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FOUNDER HOLDINGS LIMITED
方正控股有限公司 *
(Incorporated in Bermuda with limited liability)
(Stock Code: 00418)

FINAL RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 DECEMBER 2020

The board of directors (the “Board”) of Founder Holdings Limited (the “Company”) is pleased to announce the consolidated results and financial position of the Company and its subsidiaries (collectively the “Group”) for the year ended 31 December 2020 together with the comparative figures.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
YEAR ENDED 31 DECEMBER 2020

	<i>Notes</i>	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
REVENUE	4	936,545	1,058,424
Cost of sales		(492,689)	(536,786)
Gross profit		443,856	521,638
Other income and gains	4	66,096	94,415
Selling and distribution expenses		(203,556)	(235,855)
Administrative expenses		(81,824)	(96,167)
Other expenses, net		(170,891)	(624,167)
Finance costs	5	(1,594)	(9,538)
Share of profits of associates		142	145
PROFIT/(LOSS) BEFORE TAX	6	52,229	(349,529)
Income tax	7	1,668	110,739
PROFIT/(LOSS) FOR THE YEAR		53,897	(238,790)

	<i>Note</i>	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Attributable to:			
Owners of the parent		<u>53,897</u>	<u>(238,790)</u>
EARNINGS/(LOSS) PER SHARE			
ATTRIBUTABLE TO ORDINARY			
EQUITY HOLDERS OF THE PARENT			
Basic and diluted	8	<u>HK4.5 cents</u>	<u>HK(19.9) cents</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
YEAR ENDED 31 DECEMBER 2020

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
PROFIT/(LOSS) FOR THE YEAR	53,897	(238,790)
OTHER COMPREHENSIVE INCOME/(LOSS)		
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:		
Share of other comprehensive income/(loss) of associates	<u>335</u>	<u>(55)</u>
	335	(55)
Exchange differences:		
Exchange differences on translation of foreign operations	<u>42,717</u>	<u>(11,245)</u>
	42,717	(11,245)
Net other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods	<u>43,052</u>	<u>(11,300)</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>(747)</u>	<u>(4,115)</u>
Revaluation surplus of land and buildings, net of tax	<u>8,666</u>	<u>9,886</u>
Net other comprehensive income that will not be reclassified to profit or loss in subsequent periods	<u>7,919</u>	<u>5,771</u>
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX	<u>50,971</u>	<u>(5,529)</u>
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR	<u>104,868</u>	<u>(244,319)</u>
Attributable to:		
Owners of the parent	<u>104,868</u>	<u>(244,319)</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 DECEMBER 2020

	<i>Notes</i>	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
NON-CURRENT ASSETS			
Property, plant and equipment		336,072	324,301
Investment properties		142,923	146,184
Right-of-use assets		2,550	2,805
Investments in associates		3,111	2,634
Equity investments at fair value through other comprehensive income		1,902	2,641
Intangible assets		–	–
Deferred tax assets		125,038	115,793
Pledged deposits		3,188	4,109
Total non-current assets		614,784	598,467
CURRENT ASSETS			
Inventories		75,400	71,131
Trade and bills receivables	9	199,897	178,019
Contract assets		16,317	17,334
Prepayments, other receivables and other assets		59,902	78,453
Financial assets at fair value through profit or loss		387	563
Structured deposits		178,359	–
Pledged deposits		6,777	10,123
Cash and cash equivalents		363,785	553,866
Tax recoverable		–	1,186
Total current assets		900,824	910,675
CURRENT LIABILITIES			
Trade and bills payables	10	67,950	62,040
Contract liabilities		69,116	77,385
Other payables and accruals		264,549	255,080
Interest-bearing bank borrowings		–	107,093
Lease liabilities		1,724	1,979
Tax payable		4,785	7,157
Total current liabilities		408,124	510,734
NET CURRENT ASSETS		492,700	399,941

	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
TOTAL ASSETS LESS CURRENT LIABILITIES	<u>1,107,484</u>	<u>998,408</u>
NON-CURRENT LIABILITIES		
Lease liabilities	438	460
Deferred tax liabilities	<u>60,796</u>	<u>56,566</u>
Total non-current liabilities	<u>61,234</u>	<u>57,026</u>
Net assets	<u>1,046,250</u>	<u>941,382</u>
EQUITY		
Equity attributable to owners of the parent		
Issued capital	119,975	119,975
Reserves	<u>926,275</u>	<u>821,407</u>
Total equity	<u>1,046,250</u>	<u>941,382</u>

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2020

1. BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties, land and buildings classified as property, plant and equipment, equity investments at fair value through other comprehensive income, bills receivable, structured deposits and financial assets at fair value through profit or loss which have been measured at fair value. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the *Conceptual Framework for Financial Reporting 2018* and the following revised HKFRSs for the first time for the current year’s financial statements.

