costs:		
Current period expenditure*	64,167	84,810
	<u>64,167</u>	<u>84,810</u>

* These items are included in “Other income and gains” or “Other expenses, net” in the condensed consolidated statement of profit or loss.

** These items are included in “Cost of sales” in the condensed consolidated statement of profit or loss.

7. INCOME TAX

	For the six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Current – Hong Kong		
Charge for the period	104	–
Current – Mainland China		
Charge for the period	1,018	3,871
Overprovision in prior year	(521)	(2,141)
Deferred	(2,542)	(3,692)
	<u>(1,941)</u>	<u>(1,962)</u>
Total tax credit for the period	<u>(1,941)</u>	<u>(1,962)</u>

Hong Kong profits tax has been provided at the rate of 16.5% (2019: 16.5%) on the estimated assessable profits arising in Hong Kong during the period, except for one subsidiary of the Group which is a qualifying entity under the two-tiered profits tax rates regime. The first HK\$2,000,000 (2019: HK\$2,000,000) of assessable profits of this subsidiary are taxed at 8.25% and the remaining assessable profits are taxed at 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.

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

The calculation of basic (loss)/earnings per share amounts is based on the unaudited (loss)/earnings 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 2019: 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 2020 and 2019.

9. TRADE AND BILLS RECEIVABLES

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. Trade and bills receivables are settled in accordance with the terms of the respective contracts. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. 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 2020 (Unaudited) HK\$'000	31 December 2019 (Audited) HK\$'000
Within 6 months	73,132	140,853
7 to 12 months	44,291	12,878
13 to 24 months	8,882	12,153
Over 24 months	10,967	12,135
	137,272	178,019

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\$9,597,000 (31 December 2019: HK\$10,438,000), which are repayable on similar credit terms to those offered to the major customers of the Group.

* For identification purposes only

10. 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 2020 (Unaudited) HK\$'000	31 December 2019 (Audited) HK\$'000
Within 6 months	23,962	53,503
7 to 12 months	1,608	1,866
13 to 24 months	1,421	1,649
Over 24 months	6,488	5,022
	33,479	62,040

Included in the Group's trade and bills payables are amounts due to subsidiaries of Peking Founder of approximately HK\$487,000 (31 December 2019: HK\$1,757,000), 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.

INTERIM DIVIDEND

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2020 (six months ended 30 June 2019: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

OVERALL PERFORMANCE

The Group reported an unaudited consolidated loss attributable to owners of the parent for the six months ended 30 June 2020 of approximately HK\$27.2 million (six months ended 30 June 2019: profit of HK\$3.4 million). The Group's turnover for the current interim period decreased by 31.4% to approximately HK\$290.6 million (six months ended 30 June 2019: HK\$423.7 million) due to the delay in completion of certain systems integration contracts and decrease in demand of font library and printing products under the impact of COVID-19 pandemic. Gross profit for the current interim period decreased by 35.5% to approximately HK\$132.7 million (six months ended 30 June 2019: HK\$205.7 million). Gross profit ratio decreased slightly from 48.5% for the last interim period to 45.7% for the current interim period as a result of decrease in proportion of sales of font library business with higher gross profit margin.

The loss attributable to the equity holders of the parent for the six months ended 30 June 2020 was mainly the net results of:

- a. a decrease in the gross profit by 35.5% to approximately HK\$132.7 million (six months ended 30 June 2019: HK\$205.7 million);
- b. a decrease in other income and gains by 47.0% to approximately HK\$21.9 million (six months ended 30 June 2019: HK\$41.3 million) attributable to (i) the decrease in other interest income as a results of decline in the interests from entrusted loans due to certain defaults; and (ii) the decrease in government grants received for the sale of software approved by the PRC tax authority and the development of software in Mainland China as a results of decline in sales of software; and
- c. a decrease in total selling and distribution expenses, administrative expenses and other expenses, net by 24.3% to approximately HK\$182.4 million (six months ended 30 June 2019: HK\$241.0 million) as a result of strict control on operating expenses.

Basic and diluted loss per share attributable to equity holders of the parent for the six months ended 30 June 2020 was HK2.27 cents (six months ended 30 June 2019: earnings of HK0.28 cents).

OPERATING REVIEW AND PROSPECTS

Font Library Business

Against the backdrop that China is vigorously propelling cultural creative industries, the value of fonts has been recognized by more and more enterprises and the public. Meanwhile, with increasingly intense competition in the industry, new font design companies and individual font designers came into the font library market one after another. In 2020, to cope with the influence of the COVID-19 pandemic, Founder font library has made the following attempts in terms of marketing and promotional methods.

- 1) Font library copyright: As a leading enterprise in the field of copyright, 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, was recognized as a “National Copyright Demonstration Unit” by the National Copyright Administration of the People’s Republic of China (the “PRC”). It organized a charitable activity by launching the “free authorized fonts for fighting COVID-19” (抗疫宣傳免費授權字體) to the public during the COVID-19 pandemic, which was included in the “Copyright Gift Set for Fighting COVID-19” (抗疫版權大禮包) of the Capital Copyright Industry Alliance. The judgment for the suit against the “Fonts Web” (字體網) filed by Founder Electronics for its infringement of our copyright of the font library came into effect. It was ruled that the unauthorized downloading of Founder fonts provided by the “Fonts Web” constituted an infringement of copyright, which has become a typical reference case for the protection of copyright of fonts.
- 2) Font design: A total of 104 new font types of different styles were launched in the first half of 2020, among which, 32 heavyweight fonts were launched in cooperation with Fontworks, a famous Japanese font library company. The fonts of newly contracted font companies Black-Foundry (France) and Cadson Demak (Thailand) have been launched on both the official website of Founder font library and client-end “Font +”, which provides clients with extensive font choices and thereby facilitates the internationalization of Chinese enterprises.
- 3) Marketing and service: On the basis of consolidating and expanding the cooperation with main enterprise clients, we continued to step up our efforts in targeted promotion by cooperating with design companies and advertising companies, with a view to enhancing the influence of the new service model, namely the “Love-dynamic Font (心動字體)”, hereby continuously establishing a comprehensive service system covering the official website of Founder font library, “Font + (字加)” mobile APP, and a PC client-end three-in-one “Font +”.

Under the impact of the COVID-19 pandemic, the promotion of almost all enterprises has turned online. More and more enterprises have recognized the importance of fonts in brand promotion, especially in online promotions. The demand of customized fonts from enterprises has shown a higher growth. Many enterprises of large-scale has signed contract with Founder font library one after another for customizing fonts, among which, the customized fonts designed for Coca-Cola have been delivered and put into use. During the COVID-19 pandemic, offline activities have been limited. The expansion of online marketing has strengthened the online cooperation with renowned design platforms, which have given rise to the new promotional attempts, such as TikTok and live streaming. The three live streaming activities organized on the Bilibili platform brought positive results, with an online audience of over 10,000 people. The new promotion platforms and methods have expanded the scope of target customers of the font library to an extensive level in addition to designers and beyond the designers.

Printing Business

The printing industry of China has entered a new window period of transformation and development, as well as new opportunity nurturing. Following the direction of development in a manner of “environmentalisation, digitalisation, intellectualisation and integration” proposed in the 13th Five-Year Plan, the printing industry has adhered to the principle of integrity and innovation, in order to promote technological advancement and accelerate digital transformation and upgrade of the industry, with a view to facilitating high quality development of the printing industry on an ongoing basis. Facing the new situation and the impact of the pandemic, the leading department of the printing business has proposed to “nurture new opportunity in difficulty and to open new doors amid changes”, with a view to taking initiative in industry development by giving guidance in turning obstacles into opportunities.

As a representative enterprise manufacturing of printing equipment and providing general solutions of both software and hardware in China, 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, has captured on the opportunity arising from the transformation of the printing industry by building cultural confidence of national brands and insisting on innovative strategies, fully leveraging its strength of in-house research and development in printing technology accumulated since the times of Wang Xuan. Together with its sharp industry insight, Founder EasiPrint has made strenuous efforts in the market of high-speed inkjet digital printing.

According to news reports in relation to the printing industry, 2019 was the first year of high-speed inkjet digital printing of China. High-speed inkjet digital printing has broken through the market limitation of publishing and printing, which was originally and mainly subject to demand, and has been promoted and applied to different extents in the fields of commercial printing, digital fast printing and package printing. Founder EagleJet P5600 and P4400 launched by Founder EasiPrint have become the leaders of this wave of inkjet printing, which are able to ensure quality and stability while reducing the manufacturing cost and daily operation cost of high-speed inkjet digital printing, so as to build an ecosystem of inkjet printing, thereby helping printing enterprises realize profits with the use of high-speed inkjet digital printing equipment. According to the investigation of industry media, the domestic market share of high-speed inkjet digital printing equipment of Founder is over 50% now, indicating that it is well recognized by its users and the market.