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 19	<i>Plan Amendment, Curtailment or Settlement</i>
Amendments to HKAS 1 and HKAS 8	<i>Definition of Material</i>

The nature and the impact of the Conceptual Framework for Financial Reporting 2018 and the revised HKFRSs are described below:

- (a) Conceptual Framework for Financial Reporting 2018 (the “Conceptual Framework”) sets out a comprehensive set of concepts for financial reporting and standard setting, and provides guidance for preparers of financial statements in developing consistent accounting policies and assistance to all parties to understand and interpret the standards. The Conceptual Framework includes new chapters on measurement and reporting financial performance, new guidance on the derecognition of assets and liabilities, and updated definitions and recognition criteria for assets and liabilities. It also clarifies the roles of stewardship, prudence and measurement uncertainty in financial reporting. The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The Conceptual Framework did not have any significant impact on the financial position and performance of the Group.
- (b) 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.

- (c) Amendments to HKFRS 9, HKAS 39 and HKFRS 7 address issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative risk-free rate (“RFR”). The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the introduction of the alternative RFR. 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 hedging relationships.
- (d) 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 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 for annual periods beginning on or after 1 June 2020 with earlier application permitted and shall be applied retrospectively.

During the year ended 31 December 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 pandemic during the year ended 31 December 2020. Accordingly, a reduction in the lease payments arising from the rent concessions of HK\$301,129 has been accounted for as a variable lease payment by derecognising part of the lease liabilities and crediting to profit or loss for the year ended 31 December 2020.

- (e) 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, or both. The amendments did not have any significant impact on the financial position and performance of the Group.

3. OPERATING SEGMENT INFORMATION

The Group is primarily engaged in provision of software development, system integration and information products distribution. Given that the chief operating decision maker of the Company considers that the Group’s business is operated and managed as a single segment, accordingly, no segment information is presented.

Geographical information

(a) *Revenue from external customers*

	2020 <i>HK\$’000</i>	2019 <i>HK\$’000</i>
Mainland China	931,786	1,055,222
Hong Kong	4,554	2,933
Others	205	269
	<u>936,545</u>	<u>1,058,424</u>

The revenue information above is based on the locations of the customers.

(b) *Non-current assets*

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Mainland China	271,833	256,379
Hong Kong	209,712	216,892
Others	3,111	2,653
	<u>484,656</u>	<u>475,924</u>

The non-current asset information above is based on the locations of the assets and excludes financial instruments, deferred tax assets and pledged deposits.

Information about major customers

During the year, there was no revenue derived from transactions with a single external customer which individually accounted for 10% or more of the Group's revenue (2019: Nil).

4. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Revenue from contracts with customers	931,511	1,053,829
Revenue from other sources		
Rental income from investment property operating leases	5,034	4,595
	<u>936,545</u>	<u>1,058,424</u>

Revenue from contracts with customers

(i) *Disaggregated revenue information*

For the year ended 31 December 2020

**Total
*HK\$'000***

Types of goods or services

Sale of information products and software	898,199
Sale of software development and system integration service	33,312

Total revenue from contracts with customers 931,511

Geographical markets

Mainland China	931,306
Others	205

Total revenue from contracts with customers 931,511

Timing of revenue recognition

Goods transferred at a point in time	898,199
Services transferred over time	33,312

Total revenue from contracts with customers 931,511

For the year ended 31 December 2019Total
HK\$'000**Type of goods or services**

Sale of information products and software	853,424
Sale of software development and system integration service	200,405
	<hr/>
Total revenue from contracts with customers	1,053,829
	<hr/> <hr/>

Geographical markets

Mainland China	1,053,560
Others	269
	<hr/>
Total revenue from contracts with customers	1,053,829
	<hr/> <hr/>

Timing of revenue recognition

Goods transferred at a point in time	853,424
Services transferred over time	200,405
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Total revenue from contracts with customers	1,053,829
	<hr/> <hr/>

The following table shows the amounts of revenue recognised in the current reporting period that were included in the contract liabilities at the beginning of the reporting period and recognised from performance obligations satisfied in previous periods:

	2020 HK\$'000	2019 HK\$'000
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:		
Sale of information products and software	43,256	43,008
Sale of software development and system integration service	8,500	13,252
	<hr/>	<hr/>
	51,756	56,260
	<hr/> <hr/>	<hr/> <hr/>

(ii) Performance obligations

Information about the Group's performance obligations is summarised below:

Sale of information products and software

The performance obligation is satisfied upon delivery of information products and software and payment is generally due within 90 days from the invoice date, except for new customers, where payment in advance is normally required. A certain percentage of payment is retained by customers until the end of the retention period as the Group's entitlement to the final payment is conditional on the satisfaction of the goods' quality by the customers over a certain period as stipulated in the contracts.