In 2020, the printing industry was affected to a certain extent due to the sudden outbreak of the COVID-19 pandemic. In spite of it, Founder EasiPrint has adopted a prudent approach on its printing business with exerting strenuous efforts in the improvement of its capabilities and enhancement of technologies and products since its resumption of business in mid-February. Starting from the end of April 2020, market orders have resumed gradually with steady growth.

- 1) In respect of production, research and development, Founder EasiPrint has continued to invest in the research and development of inkjet printing technology and smart production system in 2020. It has also made efforts in the research and development of Founder EagleJet high-speed inkjet printing production line, in order to enrich the product pipelines gradually. It is expected that in the second half of 2020, products offered by us will range from low-end and normal black and white printing to highest end of exquisite colour printing. On top of variable inkjet digital product series, Founder EasiPrint will launch new equipment to satisfy demands for high-speed coding, thereby further consolidating its market position and development in variable coding. Founder EasiPrint has enhanced and expanded its digital printing capability in government printing market by supporting domestic operation systems and upgrading two-color machines. It has also cooperated with domestic and international companies by adopting Chinese of software, so as to maximize the core value of Founder software and significantly increase the market share. In addition, with further promotion of Founder Yunshu Cloud Platform for Books and Periodicals Production (方正雲舒書刊製作雲平台) among publishing press and continuous enhancement of production management tools and software, Founder EasiPrint will gradually establish a complete ecosystem in the fields of books and commercial printing to form an integrated complete edge.
- 2) As for marketing, given the impact of the COVID-19 pandemic, exhibits of printing and packaging and information exchange activities nationwide were all delayed or even canceled in the first half of the year. Online exhibitions and live streaming have become hot topics of the industry. Founder EasiPrint has rapidly responded to the changes in relation to marketing. It was the first to conduct special live streaming regarding high-speed inkjet digital printing. It has also made a new account called “Founder EasiPrint” on TikTok and initiated the online evaluation of “Hardcore Captain of Founder EagleJet (方正桀鷹硬核機長)”. The volume of topic related to “Founder EasiPrint” amounted to 600,000 and that of thumbs-up was more than 100,000. This innovative interaction has created close relationship with the users, thereby increasing market penetration, which has effectively tackled the problem of marketing during the pandemic and become a worthy attempt for building soft strength of enterprises in post-pandemic times.

Media Business

As for macroeconomic policies, the CPC central committee has made further strategic deployment to accelerate in-depth integration of traditional media and emerging media since 2019. 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 (從相加到相融)” and “from integrated media to smart media (從融媒體到智媒)”. In the meantime, the development of integrated media centers at province, district and county levels 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 rebuilt its production process to adapt to integrated publishing and re-constructed the organization model based on such integrated publishing procedure, thereby improving the quality and efficiency of publishing through the use of smart technology. On 30 June 2020, the Guidance on Accelerating In-depth Integration and Development of Media (《關於加快推進媒體深度融合發展的指導意見》) was considered and approved on the 14th conference of the Central Comprehensively Deepening Reforms Commission. Pursuant to which, an in-depth reform of system and mechanism was requested, with a view to stepping up the efforts in nurturing talents for all rounded media and building up new mainstream media of great influence and competitiveness. It was aimed to accelerate the establishment of an online and offline layout of mainstream public opinion driven by internal and external promotion, and build an all rounded media system which is founded on contents, supported by advanced technologies and secured by innovative management, thereby securing a market-leading status in media dissemination through firm leadership in public opinion and ideology, cultural heritage and service provision to people.