Software development and system integration services

The performance obligation is satisfied over time as services are rendered and payment is generally due within 15 days from the invoice date. A certain percentage of payment is retained by customers until the end of the retention period as the Group's entitlement to the final payment is conditional on the satisfaction of the service quality by the customers over a certain period as stipulated in the contracts.

The amounts of transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December are as follows:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Amounts expected to be recognised as revenue:		
Within one year	56,204	114,455
After one year	2,677	9,023
	<u>58,881</u>	<u>123,478</u>

The amounts of transaction prices allocated to the remaining performance obligations which are expected to be recognised as revenue after one year relate to software development and system integration services, of which the performance obligations are to be satisfied within three years. All the other amounts of transaction prices allocated to the remaining performance obligations are expected to be recognised as revenue within one year. The amounts disclosed above do not include variable consideration which is constrained.

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Other income		
Bank interest income	7,314	6,315
Other interest income	335	26,253
Government grants (<i>note</i>)	50,457	55,360
Others	4,032	5,878
	<u>62,138</u>	<u>93,806</u>
Gains		
Gain on disposal of items of property, plant and equipment	26	609
Fair value gains on structured deposits	1,305	–
Foreign exchange differences, net	2,627	–
	<u>3,958</u>	<u>609</u>
	<u>66,096</u>	<u>94,415</u>

Note: Various government grants have been received for the sale of software approved by the PRC tax authority and the development of software in Mainland China. The government grants have been recognised upon sales of approved software and completion of the development of related software. There are no unfulfilled conditions or contingencies relating to these grants.

5. FINANCE COSTS

An analysis of finance costs is as follows:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Interest on lease liabilities	121	144
Interest on bank borrowings	<u>1,473</u>	<u>9,394</u>
	<u>1,594</u>	<u>9,538</u>

6. PROFIT/(LOSS) BEFORE TAX

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

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Cost of inventories sold**	335,063	347,046
Cost of services provided**	154,027	187,357
Depreciation of property, plant and equipment	18,870	19,158
Depreciation of right-of-use assets	2,739	2,209
Lease payments not included in the measurement of lease liabilities	22,367	20,615
Impairment of trade receivables and contract assets*	5,063	9,236
Impairment/(reversal of impairment) of other receivables*	(7,977)	436,580
Loss on write-off of inventories*	1,753	1,434
Provision for obsolete inventories**	3,599	2,383
Research and development costs: Current year expenditure*	157,428	163,452
Fair value (gains)/losses on financial assets at fair value through profit or loss	(14)	240
Fair value losses on investment properties*	3,756	4,985
Gain on disposal of financial assets at fair value through profit or loss	(248)	–
Fair value gains on structured deposits	<u>(1,305)</u>	<u>–</u>

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

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

7. INCOME TAX

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Current – Hong Kong		
Charge for the year	1	–
Current – Mainland China		
Charge for the year	2,214	6,496
Overprovision in prior years	(521)	(2,109)
Deferred	<u>(3,362)</u>	<u>(115,126)</u>
Total tax credit for the year	<u><u>(1,668)</u></u>	<u><u>(110,739)</u></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 year, except for the first HK\$2,000,000 of assessable profits for Founder Electronics (HK) Limited which is taxed at the rate of 8.25% as Founder Electronics (HK) Limited elects the two-tiered profits tax rates in 2020 and 2019.

Taxes on profits assessable in Mainland China have been calculated at the statutory PRC corporate income tax (“CIT”) rate of 25%. Certain subsidiaries of the Group are entitled to preferential tax treatments of reduction in the CIT rate to 5%, 10% or 15%.

The share of tax attributable to associates amounting to negative HK\$28,000 (2019: negative HK\$29,000) is included in “Share of profits of associates” in the consolidated statement of profit or loss.

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

The calculation of the basic earnings/loss per share amount is based on the earnings/loss for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 1,199,746,993 (2019: 1,199,746,993) in issue during the year.

The Group had no potentially dilutive ordinary shares in issue during the years ended 31 December 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. Payment is generally due within 90 days from the invoice date. 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 receivable balances. Trade and bills receivables are non-interest-bearing.