- 1) In respect of products and solutions, to better facilitate application of advanced and emerging technologies such as mobile network, big data, artificial intelligence and 5G in in-depth integration and development of media, Founder Electronics launched the “Founder Solution for Hyper-integration of Media 3.0” after upgrade and optimization, which aimed at the research and development of data middle platform and AI middle platform by adopting cloud computing and a container and microservices-based structure, with a view to building a new generation of supporting platforms for media integration technologies, thereby continuously improving the intelligence and video-oriented capabilities of products such as interview and compilation of Founder all rounded media and media cloud through a component-based research and development model with fast upgrades, so as to help with the development of smart media. “Founder Solution for Hyper-integration of Media 3.0” not only realized the integration of media

businesses, management, users and data, but also realized the optimization of new mobile media platform and mobilization of core businesses by adhering to our strategy that takes mobile media as the priority. Meanwhile, the solution strengthened and optimized the abilities of comprehensive and integrated productivity, comprehensive planning and interview, comprehensive compilation and editing and distribution from various ends for audios, videos and new media. It could help with the digitalization and intelligence of different application scenarios, including planning, interview, compilation, edit, publishing and distribution, through data middle platform and AI middle platform.

As for the publishing business, Founder Electronics has stepped up its efforts in the research and development of a new generation of digital joint compilation system, covering technologies and products in relation to joint compilation, smart review, automatic typesetting and others. Founder smart review cloud service platform and automatic typesetting cloud service platform were officially launched where it has obtained a number of model customers. Meanwhile, it continued to increase the investment in the research and development of technologies and products in relation to the digital database of publishing enterprises and knowledge service based on cloud platforms.

- 2) As for business models, we actively promoted the transformation from software solution towards authorization service, SAAS service, software service and data service. The percentage of contracts in relation to the service-oriented business accounted for 39%, among which contracts in relation to authorization service and SAAS service business accounted for 25% of the newly signed contracts during the first half of 2020.
- 3) As for marketing, we actively established model customers and projects in media integration. Four projects undertaken by Founder Electronics, including the “Integrated Media Platform of Guangzhou Daily” of Guangzhou Daily Newspaper Group, “Integrated Media Platform of News on Websites and Applications based on Big Data” of Yangcheng Evening News Group, “All-Rounded Media Command Center and Integrated Media Information Sharing Platform at County-Level (全媒體指揮中心暨縣融媒信息共享平台)” of Gangsu Daily and “Sinopec Newspaper Digitalised Media Platform (中國石化報社媒體數字化平台)” of Sinopec News, were awarded the First Prize of “2019 Wangxuan News Science and Technology Award (王選新聞科學技術獎)”, which is the most prestigious award of media technology industry in the PRC. In the first half of 2020, Founder Electronics reached new partnerships with its customers, namely Xinhuanet (新華網), Fujian Daily Newspaper Group, Yangcheng Evening News Group, Xinjiang Production Construction Bingtuan Wenguang Media Group, Inner Mongolia Publishing Group and Anhui Publishing Group. The projects undertaken by Founder Electronics, including the “Client-end” (群眾客戶端) and “People’s Web” (群眾網) of Shaanxi Daily, Lanzhou Integrated Media Center, the integrated media platform of Yantai Daily and the integrated media platform of Baoding Daily, were officially launched. In the meantime, while strengthening the work in relation to the inventory markets of central media, media at province, district and county levels and industry media, we actively extended our footprint in new inventory markets, including

corporate news centers, integrated media centers at district and county levels, new media for government affairs and integrated media for high schools leveraging on our existing technologies and products. Besides, we cooperated with China Oil News, the Integrated Media Center of Chaoyang District, Beijing, the Integrated Media Center of Daxing District, Beijing, Shaanxi Normal University and Fujian Medical University.

Given the impact of the COVID-19 pandemic in the first half of 2020, the demand of users of media and publishing witnessed a substantial decrease. Many projects were suspended, delayed or even canceled. The budget of projects was reduced significantly, which had a great impact on the progress of project implementations. Under this circumstance, we actively expanded our business and promoted the implementation and acceptance of contracted projects on one hand, while on the other hand, we stepped up efforts in the planning, research and development of new products, with a view to laying a solid foundation for development in the mid-to-long term.

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 2020, the number of employees of the Group was approximately 1,263 (31 December 2019: 1,260).

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 2020, the Group had interest-bearing bank borrowings of approximately HK\$11.0 million (31 December 2019: HK\$107.1 million) which were fixed interest bearing, denominated in Renminbi (“RMB”) and repayable within one year. The decline in bank borrowings was due to repayment during the period. 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 investment properties and bank deposits.

As at 30 June 2020, the Group recorded total assets of HK\$1,271.8 million which were financed by liabilities of HK\$359.5 million and equity of HK\$912.3 million. The Group’s net asset value per share as at 30 June 2020 amounted to HK\$0.76 (31 December 2019: HK\$0.78).