An ageing analysis of the trade receivables and bills receivable, based on the invoice date or bills receipt date and net of loss allowance, is as follows:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Within 6 months	168,172	140,853
7 to 12 months	11,718	12,878
13 to 24 months	16,294	12,153
Over 24 months	<u>3,713</u>	<u>12,135</u>
	<u>199,897</u>	<u>178,019</u>

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 or bills payment date, is as follows:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Within 6 months	61,281	53,503
7 to 12 months	994	1,866
13 to 24 months	1,694	1,649
Over 24 months	<u>3,981</u>	<u>5,022</u>
	<u>67,950</u>	<u>62,040</u>

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

DIVIDEND

No interim dividend was paid during the year and previous year. The Board does not recommend the payment of any final dividend for the year (2019: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

PERFORMANCE

The Group reported a profit for the year ended 31 December 2020 of approximately HK\$53.9 million (year ended 31 December 2019: loss of HK\$238.8 million). The Group's turnover for the current year decreased by 11.5% to HK\$936.5 million (year ended 31 December 2019: HK\$1,058.4 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 year decreased by 14.9% to HK\$443.9 million compared with last year's HK\$521.6 million. Gross profit ratio decreased from 49.3% for the last year to 47.4% for the current year as a result of decrease in proportion of sales of font library business with higher gross profit margin.

The profit for the year was mainly the net results of:

- a. a decrease in the gross profit by 14.9% to approximately HK\$443.9 million (year ended 31 December 2019: HK\$521.6 million);
- b. impairment of loan receivables of approximately HK\$436.1 million in prior year (year ended 31 December 2020: Nil) mainly due to default in entrusted loans to 北大方正集團有限公司 (Peking University Founder Group Company Limited*) ("Peking Founder"), a substantial shareholder of the Company;
- c. a decrease in other income and gains by 30.0% to HK\$66.1 million (year ended 31 December 2019: HK\$94.4 million) attributable to the decrease in other interest income as a result of decline in the interests from entrusted loans due to certain defaults;
- d. a decrease in total selling and distribution expenses and administrative expenses by 14.0% to HK\$285.4 million (year ended 31 December 2019: HK\$332.0 million) as a result of strict control on expenses imposed by the management; and
- e. a decrease in tax credit by HK\$109.0 million to HK\$1.7 million (year ended 31 December 2019: HK\$110.7 million) as a result of decline in deferred tax effect on impairment of entrusted loan receivables.

Basic and diluted earnings per share for the year was HK4.5 cents (year ended 31 December 2019: loss of HK19.9 cents).

OPERATING REVIEW AND PROSPECTS

Operating Review

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 fierce domestic and overseas competition as well as the exceptional effect of the COVID-19 pandemic, Founder font library has made a number of attempts in terms of marketing methods:

- 1) Font library copyright aspect: As a leading enterprise in the field of copyright, 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. 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 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 aspect: In 2020, the digitalization of classic calligraphy from different dynasties has become our priority in font design. Founder launched 15 exquisite Chinese font libraries, including the “Yan Zhenqing-style Regular Script Font (顏真卿楷書)”, “Liu Gongquan-style Regular Script Font (柳公權楷書)” and “Su Shi-style Semi-cursive Script Font (蘇軾行書)”. Based on the preference of young users and market demand, it designed dozens of creative handwriting fonts, such as the “Flying Glimpse Font (驚鴻體)” and the “Energetic Yan Zhenqing-style Font (勁顏體)”. It also worked with “Hakusyu Font”, which is a renowned Japanese creative handwriting font library. By joining hands with the famous Japanese font library company Fontworks, Founder developed the Chinese version of its classic Japanese fonts and rolled out 41 fonts under cooperation so far. In addition, it collaborated with niche font companies, such as Black[Foundry] and Cadson Demak, for the first time to introduce over 100 new fonts for Thai, Greek and other minority languages. In 2020, Founder added 321 fonts to its product portfolio, which now comprises 2,339 Chinese fonts in different encodings.

Furthermore, as enterprises increasingly recognized the importance of exclusive fonts in brand promotion, our customized font business grew significantly. In 2020, the font customization team of Founder font library provided services for 12 well-known customers from a wide range of industries, which included JD.com, Coca-Cola China, the Chinese Football Association Super League, Changan Auto, vivo and the One Foundation.

- 3) **Font design technology aspect:** A breakthrough in AI-assisted font design technology was achieved. Leveraging artificial intelligence, we ensured font quality and improved the development efficiency of key design projects, such as the “Exquisite Chinese Font Library Project (中華精品字庫工程)” and other font customization projects. Keeping pace with globalization, we strengthened the research and development and the application of variable font technology. To fully explore the use of this cutting-edge technology, we launched 12 different styles of variable fonts in 2020, which included the “Founder Variable Creative Gothic Font (方正可變創黑)”, “Founder Variable Rounded Gothic Font (方正可變啣黑)” and “Founder Variable Elegant Song-style Regular Script Font (方正可變風雅楷宋)”.
- 4) **Marketing and service aspect:** On the basis of consolidating and expanding the cooperation with major corporate customers, Founder Electronics continued to scale up targeted marketing, increased collaboration with design companies and advertising firms, and enhanced the influence of its “Love-dynamic Font (心動字體)” service model. It also pushed forward the establishment of the comprehensive three-in-one service system comprising the official website of Founder font library, “Font + (字加)” mobile APP and “Font +” PC client end.
- 5) **Promotion aspect:** Taking into account pandemic control and prevention, Founder Electronics made its first attempt in brand promotion through online streaming. In 2020, it held 8 live streams on Bilibili, with a peak viewer count exceeding 100,000 for each session. Combining online and offline means, Founder Electronics live-streamed the launch ceremony of “Beauty in Chinese Calligraphy-Exquisite Chinese Font Library Project Charity Program (字美中華—中華精品字庫工程公益應用計劃)” on Xinhuanet, Douyu and Bilibili, which attracted an online audience of more than 1.3 million. It also broadcasted the “Founder Font Design Convention 2020 (方正2020字體設計大會)” live on Weibo, where over 4 million viewers joined the annual event via online and offline channels.

The above measures enhanced the professional image and industry-leading position of Founder font library. At the same time, they raised public awareness of our young and international brand. The increasing recognition and appreciation for Founder font library will lay a solid foundation for its future innovation and development.

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 of the printing industry in a manner of “environmentalization, digitalization, intellectualization 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 industry development on an ongoing basis. Facing the new situation and the impact of the pandemic, the competent authority of the printing industry has proposed to “nurture new opportunity in difficulties and 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 printing equipment and providing general software and hardware solutions 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 the opportunity arising from the transformation of the printing industry by building cultural confidence of national brands and insisting on innovative strategies, thereby 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 printing.

For printing companies and the media, 2019 was the first year of high-speed inkjet printing for China. High-speed inkjet 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 and digital fast printing. The Founder EagleJet P5600 and P4400 high-speed inkjet printers launched by Founder EasiPrint have become the market pioneers and leading products in this wave of inkjet printing. These models are able to ensure quality and stability while reducing the manufacturing cost and daily operation cost of high-speed inkjet printing, so as to build an ecosystem of inkjet printing, thereby helping printing enterprises realize profits with the use of high-speed inkjet printing equipment. According to the investigation of industry media, the domestic market share of Founder EagleJet high-speed inkjet printing equipment is over 50% now, indicating that it is well recognized by its users and the market.

- 1) Marketing aspect: 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 and devoted strenuous efforts in the improvement of its capabilities and enhancement of technologies and products since its resumption of business in mid-February. Starting from late April 2020, equipment sales and installation orders began to grow steadily when the pandemic was still severe. From August 2020, the COVID-19 outbreak was slowing down in China and the market demand for new printing equipment rallied. With excellent printing quality, efficient and green production process, outstanding stability, and extensive sales and service network across the country, our black and white inkjet printers in the Founder EagleJet P series maintained the leading position in the domestic market of high-speed inkjet printing equipment.
- 2) Product and research and development aspect: In 2020, Founder EasiPrint has continued to invest in the research and development of inkjet printing technology and smart production system. It has made efforts in the research and development of Founder EagleJet high-speed inkjet production line, in order to enrich the product pipelines on an ongoing basis. In the second half of 2020, our products covered low-end and normal black and white printing to high-end and exquisite colour printing. On top of variable inkjet digital product series, Founder EasiPrint launched new equipment to satisfy market demands for high-speed coding, thereby further consolidating and developing its position in the variable coding market. Founder EasiPrint has enhanced and expanded

its digital printing capability in the government printing market by supporting domestic operation systems and upgrading two-colour machines. It has also cooperated with domestic and international companies by adopting the open software strategy, so as to maximize the core value of Founder software and significantly increase the market share. In addition, with further promotion of the 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 competitive edge. In late August 2020, Founder EasiPrint officially introduced the high-speed inkjet printer in the Founder EagleJet Colour Inkjet P6600 series. This model supported printing widths of 440 mm, 560 mm and 660 mm in one to six colours, which can be chosen and combined freely by users to meet the requirements of diverse types of colour-print products for commercial, publishing and high-speed printing purposes. Besides, it greatly outperformed other similar digital printing equipment in the market in terms of total consumable costs and selling price.