The Group had total cash and bank balances of HK\$364.1 million as at 30 June 2020 (31 December 2019: HK\$568.1 million). After deducting total bank borrowings of HK\$11.0 million (31 December 2019: HK\$107.1 million), the Group recorded net cash and bank balances of HK\$353.1 million as at 30 June 2020 as compared to HK\$461.0 million as at 31 December 2019. 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 2020, the Group’s gearing ratio, measured on the basis of total borrowings as a percentage of total shareholders’ equity, was 0.01 (31 December 2019: 0.11) while the Group’s working capital ratio was 2.24 (31 December 2019: 1.78).

As at 30 June 2020, the Group did not have any material capital expenditure commitments.

On 18 February 2020, the Company received a notification letter from Peking Founder, regarding a notice received by Peking Founder from The First Intermediate People’s Court of Beijing (the “Court”). According to such notice, Bank of Beijing Co., Ltd. applied to the Court for a restructuring of Peking Founder. On 19 February 2020, according to the civil order and decision letter received by Peking Founder from the Court, the Court decided to accept the application made by Bank of Beijing Co., Ltd. for the initiation of restructuring procedure against Peking Founder and appointed Peking Founder’s liquidation team as the administrator of Peking Founder. Details were set out in the announcements of the Company dated 18 February 2020 and 19 February 2020. Pursuant to the relevant laws and regulations about judicial restructuring, Peking Founder is not allowed to settle individual debts during the restructuring period. Considering the deterioration of financial and repayment ability of Peking Founder and the possibility of recovering the balances, the management of the Company determined the recoverability was remote, therefore, full provision for impairment was made on the outstanding loans receivables from Peking Founder in the principal amount

of RMB370,000,000 and the subsidiary of Peking Founder in the principal amount of RMB9,000,000 for the year ended 31 December 2019. Details were set out in the 2019 Annual Report of the Company. As at 30 June 2020, loans from the subsidiary of Peking Founder were partially repaid to the Group and the provision for impairment of RMB7,000,000 was reversed during the current interim period.

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 Hong Kong Dollars ("HKD"), RMB and United States Dollars ("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 2020, the major contracts for the software development and systems integration business amounted to approximately HK\$263.6 million (31 December 2019: HK\$281.4 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 2020.

Charges on assets

As at 30 June 2020, the Group's investment properties of approximately HK\$76.3 million and bank deposits of approximately HK\$9.9 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 2020. 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 2020, the Group did not have any significant contingent liabilities.

Event after the reporting period

The Company received a notification letter from Peking Founder on 17 July 2020, stating that the administrator of Peking Founder filed with the Court an application for the substantive consolidated restructuring of Peking Founder and four other companies including Peking University Founder Information Industry Group Co., Ltd., which is the direct controlling shareholder of the Company, Founder Industry Holdings Co., Ltd., Peking University Healthcare Industry Group Co., Ltd., and Peking University Resources Group Co., Ltd. (collectively "the Five Companies including Peking Founder"), on the grounds of the highly mixed legal personalities of the Five Companies including Peking Founder, the costs of distinguishing assets of each company and the impairment of the creditors' interests of fair liquidation with restructuring of the Five Companies including Peking Founder on an individual basis. The Company received a notification letter from Peking Founder on 31 July 2020, regarding a civil order and decision letter received by the administrator of Peking University Founder Group Company Limited from the Court. Pursuant to the civil order and decision letter, the Court decided to accept the substantive consolidated restructuring of the Five Companies including Peking Founder and appoint the administrator of Peking University Founder Group Company Limited as the administrator of substantive consolidated restructuring of the Five Companies including Peking Founder.

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 2020.

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 2020.

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 (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 2020, including the accounting principles adopted by the Group, with the Company’s management.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

The 2020 interim report of the Company containing all the information required by Appendix 16 of the Listing Rules will be dispatched to the shareholders of the Company and published on The Hong Kong Exchanges and Clearing Limited’s website (www.hkexnews.hk) and the Company’s website (www.founder.com.hk) in due course.

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

Hong Kong
27 August 2020

As at the date of this announcement, 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 Chan Chung Kik, Lewis, Mr Lau Ka Wing and Mr Lai Nga Ming, Edmund.

* For identification purpose only