- 3) Marketing aspect: Given the impact of the pandemic, printing and packaging exhibitions and information exchange activities nationwide were delayed or even cancelled in the first half of the year. Online exhibitions and live streaming have become common in the industry. Founder EasiPrint has rapidly responded to the changes in relation to the marketing environment. It was the first to conduct special live streaming regarding high-speed inkjet digital printing. It has also created a new account called “Founder EasiPrint” on TikTok and initiated the online evaluation of “Hardcore Captain of Founder EagleJet (方正築鷹硬核機長)”. The phrase “Founder EasiPrint” was mentioned 710,000 times and more than 105,000 thumbs-up were received. This innovative way of interaction allowed Founder EasiPrint to build a close relationship with users and increase market penetration, which effectively tackled marketing difficulties during the pandemic and represented a successful attempt for building soft power of enterprises in post-pandemic times. In October 2020, Founder Electronics joined the 8th All in Print China as a key participant, where it introduced its latest colour inkjet printing solution, namely the Founder EagleJet colour inkjet printer. At the same time, it commenced the “Smart Printing Program (智印計劃)”. By combining the core software and hardware capability as well as the innovation outputs of Founder Electronics, the program empowered the mutual growth and high-quality sustainable development of the printing industry. In December 2020, Founder Electronics formed the annual Hongyan Alliance (鴻雁聯盟) and established strategic cooperation relationship with China National Publications Import & Export Corporation, where both parties agreed to commit to the building of a digital cloud platform for the production and publication process in the publishing industry. They strived to solve problems in relation to out-of-print books, delay in small-volume printing and high costs, so as to encourage domestic publishers to reduce their inventory significantly. This not only created a win-win environment for the print on demand business, but also accelerated the full transition of the printing industry towards the digital printing model.

Media Business

In September 2020, the central government issued the “Opinion on Accelerating In-depth Integration and Development of Media (關於加快推進媒體深度融合發展的意見)” as a macro-policy on media integration. It specified the overall requirements of in-depth media integration and development in terms of its significance, target and mission and working principle. The Opinion proposed to drive integration and development with advanced technology, while making full use of achievements from the IT revolution including 5G, big data, cloud computing, Internet of Things, blockchain and artificial intelligence. It also suggested to enhance the prospective research and application of new technology in the news dissemination field, and support the independent innovation of key and core technology. Meanwhile, it pushed forward the reform on mainstream media system and mechanism, so that an integrated organizational structure was established for all-rounded media to produce and disseminate content. Media was encouraged to adopt new reporting and editorial procedures to form an efficient and centralized content production and dissemination chain. By exploring and building the “News + Government affairs + Service + Business” operating model, the media shall develop new investment and financing policies to enhance competitiveness. On 3 November 2020, the central government released the “Proposal on the 14th Five-Year Plan and 2035 Long-term Objectives for National Economic and Social Development (關於制定國民經濟和社會發展第十四個五年規劃和二零三五年遠景目標的建議)”, which detailed the key strategy on in-depth media integration, all-rounded media dissemination and the establishment of integrated media centres at county-level. Apart from advancing the in-depth integration of media, the government shall develop all-rounded media dissemination, strengthen new types of mainstream media and give full play to the integrated media centres at the county level. For all-rounded media dissemination, content creation shall be supported with state-of-the-art technology as well as reform and innovation measures, in the pursuit of centralized resources management, structure optimization, differential development and efficiency from synergy. In regard to market landscape, it was predicted that traditional media and new media shall co-exist, the Internet and new media shall be the main battlefield, and mobile media and online video shall become more popular. In terms of structure, the system will comprise four vertical levels ranging from central, provincial, municipal to county-level media, and horizontally cover mainstream media and business platform. As a result, central, provincial, local, industry media (or corporate media) and district or county-level integrated media centres shall continue to facilitate media integration and develop the integrated media and new media platform. This will lead to an increase in demand for the establishment of ministry-level integrated media centres and provincial new media platform for government affairs.

In regard to the integration of the publishing industry, the Ministry of Science and Technology, the Central Propaganda Department, the Cyberspace Administration, the Ministry of Finance, the Ministry of Culture and Tourism, and the National Radio and Television Administration jointly issued the “Guidance on Facilitating In-depth Integration between Culture and Technology (關於促進文化和科技深度融合的指導意見)” in August 2019,

which requested to accelerate the in-depth integration between culture and technology. In May 2020, the Cultural Reform Office of the Central Propaganda Department also published the “Notice on Proper Establishment of National Culture Big Data System (關於做好國家文化大數據體系建設工作通知)”, which proposed a national culture big data system to be established as a key infrastructure for cultural development in the new era, and a major part in applying the outcomes of cultural digitization to develop network and intelligent technology. The Notice drove the development of the big data cloud platform and cultural database in the publishing industry, which enabled publishers to further centralize quality resources, enhance the construction of technology platform and expand boundaries for integration. As a result, the industry will reshape its production process to adapt to integrated publishing, reform the organizational model based on such procedure, and improve publishing quality and efficiency through the use of smart technology.

- 1) Products and solutions aspect: For in-depth media integration: To better facilitate the application of mobile network, big data, artificial intelligence, 5G and other advanced and emerging technologies 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. It focused on the research and development of data middle platform and AI middle platform by adopting a cloud computing-based, containerized and microservice structure to build the new generation of supporting platforms for media integration technologies. At the same time, it continuously improved the intelligence and video-oriented capabilities of various products, such as Founder all-rounded media interview and compilation 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” realized not only the integration of media businesses, management, users and data, but also the optimization of new mobile media platform and mobilization of core content creation 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 production, 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, editing, 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. In late 2020, Founder Electronics launched the smart review cloud service platform V2.0 and conducted the research and development of technologies and products in relation to the cloud-based digital publishing resources management platform and the knowledge service. At the same time, it actively participated in the establishment of the national cultural big data system.

- 2) Business model aspect: 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 37%, among which contracts in relation to authorization service and SAAS service business accounted for 25% of the newly signed contracts in 2020.

- 3) Marketing aspect: We committed to establishing model customers and projects in media integration and publishing integration and development: In 2020, Founder Electronics started new cooperation with various customers in the media market, including Xinhuanet, Fujian Daily Newspaper Group, Yangcheng Evening News Group, Heilongjiang News Group, Shaanxi News Group, Xinjiang Production Construction Bingtuan Wenguang Media Group, Phoenix Publishing and Media Group, Inner Mongolia Publishing Group and Anhui Time Publishing and Media Group. It undertook the construction of mobile platforms for new media, such as the big data platform for Xinhuanet, the integrated media platform and New Fujian client-end for Fujian Daily. It also took part in the development and launch of the integrated media platform of Heilongjiang News Group and the database platform of Shaanxi Daily News Group. While strengthening the work in relation to the inventory markets of central media, provincial media, district and county levels and industry media, we actively extended our footprint in new inventory markets, including corporate news centres, integrated media centres at district and county levels, new media for government affairs and integrated media for high schools leveraging our technologies and products. Besides, we cooperated with China Oil News, the Integrated Media Centre of Chaoyang District, Beijing, the Integrated Media Centre of Daxing District, Beijing and the Integrated Media Centre of Fengtai District, Beijing. Given the impact of the COVID-19 pandemic in the first half of 2020, the demand from media and publisher customers witnessed a substantial decrease. Many projects were suspended, delayed or even cancelled. The budget for projects was reduced significantly, which had a great impact on the progress of our project implementation. Under this circumstance, on the one hand, we actively expanded our business and promoted the implementation and acceptance of contracted projects, 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. Our results of operation have rebounded in the fourth quarter of 2020. For the publishing market, Founder smart review system was promoted to and adopted by over 800 domestic publishers and cultural and media companies, and the new generation of joint compilation system was used by clients such as China Electric Power Press. Our cloud-based publishing resources management platform was well-received by Phoenix Publishing and Media Group and Anhui Time Publishing and Media Group, and the new generation of the knowledge service platform was adopted by publishers such as Gold Wall Press and China Finance & Economic Publishing House.

PROSPECTS

The management of the Group will closely monitor changes in the economy and IT market of the People's Republic of China (the "PRC"). The Group will continue the development of innovative solutions and provide our customers with more cost-effective products and solutions to meet our customers' demands for enhancing their competitiveness. In addition, the Group will closely monitor the performance of each business sector to achieve effective cost control and maximise shareholders' value.

EMPLOYEES

The Group has developed its human resources policies and procedures based on performance and merit of employees. The Group ensures that the payments to its employees are competitive and the employees are rewarded based on their performance 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 maintained a share option scheme in place 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 financial year.

As at 31 December 2020, the number of employees of the Group was 1,256 (31 December 2019: 1,260).

FINANCIAL REVIEW

Liquidity, financial resources and capital commitments

During the year, 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 31 December 2020, the Group had nil interest-bearing bank borrowings (31 December 2019: HK\$107.1 million) which were fixed interest bearing. The bank borrowings as at 31 December 2019 were denominated in Renminbi ("RMB"), and were repaid during the year. The Group's banking facilities were secured by corporate guarantees given by the Company, Peking Founder, certain of the Group's investment properties and bank deposits.

As at 31 December 2020, the Group recorded total assets of HK\$1,515.6 million which were financed by liabilities of HK\$469.3 million and equity of HK\$1,046.3 million. The Group's net asset value per share as at 31 December 2020 amounted to HK\$0.87 (31 December 2019: HK\$0.78). The increase in net asset value per share was due to profit and exchange differences arising from translation of foreign operations during the year.

The Group had total cash and bank balances (including pledged deposits, structured deposits and cash and cash equivalents) of HK\$552.1 million as at 31 December 2020 (31 December 2019: HK\$568.1 million). After deducting total bank borrowings (31 December 2019: HK\$107.1 million), the Group recorded net cash and bank balances of HK\$552.1 million as at 31 December 2020 as compared to HK\$461.0 million as at 31 December 2019. The Group's borrowings, which are subject to little seasonality, mainly consist of short term bank loans and trust receipt loans. As at 31 December 2020, the Group's gearing ratio, measured by the ratio of total borrowings to total shareholders' equity, was nil (31 December 2019: 0.11) while the Group's working capital ratio was 2.21 (31 December 2019: 1.78). The decrease in prepayments, other receivables and other assets by 23.7% to HK\$59.9 million (31 December 2019: HK\$78.5 million) was due to decline in prepayments arising from less purchase during the year. The increase in other payables and accruals by 3.7% to HK\$264.5 million (31 December 2019: HK\$255.1 million) was due to increase in accrual of subcontracting fee of system integration contracts.

As at 31 December 2020, the Group did not have any material capital expenditure commitments.

Treasury policies

The Group adopts conservative treasury policies and controls tightly over its cash and risk management. The Group's cash and cash equivalents are held mainly in Hong Kong Dollars ("HKD"), RMB and United States Dollars ("U.S. dollars"). Surplus cash is generally placed in banks as 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 the PRC, 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 PRC 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 31 December 2020, the major contracts in hand amounted to approximately HK\$283.5 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 acquisition or disposal of subsidiaries, associates and joint ventures during the year ended 31 December 2020.

Charges on assets

As at 31 December 2020, the Group's investment properties in Hong Kong of approximately HK\$75.6 million and bank deposits of approximately HK\$10.0 million were pledged to banks to secure banking facilities granted.

Future plans for material investments or capital assets

The Group did not have any concrete future plans for material investments or capital assets as at 31 December 2020. However, the Group always seeks for new investment opportunities in the software development and system integration business to broaden the revenue and profit base of the Group and enhance shareholders' value in long term.

Contingent liabilities

At 31 December 2020, the Group did not have any significant contingent liabilities.

Events after the reporting period

The Company received a notification letter from Peking Founder on 25 January 2021, regarding a civil order received by the administrator of Peking University Founder Group Company Limited from The First Intermediate People's Court of Beijing on 22 January 2021. Pursuant to the civil order, the deadline for the submission of the restructuring proposal will be extended to 30 April 2021.

The Company received the "Notification letter in relation to determination of restructuring investors of Peking Founder" from the administrator of Peking University Founder Group Company Limited on 29 January 2021. It is stated in the notification letter that after multiple rounds of competitive selection, it is finally determined that Zhuhai Huafa Group Co., Ltd. (on behalf of Zhuhai State-owned Assets), Ping An Insurance (Group) Company of China, Ltd. and Shenzhen SDG Group Co., Ltd.* formed a consortium as investors of restructuring of Peking Founder. In the next step, the administrator of Peking University Founder Group Company Limited will proceed the signing of investment agreements and drafting of restructuring proposals in accordance with the laws.

AUDIT COMMITTEE

The Audit Committee of the Board has reviewed the accounting policies, accounting standards and practices adopted by the Group and the consolidated financial statements and results of the Group for the year ended 31 December 2020.

CORPORATE GOVERNANCE

In the opinion of the directors, the Company has fully complied with all the code provisions as set out in 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 year ended 31 December 2020.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by directors of Listed Issuers (the “Model Code”) set out in Appendix 10 of the Listing Rules as the Company’s code of conduct and rules governing dealings by all directors in the securities of the Company. Upon being made specific enquiries by the Company, all directors of the Company confirmed that they have complied with the required standards set out in the Model Code throughout the year ended 31 December 2020.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company’s listed securities during the year.

SCOPE OF WORK OF ERNST & YOUNG ON THE PRELIMINARY ANNOUNCEMENT

The figures in respect of the preliminary announcement of the Group’s results for the year ended 31 December 2020 have been agreed by the Group’s auditors, Ernst & Young, to the amounts set out in the Group’s consolidated financial statements for the year. The work performed by Ernst & Young in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently no assurance has been expressed by Ernst & Young on the preliminary announcement.

PUBLICATION OF FINAL RESULTS AND ANNUAL REPORT

The 2020 annual 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, 30 March 2021

As at the date of this announcement, the Board 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*